Group Financial Review
Management Discussion & Analysis of Financial Performance

Introduction

Just reviewing one year's numbers in FY2005, does not tell the whole story of the tangible progress we have made in achieving the objectives set 3 years ago to deliver sustainable shareholder value:

- Improving profitability
- Improving asset quality
- Reducing risk by reconfiguring our business mix
- Strengthening our capital position

We have built a dominant position in retail banking, complementing our traditional niche in investment banking; and we are now making satisfactory progress in gaining scale and a respectable market share in the insurance industry.

The progress we have made in FY2005 in terms of achieving these 4 objectives, is reflected in the audited financial accounts for AMMB Holdings Berhad and its subsidiary companies.

SIMPLIFIED INCOME STATEMENT

RM Million	FY 2005	FY 2004	Growth	%
Net Interest Income	**1,418.5**	1,398.7	19.8	1.4
Net Income from Islamic Banking Business	**435.0**	364.6	70.4	19.3
Fund-based Income	**1,853.5**	**1,763.3**	**90.2**	**5.1**
Non-Interest Income	**1,069.4**	907.8	161.6	17.8
Total Income	**2,922.9**	**2,671.1**	**251.8**	**9.4**
Overheads	**(1,059.6)**	(989.3)	(70.3)	(7.1)
Insurance Business	**(528.1)**	(427.0)	(101.1)	(23.7)
Operating Profit	**1,335.2**	**1,254.8**	**80.4**	**6.4**
Loans and financing loss and allowances	**(770.5)**	(865.6)	95.1	11.0
Other provisions	**(17.9)**	(0.1)	(17.8)	(>100.0)
Transfer to profit equalisation reserve	**(57.9)**	(47.9)	(10.0)	(21.1)
Share in results of associated companies	**0.8**	1.4	(0.6)	(43.7)
Profit Before Tax	**489.7**	**342.6**	**147.1**	**42.9**
Taxation	**(203.8)**	44.3	(248.1)	(>100.0)
Profit before minority interests	**285.9**	**386.9**	**(101.0)**	**(26.1)**
Minority interests	**(84.0)**	(171.9)	87.9	51.1
Net Profit	**201.9**	**215.0**	**(13.1)**	**(6.1)**

Objective I: Improving Profitability

Commitment 1: Growth in Profit Before Tax

FY2005 – RM489.7 million (+RM147.1 million)
FY2004 – RM342.6 million

The Group reported an increase in pre-tax profit, despite setting aside additional specific provision of RM244.7 million due to the adoption of a more conservative provisioning policy for non-performing loans (NPLs) of 7 years and beyond, whereby zero value has been assigned for property collaterals.

The growth in pre-tax profit was due to:

- Increase in net fund based income driven by solid growth in retail lending and Islamic banking, but partly offset by lower net interest margins.
- Rise in non-interest income due to growth in insurance premiums and investment banking business activities.
- Lower provisions for bad debts, assisted by improvements in asset quality.
- Offset by the rise in operating expenses due to increase in spending on marketing, personnel and establishment costs, arising from the transformation of the finance company operations into a commercial bank.

Earnings Per Share

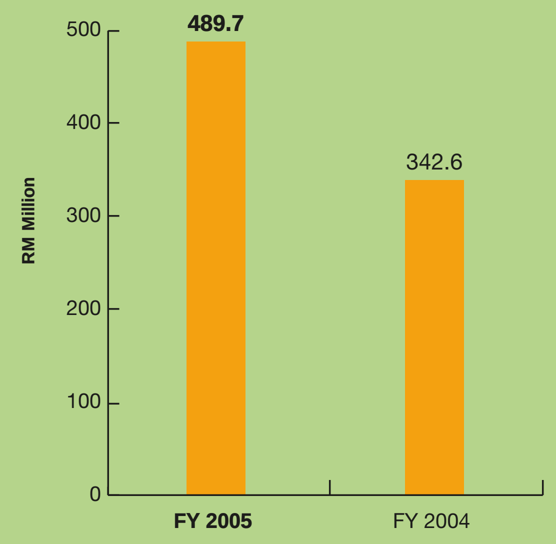
Earnings per Share or EPS, represents the net earnings of the company divided by weighted average number of shares on issue.

