



chairman's

I am pleased to present the Annual Report and the Audited Financial Statements of the Commerce Asset-Holding Berhad Group (the Commerce Group) for the financial year ended 31 December 2004.

THE OPERATING ENVIRONMENT

During the first half of 2004, the Malaysian economy accelerated its growth momentum. This was attributable to improvements in domestic consumer and business sentiments as well as growth in exports. The key factors supporting exports growth were improved global economic conditions which saw upsurge in electronics demand and higher commodity prices. There was an easing of the growth momentum in the second half of 2004. Global growth prospects had turned weaker in light of global interest rates trending upwards as well as the continued uncertainty in oil prices. On the regional front, there were concerns on the potential impact from China's proposed softening of its overheating economy.

For 2004 as a whole, the Malaysian economy expanded by 7.1 percent. Growth was led by private sector activity. Private investment activity during the fourth quarter was robust on account of expenditure on replacement of plant and machinery in the manufacturing sector and investment for oil exploration activities.

The banking sector continued to exhibit increased resilience in the fourth quarter, with a high level of capitalisation, improvement in profitability and the lowest level of non-performing loans since the Asian financial crisis. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained high at 13.8 percent and 10.8 percent. The net NPLs based on the 6-month classification continued trending downwards to account for 5.9 percent of total net loans, the lowest level since the Asian crisis (3Q2004: 6.1 percent). Based on a 3-month classification, the net NPLs showed significant improvements to 7.6 percent of total net loans (3Q2004: 8.1 percent). The improvement was largely attributed to higher recoveries, reclassifications and write-offs.

THE COMMERCE GROUP

The Commerce Group reported an 18.8 percent increase in operating profits before provisions to RM2.224 billion for the financial year ended 31 December 2004. Total revenue increased by 16.7 percent from RM3.579 billion to RM4.177 billion. Net interest income grew by 6.2 percent from RM2.547 billion to RM2.704 billion with stronger loan growth at BCB Group and Bank Niaga Group. Non interest income rose by 42.8 percent to RM1.474 billion from RM1.032 billion attributable to improvement in fee and commission income, higher revenue from financial advisory, debt and equity business and the inclusion of post acquisition results of Commerce Assurance Berhad (formerly known as AMI Insurans Berhad).

The Commerce Group reported a decline of 12.1 percent for profit before taxation to RM1.090 billion for the financial year ended 31 December 2004 from the RM1.241 billion recorded in 2003. The decline is attributable to higher loan loss provisions arising from the decision of the Board of Directors to address any concerns on the asset quality issue at our commercial banking subsidiary, Bumiputra-Commerce Bank Berhad in the fourth quarter of the year. This includes the adoption of a three month classification compared to a six month classification in the recognition of non performing loan from the fourth quarter of 2004, accelerating provisions on certain specific accounts and adopting a prudent approach towards non performing loans aged between five and seven years and those aged above seven years. There was a conscious decision to address the asset quality issue in the fourth quarter of the year. The other main subsidiaries namely CIMB Berhad and PT Bank Niaga Group registered record profits for the year under review.

Net profit for the financial year declined by 3.8 percent from RM782.3 million to RM752.2 million which resulted in a drop in earnings per share of 28.28 sen compared to 30.56 sen. Return on average equity declined to 9.02 percent from 10.38 percent.

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CHAIRMAN'S MESSAGE

The cost to income ratio improved slightly to 46.76 percent from 47.68 percent mainly due to higher revenue. Based on a three months classification, the net non-performing loan ratio was 6.85 percent at the end of 2004. Loans and advances grew by 14.9 percent at Group level to RM62.6 billion while Group deposits grew by 17.3 percent for the full year to RM74.1 billion. The Group's liquidity position was strong with a loans to deposits ratio of 84.5 percent. The Commerce Group's shareholders funds strengthened to RM8.8 billion (FY 03: RM7.9 billion) while Group net tangible assets per share improved to RM3.13 from RM2.92 as at 31 December 2003.

