

chairman's message



It is with great pleasure that I present the Annual Report and Audited Financial Statements of the Commerce Asset-Holding Berhad (the Commerce Group) for the year ended 31 December 2003.

THE OPERATING ENVIRONMENT

The year was characterised by contrasting periods. The first half of 2003 was featured generally by negative developments, with geopolitical tensions and regional health concerns very much in the forefront. Malaysia weathered the adverse external environment better than many others, thanks to the cumulative effect of pro-growth fiscal and monetary policy measures. Favourable commodity and crude oil prices helped to cushion the negative effects from the US-Iraq war and the SARS outbreak. Post-financial crisis, the Malaysian economy has continued a structural change and become more resilient as domestic demand continues to drive growth in the face of a weak external sector. This resilience, together with a discernable improvement in the external environment in the second half of 2003, led to a strengthening of real GDP, to 6.4 percent in the fourth quarter. The growth momentum was fairly broad-based, with a stronger upturn in exports giving added

support to private sector activities and consumer spending. Other contributors were rising consumer and business confidence, strong underlying fundamentals, and a low interest rate regime. A key development in the fourth quarter was the stronger expansion in investments with the manufacturing sector leading the way. Overall GDP growth for the whole of 2003 reached 5.3 percent.

In 2003, total loans approved in the banking system rose to RM152.7 billion compared to RM137.6 billion in 2002. Total deposits also increased by RM49.4 billion to RM553.8 billion. The asset quality position improved with a non-performing loans ratio under six months classification falling to 6.9 percent as at December 2003, compared to 7.5 percent a year earlier.

THE COMMERCE GROUP

I am happy to report that the Commerce Group recorded its highest-ever profits in its operating history in the financial year ended 31 December 2003. Profit before tax amounted to RM1.241 billion, a 66 percent increase year-on-year compared to the RM747.6 million recorded in 2002. It was indeed a landmark year for the Group. The key drivers for the results were an increase in total income by 26.5

percent year-on-year by RM749.9 million and a 22 percent fall in loan loss provisioning to RM631.9 million. These results reflected in the main a significant drop in loan loss provisions at the Bumiputra-Commerce Bank Group, a substantial rise in earnings contribution from the CIMB Group, and the maiden full-year contribution from P.T Bank Niaga.

Profit after tax and minority interests rose by 38 percent year-on-year to RM782.3 million, some 11 percent above the consensus target of RM704 million. The Commerce Group's full year return on average equity and earnings per share were 10.38 percent (FY 2002: 8.7 percent) and 30.56 sen (FY 2002: 22.19 sen) respectively. As at 31 December 2003, net loans and advances increased to RM54.5 billion, a 11.6 percent increase. The net non-performing loan ratio improved to 5.49 percent as at 31 December 2003 from 6.10 percent a year earlier. The Commerce Group's shareholders' funds strengthened to RM7.9 billion (FY 02: RM7.2 billion) while Group net tangible assets per share improved to RM2.92 from RM2.66 as at 31 December 2002. The Group's liquidity position remained strong with a loans-to-deposit ratio of 82.8 percent.

Commerce Group recorded its highest-ever profits in its operating history in the financial year ended 31 December 2003.

Profit before tax amounted to RM1.241 billion, a 66 percent increase year-on-year.

At holding company level, Commerce Asset-Holding Berhad registered a higher year-on-year profit before tax amounting to RM379.3 million compared to RM45.4 million recorded last year. The increase was primarily attributable to higher miscellaneous income of RM197.9 million derived from the gain on disposal of CIMB shares arising from the listing exercise undertaken during 2003, and the gain on disposal of the 30 percent stake in Bank Muamalat Malaysia Berhad. There was also the impact of the change in accounting policy with regards to dividend recognition, with dividends received from CIMB Berhad amounting to RM143.4 million and Bumiputra-Commerce Bank of RM41.3 million.

A separate section of this Annual Report will provide a review of operations in the principal companies of the Group. In my message, I will provide an overview of the financial performance and major strategic initiatives.

THE BUMIPUTRA-COMMERCE BANK BERHAD (BCB) GROUP

Throughout 2003, Bumiputra-Commerce Bank embarked on various strategic initiatives to enhance its operational

infrastructure and capabilities. This is consistent with its stature as the eighth-largest bank in the ASEAN region by total assets. In Retail Banking, a new sales and services model was introduced, implementing a clear demarcation between the two functions to provide focus and clarity. The integrated risk management framework was further enhanced in line with the stringent requirements of the Basel II Accord. Outsourcing of non-core processing activities and Information Technology (IT) services was completed in 2003.