EPS however declined to 10.72 sen, due to:

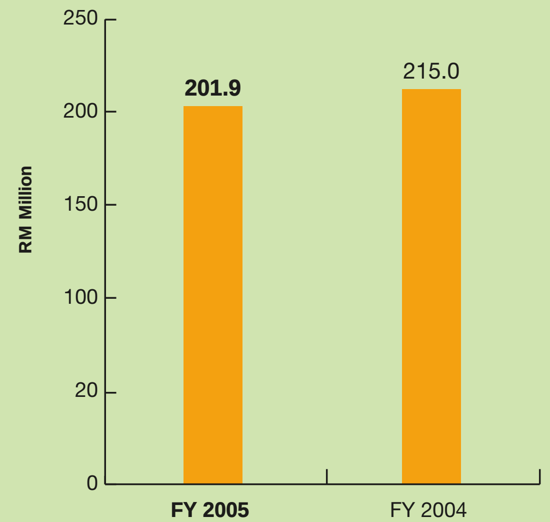
- Net profit after tax and minority interests registering a decline of RM13.1 million (-6.1%) due to lower tax from recognition of tax losses in previous year.
- Increase in paid-up capital by 14.6% due to issuance of 271.7 million new shares in FY2005, of which 188.9 million shares were in respect of the privatisation of AMFB Holdings Berhad ("AMFB"), 69.9 million shares arose from the exercise of warrants 2003/2008, and 12.9 million issued under the employee share option scheme.

Going forward, although there is now a 49.0% minority interest in AIGB, however, the acquisition of minority interest of AMFB will be accretive as the commercial bank will be the largest contributor to profits.

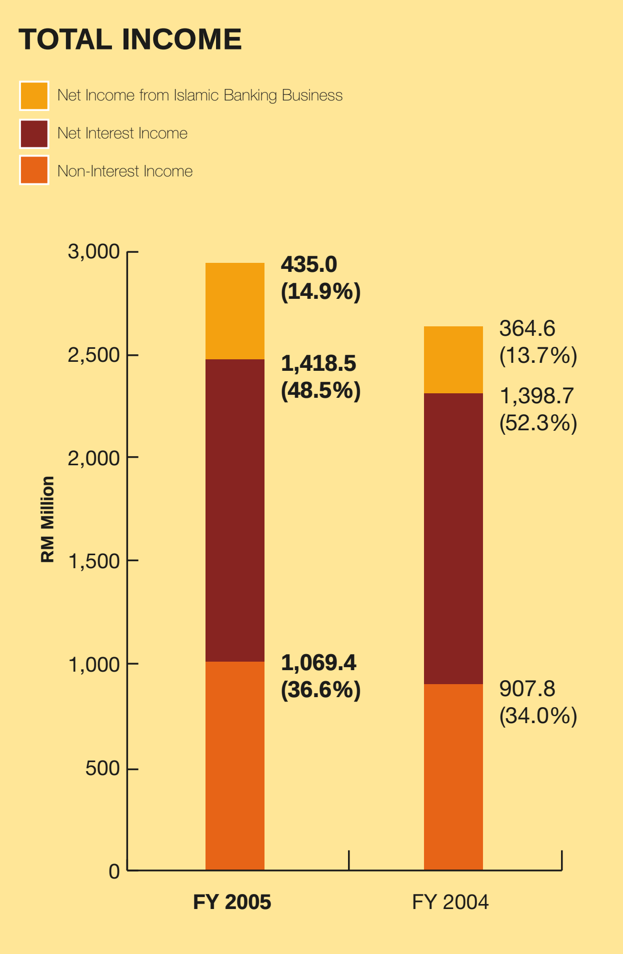
PROFIT BEFORE TAX

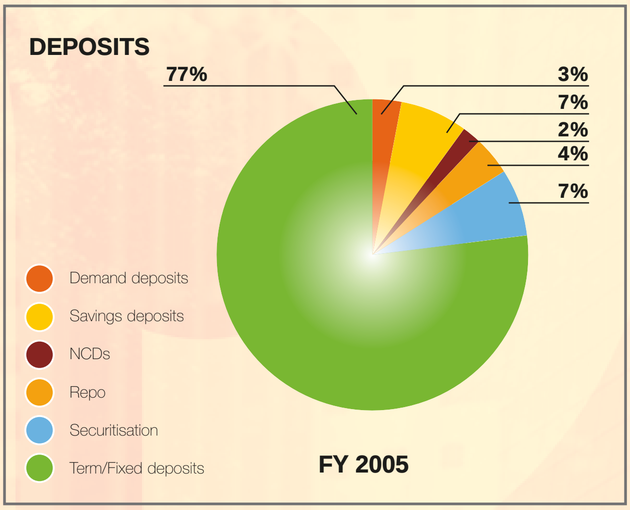


PROFIT AFTER TAX AND MINORITY INTERESTS



Financial Ratios	FY 2005	FY 2004
Earnings per share – net – Basic – Fully diluted	 10.7 sen 10.6 sen	 13.4 sen 12.7 sen
Net tangible assets per share	RM 2.00	RM 2.02
Gross dividend rate	4.0%	4.0%
Dividend payable/paid	RM61.4 million	RM53.5 million





Commitment 2: Revenue Growth

Revenue growth is one of the most important measures of our performance, reflecting our success in gaining new customers and winning more business from our existing customers. Revenue growth is the essential foundation for sustainable growth in profits and shareholder value.