At the holding company level, Commerce Asset-Holding Berhad registered slightly lower profit before tax amounting to RM300.4 million compared to RM379.3 million recorded for the year ended 31 December 2003. Included in the 2003 results were one off gains arising from the Restricted Offer For Sale exercise of CIMB Berhad.

THE BUMIPUTRA-COMMERCE BANK BERHAD (BCB) GROUP

In 2004, Bumiputra-Commerce Bank embarked on various strategic initiatives to position the Bank for growth. The faster growing business segments namely consumer and Small and Medium Enterprises (SME) was a clear area of focus. During the year under review, BCB formalised an alliance with the Small and Medium Industries Development Corporation (SMIDEC) to facilitate the extension of various financing facilities to Small and Medium Enterprises. In addition to traditional banking products, BCB also focused on generating sales from financial planning products, developing new avenues for fee-based income and improving the cross selling of products of the Commerce Group. Throughout the year, there was a continuous emphasis on cost management. Risk management continued to be strengthened in line with BCB's road map to implement Basel II recommendations.

A major initiative that started in 2004 was the nationwide roll out of the Branch Transformation Project. This project to be undertaken over three years in various stages encompasses an extensive branch reconfiguration programme. Different branch formats will be tailored to various customer needs. Among the

rationale for this major project is to enhance delivery system and customer service in line with the transformation of the Bank into a customer centric organisation.

Efforts were also directed towards strengthening the risk management system. The focus was mainly on the continued progress towards conforming with Basel II requirements. I mentioned in last year's Report that the Bank had embarked on a project to develop an integrated Decision Support System. The enhancement to the decision support infrastructure which would encompass financial management, performance management, risk management and customer relationship management continued in the year under review. This will be useful in providing BCB with an integrated insight into its customer profiles and enhanced decision making capabilities.

Proton Commerce, a joint venture between Bumiputra-Commerce Finance Berhad and Proton Edar Sdn Bhd commenced operations in the year under review. It is still early days for the business but it is certainly beginning to establish a presence in the auto financing market leveraging on the resources and expertise of its partners.

In terms of new business opportunities going forward, in the second quarter of 2004, BCB received approval in principle by Bank Negara Malaysia to operate Islamic banking through a subsidiary. The expectation is for the Islamic banking subsidiary to commence operations in the second quarter of 2005. The new Islamic bank to be known as Commerce Tijari Bank Berhad will leverage on BCB's existing IT infrastructure and network resources and provide a new platform for earnings growth.

For the financial year ended 31 December 2004, the Bumiputra-Commerce Bank Group registered a 46.0 percent decline in Profit Before Tax (PBT) amounting to RM345.8 million compared to the RM640.0 million registered in the previous year. At the Bank level, BCB recorded a 53.9 percent decline in PBT to RM225.0 million (FY 03: RM488.2 million). The BCB Group contributed 31.7 percent to group profits. The decline in PBT was attributable to the decision to address the asset quality position in the fourth quarter of the year. This move should assist in providing a clearer line of sight for loan loss provisions going forward.

THE CIMB BERHAD GROUP

2004 was another record year for the CIMB Berhad Group with Profit Before Tax amounting to RM384.9 million, 9.7 percent higher than that recorded in the year ended 31 December 2003. Total revenue increased by 13.6 percent year on year to RM601.1 million with all core business divisions continuing to excel. Net profit for the financial year increased by 11.2 percent from RM260.6 million to RM289.7 million, their best ever results. The return on equity was 20.7 percent. The CIMB Berhad Group contributed 35.3 percent to Commerce Group profits.

The results were recorded amidst a fiercely competitive operating environment both on the local and regional fronts. Gross funds raised in the Malaysian Capital Markets were lower in 2004 amounting to RM91.8 billion compared to RM109.1 billion raised in 2003. Although there was improvement in the trading volumes on Bursa Securities, average daily trading volume was approximately 25 percent lower year on year in the Ringgit Bond Markets. CIMB topped the M&A league table for 2004 with a 48.0 percent market share by deal size. In the primary bond market and primary equity market, CIMB maintained its leadership position. It was a landmark year for secondary equity placements with the notable deals during the year undertaken by CIMB were for clients such as Telekom Malaysia Berhad, Perusahaan Otomobil Nasional Berhad and Shell Refining Company (FOM) Berhad.