I mentioned in last year's Report that the Bank had embarked on a Human Resource Transformation Project (H RTP). This was designed to align people performance and business performance. Implicit to the initiative was the need to develop a performance-oriented culture and inculcate quality service levels. The H RTP was concluded in 2003, and the focus going forward will be on the deliverables such as the Performance Management Systems.

BCB has also embarked on a project to develop an integrated Decision Support System. This will provide information for customer relationship management, performance management and risk

management. This decision support infrastructure is centred on a bank-wide data warehouse, and will enable enhancement of the revenue base, improvement of asset quality, broadening of the range of products and services, inculcation of quality service values, and more effective monitoring.

In October 2003, BCB successfully completed a USD300 million 10-year Subordinated Lower Tier 2 bond issue. The exercise coincided with Standard and Poor's upgrading of Malaysia's rating from BBB- to A- and was an overwhelming success. The latest ratings accorded to BCB are BBB by Fitch, BBB- by S&P and Baa1 by Moody's.

Also in October 2003, a joint venture agreement was signed between Proton Edar Sdn Berhad and Bumiputra-Commerce Finance, to form a best-of-breed auto financier. The joint venture entity, Proton Commerce Sdn Berhad, will leverage on the capabilities and resources of both partners. This strategic collaboration is intended to enhance the Group's presence in the auto finance segment as part of our resolve to strengthen our retail franchise.

chairman's message

For the financial year ended 31 December 2003, the Bumiputra-Commerce Bank Group increased its Profit Before Tax (PBT) by 28.8 percent to RM640.0 million from RM497.0 million recorded in the year ended 31 December 2002. The BCB Group contributed 51.6 percent to group profits. At the Bank level, BCB recorded a 55 percent increase in PBT year-on-year to RM488.2 million (FY 02: RM314.6 million).

THE CIMB BERHAD GROUP

The first year of listing of CIMB Berhad on the Malaysia Securities Exchange Berhad coincided with a record fund-raising year in the "young" Malaysian Capital Markets. Approximately RM110 billion was raised during the year through both debt and equity markets. The reorganization of the operating model in CIMB from a merchant banking mould to an investment banking structure which was initiated in 2002 began to yield its full positive effects in 2003. The core capital market divisions excelled and there were clear "wins" in terms of new relationships, mandates secured and landmark transactions.

The advisory and origination businesses continued growing, with efforts concentrated on complex merger and acquisition services and high value initial public offerings. During the course of the year, CIMB embarked on a series of strategic initiatives to provide a platform for diversification of the revenue base. A dedicated unit, CIMB Islamic, was launched to spearhead Shariah-compliant capital market activities. In October 2003, CIMB (Labuan) Limited, a wholly-owned subsidiary of CIMB Berhad, acquired a 51 percent stake in P.T Niaga Sekuritas, the investment banking arm of P.T Bank Niaga for a total purchase consideration of IDR20.7 billion (approximately RM9.6 million). The new subsidiary, now known as P.T. CIMB Niaga Securities will provide

the initial thrust for the Group's investment banking activities into a regional market. There was also an internal restructuring exercise whereby Private Banking and Retail Equity were merged under Private Client Services. The retail market will be given added emphasis and focus. Another area of focus was to enhance non-Ringggit revenues. On a capital management front, CIMB paid a special dividend of 15.3 sen net in May 2003, an unprecedented move for a company just five months into its flotation. Besides rewarding shareholders, this move sent a strong signal to the investment community on CIMB's intent and focus on capital management.

For the year ended 31 December 2003, the CIMB Berhad Group recorded a profit before tax of RM350.8 million, an increase of 95.1 percent, an all-time record, and exceeding its forecast in the Prospectus of RM190 million. The CIMB Berhad Group contributed 28.3 percent to Commerce Group profits.

The first year of listing for CIMB Berhad has been an eventful one and has exceeded all expectations. A Moody's rating of Baa 3 was obtained during the year. The CIMB share price was a leading performer in 2003. As at 5 March, 2004, it closed at RM 6 per share, a 243 percent increase from its initial offering price of RM1.75 per share. In 2003, CIMB received the National HR Excellence Award for 2002. This is a major recognition of the dynamic and progressive human capital development programme which has been put in place in the organisation.

THE P.T BANK NIAGA GROUP

This is the first year of the inclusion of full-year results from P.T Bank Niaga Group in the Commerce Group results. The P.T Bank Niaga Group recorded a PBT equivalent to RM198.2 million, contributing 16 percent of Commerce Group profits.

This is the highest result obtained in its operating history, and reflects the improving operating environment in Indonesia. This performance was fuelled primarily by an increase in 23 percent in lending and a 10.5 percent growth in deposits. The Group's profit after tax equivalent of RM210 million was 231 percent higher year-on-year.