During the year CIMB embarked on a series of strategic initiatives to maintain and enhance its competitive edge. In the area of product diversification, there was renewed focus on structured investment products and other products such as Ringgit Malaysia Convertible Bonds. Annuity income derived from funds management, private equity, private banking, agency and securities services became a new revenue line disclosure in 2004. During the year, CAHB disposed its 70 percent stake in Commerce Trust Berhad and Commerce Asset Fund Managers Sdn Bhd to CIMB Berhad for a total consideration amounting to RM35.0 million. This disposal by CAHB is part of an internal restructuring to place the asset management businesses under the purview of the group's investment banking business. The annuity income stream emanating from the asset management businesses will provide greater earnings stability for CIMB in the future.

In March 2004, CIMB successfully completed the issuance of Tier 2 Subordinated Debt of USD100 million. The issue was an overwhelming success and was oversubscribed by 4.25 times. The latest ratings accorded to the notes are Ba1 by Moody's and BBB- by both Fitch and S&P. The issue of Subordinated Bonds was part of a two fold exercise whereby Tier 2 capital amounting to RM380 million was raised followed by a cash distribution by CIMB to CIMB Berhad amounting to RM350 million. The capital swap resulted in a cash distribution to shareholders of CIMB Berhad of approximately 40.7 sen per share. This is an illustration of CIMB's proactive stance in capital management. This was further reinforced by the announcement of a target annual dividend payout of 15 sen per share.

With its continued market leadership position in the Capital Markets in Malaysia, it is a natural progression for CIMB to look at a regional presence. The initial tentative steps has been taken through the acquisition of PT CIMB Niaga Securities in October 2003. Subsequent to the year end, in January 2005, CIMB Berhad announced the proposal to acquire the stockbroking businesses of Singapore listed GK Goh Holdings. I will touch on this in the corporate development section of this statement. Of all the awards garnered in 2004, I wish to highlight the National CEO of the year award accorded to CIMB Berhad's Chief Executive Officer, Dato' Nazir Razak. It is a singular honour and we extend our heartfelt congratulations.

THE PT BANK NIAGA GROUP

Bank Niaga Group reported another record year with PBT equivalent to RM307.6 million for the year ended 31 December 2004. This was an increase of 55.2 percent from the RM198.2 million recorded in the corresponding year. The PT Bank Niaga Group contributed 28.2 percent to the Commerce group profits. The sterling performance was fuelled by a 46 percent growth in loans with the commercial and consumer segments leading the way. The Group's net profit for the financial year equivalent of RM268.1 million was 28.2 percent higher than last year. In only the second year of inclusion of its full year results, Bank Niaga is becoming a significant contributor to Commerce group results.

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The Indonesian economy was stable and registered steady growth in 2004. The macro economy stability evident during the year saw exports and investments starting to support domestic consumer consumption as levers of economic growth. Political stability was very much in evidence despite the long election process. Consumer confidence was at its highest for the past three years and inflation remained at manageable levels. The banking sector continued with its intermediary role.

The "Vision 2007" strategic initiative for Bank Niaga continued to make good progress. The combined loan and deposits market share of Niaga stood at 3.1 percent at the end of 2004 compared to the 5.0 percent target in 2007. As at end September 2004, Bank Niaga was the eight largest bank by assets in Indonesia. Progress on both fee income and net profit growth was very encouraging. Low cost deposits made up 42 percent of total deposits. The contributions from the consumer and SME businesses in 2004 clearly indicates that the goal of becoming a retail force is gathering momentum.

Bank Niaga began paying dividends in 2004, the first time after the Asian Financial Crisis. One of the strategic initiatives undertaken during the year include the risk management system that was enhanced to support rapid loan growth. Syariah banking was also launched, an area which has much potential in Indonesia. Bank Niaga received many accolades during the year. The strong customer service heritage continued to be recognised with Bank Niaga clinching for the 8th successive year the Banking Services Excellence Award by Marketing Research Indonesia.

OTHER COMPANIES IN THE COMMERCE GROUP

Commerce Asset Ventures Sdn Bhd (Commerce-Ventures) registered a strong growth of 48.4 percent in PBT amounting to RM18.4 million as at end of 2004 compared to the RM12.4 million recorded in 2003. This is attributable mainly to the realisation of gains from disposal of its investments. The focus on 2004 was largely centred on buy-outs. In 2004, Commerce-Ventures went through a re-branding exercise cementing the leading role it has played in the Malaysian venture capital industry.

Commerce Asset Fund Managers Sdn Bhd (CAFM) and Commerce Trust Berhad (CTB) collectively have RM5.3 billion funds under management at the year end. At CAFM, pretax profits rose by 17.0 percent to RM5.5 million from RM4.7 million recorded in 2003. The higher profit was due to higher revenue from both wholesale and retail business as well as lower expenditure. At CTB, pretax profits rose by 6.1 percent to RM5.2 million from the RM4.9 million recorded in 2003. This was due to higher sales during the year with the introduction of five new unit trust funds to complement the present range of funds.

Commerce Life Assurance Berhad (Commerce Life) registered a 20.4 percent rise in PBT to RM5.9 million from the RM4.9 million registered in 2003. Gross premium income for the year ended 31 December 2004 amounted to RM364.9 million, a significant rise of 157.9 percent from the RM141.5 million recorded in 2003. A new significant contributor to premium income came from the sale of investment linked products.

We have included ten months of the post acquisition results of AMI Insurans Berhad (AMI) to the Commerce Group results in 2004. At the PBT level, this amounted to RM18.5 million. There was a concerted emphasis on the retail business during the year in particular personal line of business such as motor insurance. Subsequent to the year end AMI changed its name to Commerce Assurance Berhad. This signifies not only its entry into the Commerce family but also the strategic focus on bancassurance.

CORPORATE DEVELOPMENTS

One of the main themes in Corporate Malaysia for 2004 was the Government's initiative towards promoting a culture of high performance in Government Linked Corporations (GLC). This would involve the implementation of Key Performance Indicators and the introduction of Performance Linked Compensation. This is a wake up call for all GLCs including the Commerce Group where execution and performance will be the prevailing theme going forward. In tandem with this GLC reform theme, Commerce Asset-Holding Berhad has adopted and finalised its corporate scorecard with both quantitative and qualitative targets set for 2005 as a start.

Another major initiative undertaken during the year was the development of the Group Bancassurance Blueprint. This exercise was taken to provide a platform for the Group Bancassurance business to grow significantly over the next few years. We believe this will form an important component of non interest income in the future. This is truly a group-wide initiative led from the centre and supported by a dedicated team comprising representatives from the commercial bank, finance company, the two insurance subsidiaries and unit trust company in the implementation of the blueprint.

In September 2004, CAHB via its Labuan incorporated subsidiary, Commerce Capital (Labuan) Ltd successfully completed the issuance of USD125 million zero-coupon convertible bonds. The pricing was at the tightest end of the marketing range to achieve a yield to maturity/ yield to put of 1.5 percent and conversion premium of 30 percent. The offering is the first US dollar convertible bonds issued by a Malaysian financial institution post the 1997 financial crisis. The deal was warmly received with strong demand coming from investors in Asia, UK and Europe. The books were closed early as the deal was well oversubscribed within 2½ hours of launch. The bonds are listed on the Labuan International Financial Exchange Inc and Singapore Exchange Securities Trading Limited. Proceeds from the issue will be used for working capital and other corporate purposes of the Commerce Group.