Macro economic stability and an improvement in both consumer and business sentiment have propelled Indonesia into a new post-IMF era. A stronger Rupiah and a halving of inflation to just over 5 percent allowed Bank Indonesia to gradually reduce interest rates. The banking industry is clearly returning to its intermediary role as stable economic conditions prevail, with economic growth standing at 4.1 percent in 2003.

Bank Niaga is implementing its strategic development initiative, "Vision 2007". Currently it is the tenth-largest bank by assets in Indonesia, and its market share of both loans and deposits stood at 2.9 percent as at end of 2003. Under Vision 2007, Bank Niaga aims to transform itself into a top five bank in Indonesia by 2007, with at least a 5 percent market share in its chosen areas. This will entail developing a premier retail bank with expanding business lending. In line with this strategic plan, the risk management infrastructure will also be strengthened, and Bank Niaga's strong reputation as a high service quality bank will be further enhanced.

A defining moment for Bank Niaga in September 2003 was the lifting of its status as a "bank under recovery" and the subsequent transfer of supervision from the Indonesian Bank Restructuring Agency (IBRA) back to Bank Indonesia, the central bank. Together with the quasi-reorganisation exercise approved

by Shareholders in December 2003, this has restored Bank Niaga as a sound and fully recovered bank with a balance sheet free of deficits, thus allowing for dividend payments to shareholders.

OTHER COMPANIES IN THE COMMERCE GROUP

Commerce Asset Ventures Sdn Berhad (CAV) recorded a strong growth of 200 percent in PBT, which stood at RM12.2 million as at end of 2003 as compared to the RM4.1 million recorded in 2002. The Group's private equity and venture capital investment arm has started to reap the benefits of some of its investments by realising gains on disposal. During the year the focus for CAV was in promoting its third investment fund which targets and funds buy-out opportunities.

Commerce Asset Fund Managers Sdn Berhad is currently the fifth largest Asset Management Company in Malaysia with funds under management amounting to RM3.1 billion as at end of 2003. The company provides investment services for pension funds, government bodies, statutory bodies, unit trusts, corporations and institutional investors. Pre tax profits declined marginally by 6 percent to RM4.7 million from the RM5 million recorded in 2002.

Commerce Trust Berhad (CTB) is currently the fifth largest unit trust management company in the country, with over RM1.6 billion in funds under management as at end of 2003. Profit before tax rose 177 percent year-on-year to RM4.9 million. There were two exceptional items in 2002, namely bonus given to unit holders amounting to RM 1.0 million, and write-offs of intangible assets amounting to RM1.1 million. CTB intends to introduce five new unit trust funds in the near future to complement its existing stable of funds.

AMAL Assurance Berhad, the Group's life insurance subsidiary was renamed Commerce Life Assurance Berhad or Commerce Life in short in the fourth quarter of 2003. The name change reflected its commitment to the pursuit of stronger intra-group synergies principally through bancassurance activities. For the period under review, PBT rose by 172 percent to RM4.9 million. Gross premium income rose by 63 percent to RM150.6 million, with approximately 69 percent of the premium income for 2003 attributable to bancassurance initiatives.

CORPORATE DEVELOPMENTS

The period under review was an eventful one for the Commerce Group with respect to corporate developments. On 6 October 2003, CAHB acquired an additional 1.83 percent equity interest in P.T Bank Niaga for a purchase consideration of IDR38.7 billion (approximately RM17.6 million). The acquisition of this additional stake was to facilitate the implementation of a Management Equity Scheme for the senior management of Bank Niaga, in order to further align the interests of the senior management and shareholders.

Various corporate exercises were undertaken during the year, which would put in place the necessary building blocks for the Commerce Group to offer a full suite of financial products and services. During the year, CAHB disposed of its 30 percent equity interest in Bank Muamalat Malaysia Berhad to Bukhary Capital Sdn Berhad for a total cash consideration of RM155.1 million. The total profit recognised from the transaction amounted to RM 39.2 million. The disposal will pave the way for BCB to embark on Islamic Banking activities within the parameters of the new framework that is expected to be put forward by Bank Negara Malaysia soon.

General insurance has not been a part of the Group's range of products. Subsequent to the year end, CAHB completed the acquisition of a 100 percent equity stake in AMI Insurans Berhad from the New Straits Times Press (Malaysia) Berhad and Pitisan Sdn Berhad for a cash consideration of RM173.5 million. AMI is the fifth-largest general insurer by gross premiums and had embarked on collaboration with both BCB and BCF even before the acquisition. There is tremendous potential to extract value from bancassurance activities going forward, for example in the area of motor and fire insurance.