I mentioned in last year's Annual Report that the disposal of our 30 percent equity interest in Bank Muamalat Malaysia Berhad would pave the way for BCB to embark on Islamic Banking activities. Approval in principle was given to BCB in July 2004 to commence Islamic Banking activities through a subsidiary. At the CAHB level, approval in principle was also given by Bank Negara Malaysia in October 2004 for the Group to conduct Takaful business. These developments will extend the range of products and services offered by the Commerce Group in the near future.

Subsequent to the year end, CIMB Berhad announced that it had signed a sale and purchase agreement with G.K. Goh Holdings Limited for the acquisition of the latter's entire stockbroking operations for a total purchase consideration of up

to SGD239.14 million or approximately RM554.8 million which will be satisfied entirely in cash. The proposed acquisition which is subject to regulatory and shareholder approvals will transform CIMB into South East Asia's leading investment banking franchise with significant market share in Malaysia, Singapore and Indonesia. Inter-conditional with the proposed acquisition, CIMB will issue 93.66 million new CIMB Berhad shares at an issue price of RM4.50 per share to Commerce Asset-Holding Berhad, thereby raising approximately 75 percent of the total purchase consideration amounting to RM421.48 million. CAHB will then carry out a renounceable restricted offer for sale of approximately 26.3 million of the consideration shares to the minority shareholders of CIMB Berhad on a rights basis of one CIMB share for every nine existing CIMB shares held. We are excited at the prospects of the proposed acquisition in particular to the regional footprint that it will provide for the Group's investment banking activities.

PROSPECTS FOR 2005

Though domestic economic conditions are expected to moderate slightly in 2005, we still expect that the overall environment will provide a conducive platform for growth in the banking sector. There will be renewed focus on growing the core business segments and developing new sources of revenue. Continued efforts will be in place to enhance the asset quality position and to control costs.

For the Malaysian capital markets, we are expecting higher activity levels and better market conditions for equity and debt. The Mergers and Acquisitions outlook will likely be driven by the level of cross border transactions. Despite recent announcements on regional aspirations, the prospects for the Group's investment banking activities will be dependant on the Ringgit capital markets.

The Indonesian economy is expected to grow by 5.4 percent in 2005 based on official estimates. The credit cycle continues on an upward trend and the banking sector has room for growth with its relatively low loan to deposit ratio. The pro business government is taking the lead by promoting infrastructure projects and increasing foreign investment. This augurs well for the banking sector as a whole.

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ACKNOWLEDGEMENTS

On 28 June 2004, Mr Masayuki Kunishige resigned from the Board of Directors. Mr Kunishige was a representative of UFJ Bank on the Board of Directors. Mr Kunishige had also served as Executive Advisor of Japanese Business at BCB and then as Director of BCB. I wish to place on record our appreciation and gratitude to Mr Kunishige for his contributions. On 26 July 2004, we welcomed En Izlan Izhab to the Board of Directors as an Independent Non-Executive Director. En Izlan was also appointed as a member of the Audit Committee. A lawyer by profession, En Izlan had a distinguished career including a fifteen years stint at the Kuala Lumpur Stock Exchange, the forerunner to Bursa Malaysia Securities Berhad. Effective 1 September 2004, Dr Rozali was appointed as Executive Director/Group CEO of the Commerce Group. Dr Rozali ably led BCB through the transition years post merger.

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 continued commitment and dedication. I would also like to extend our appreciation to the regulators namely Bank Negara Malaysia, the Securities Commission, the Bursa Malaysia Securities Berhad, our business partners, advisers and customers. We would also 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 gross dividend of 10 sen (2003: 5 sen) gross per ordinary share less tax at 28 percent. The Board is also recommending a special gross dividend of 5 sen (2003: 5 sen) less income tax at 28 percent. The payment of special dividend in particular is an illustration of our commitment to maximise shareholders value and our continued pro-active approach to capital management.

Tan Sri Dato' Mohd Desa Pachi

Chairman

Kuala Lumpur
28 February 2005