Subsequent to the year end on 13 February 2004, CIMB Berhad entered into a Memorandum of Agreement with TA Enterprise Berhad in relation to the proposed acquisition by CIMB Berhad of the entire equity interest in Botly Securities Sdn Berhad for a total purchase consideration of RM400 million, to be satisfied by the issue of 80,000,000 new ordinary shares of CIMB Berhad at an issue price of RM5.00 per share. CAHB had also entered into a separate Memorandum of Agreement with TA Enterprise Berhad for a call and put option on 80 percent of the new shares to be issued for the proposed acquisition. As of this date, the exercise remains to be completed, however it sends a clear message on the part of CIMB of its intention to enhance its retail base and achieve better balance between its mix of businesses.

On 20 January 2004, CAHB entered into a Sale and Purchase Agreement with IJM Properties Sdn Bhd for the proposed acquisition of land measuring in total approximately 10,149 square meters, together with a 39-storey office building to be developed thereon, for a total cash consideration of RM375 million.

chairman's message

This development project is expected to take fifty-four months to complete and is intended to house the Group's diverse financial services entities.

A book detailing the history and development of the Group entitled "The Commerce Asset Story – Of People And Principles" was launched during the year. In an increasingly complex and volatile environment, we need to reflect and take stock of the qualities that have helped us reach this far. A separate section of this Annual Report is dedicated to this project. I wish to place on record my heartfelt gratitude to everyone involved in the development and publication of this book.

PROSPECTS FOR 2004

The strengthening economic recovery will have a positive impact on the prospects of the Commerce Group of companies in 2004. For the Group, the strategic initiatives will be primarily directed towards developing Group wide retail strategy, instituting a strong risk management culture and adopting a proactive approach to the management of capital.

The BCB Group is well positioned to benefit from the positive operating environment. A lot of the groundwork has been put in place towards becoming a performance driven financial services group. Efforts to diversify the revenue base will continue. Risk management and cost control will be areas of emphasis. This is also the first year of operations for Proton Commerce, a venture that we believe will become significant in the years to come.

The CIMB Group is optimistic about the opportunities in the Malaysian capital market in 2004. The outlook for the equities market is good and the expectation is for an active year. Despite different debt

market conditions in 2004, CIMB forecasts around RM35 billion to RM40 billion will be raised in the Ringgit bond markets. Corporate advisory activities will remain strong. Efforts will be directed to scaling up CIMB's presence in retail financial services and on the build-up of its annuity income. CIMB will continue to grow its non-Ringgit revenue through CIMB Labuan, and to build up its activities at P.T. CIMB Niaga Securities.

P.T. Bank Niaga will leverage on the continued improvement in the Indonesian operating environment to position itself as a premier retail bank. The franchise will focus on consumer and business banking while building a leading niche position in corporate banking. Loans growth will remain robust with the expectation of a 30 percent growth year-on-year. Various initiatives aligned to "Vision 2007" will be implemented.

Efforts will also be directed towards extracting greater value and synergies from various Group activities. The development of the third pillar of the Group's activities namely in venture capital, both life and general insurance as well as unit trust and asset management remains an important area of focus.

ACKNOWLEDGEMENTS

In 2003, En Azizan Mohd Noor resigned from the Board of Directors. I wish to place on record our appreciation and gratitude to En Azizan for his contribution and efforts both as a Director and member of the Audit Committee. We welcome in November 2003 Dr Roslan A Ghaffar to the Board of Directors. Dr Roslan is currently the Deputy Chief Executive Officer (Investments) at the Employees Provident Fund (EPF) and represents the EPF on the Board.

On behalf of the Board of Directors, I would like to extend our gratitude to the management and staff of the Commerce Group for their dedication and commitment. I would also like to extend our appreciation to the regulators namely Bank Negara Malaysia, the Securities Commission, the Malaysia Securities Exchange Berhad, our business partners, advisers and customers. We also would like to thank our shareholders for their continued support.

DIVIDENDS

Subject to your approval at the forthcoming Annual General Meeting, the Board has recommended a final dividend of 5 sen gross per ordinary share less tax at 28 percent. As a result of obtaining higher profits at the Group level and exceptional gains at the Company level, the Board of Directors is also recommending a special dividend of 5 sen gross per ordinary share less tax at 28 percent. This is consistent with the aim of rewarding shareholders for their support.

The Board of Directors has also on 27 February 2004 approved the cancellation of the 35,853,000 Treasury shares acquired as part of the Share Buy-back mandate obtained over the years. This move together with the special dividend is part of our ongoing capital management programme.

Dato' Mohd Desa Pachi

Chairman

Kuala Lumpur
12 March 2004