The Group's revenue comprises net fund income (net interest income + income from Islamic banking operations) and non-interest income.

Fund Based Income at RM1,853.5 million increased by RM90.2 million (+5.1%) driven by:

Volume

- Net loans and advances grew by RM1.7 billion (+4.3%). Although retail loans expanded by RM3.3 billion (+12.4%), however, this was offset by a reduction of RM1.5 billion in corporate loans, as the larger corporations continued to tap the capital markets.
- Deposits and borrowings grew by RM 1.4 billion, largely driven by deposits placed by individuals (+RM1.7 billion) and business enterprises (+RM77.3 million), but offset by lower Government deposits (-RM610.5 million).

Margins

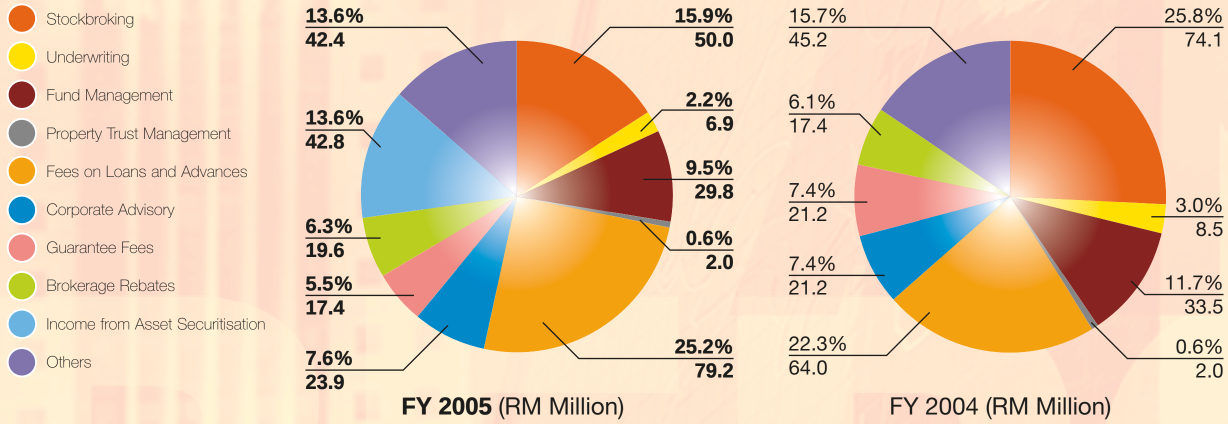
Net interest margin contracted by 19 basis points to 3.08%, owing to intense competition in hire purchase and mortgage loans.

RM Billion	FY 2005	FY 2004	FY 2003
Net Loans	**40.2**	38.5	38.1
Net Loans growth	**4.4%**	1.0%	1.9%
Gross Loans growth	**7.4%**	0.2%	(1.6%)
Net Interest Margin	**3.08%**	3.27%	4.40%

DEPOSITS FROM CUSTOMERS

RM Billion	FY 2005	%	FY 2000	%
Individuals	**18.2**	**52.9**	5.9	33.9
Business Enterprises	**11.9**	**34.8**	7.1	40.8
Government	**2.7**	**7.9**	-	-
Others	**1.5**	**4.4**	4.4	25.3
Total	**34.4**	**100.0**	**17.4**	**100.0**
Net Interbank Lendings	**7.6**		0.2	
Loans to deposit ratio	**86.4%**		76.3%	

FEE AND OTHER OPERATING INCOME



Non-Interest Income Ratio – The Group has consistently achieved its target of non-interest income ratio of more than 30.0% for the last 3 years with the ratio improving to 36.3% (FY2004: 34.0%).

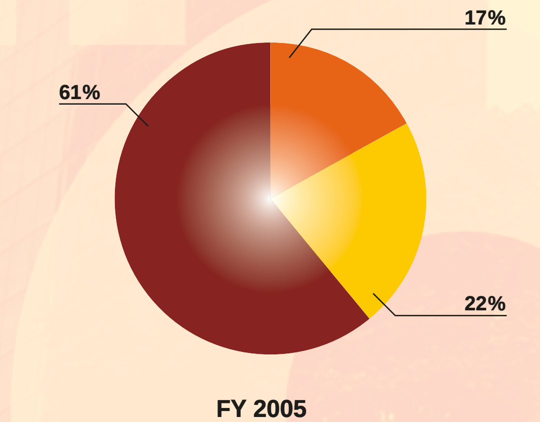
Premium income from the Group's insurance business accounted for 54.0% of total non-interest income and registered an increase of RM131.4 million (+29.5%), due to strong expansion of agency force and bundling of insurance with retail banking products.

Lending fees increased by RM15.2 million (+23.8%) driven by loans growth in retail banking and SME segments.

Non-lending fees increased by RM11.8 million contributed mainly by the investment banking business activities of corporate advisory, underwriting, and origination of corporate bonds.

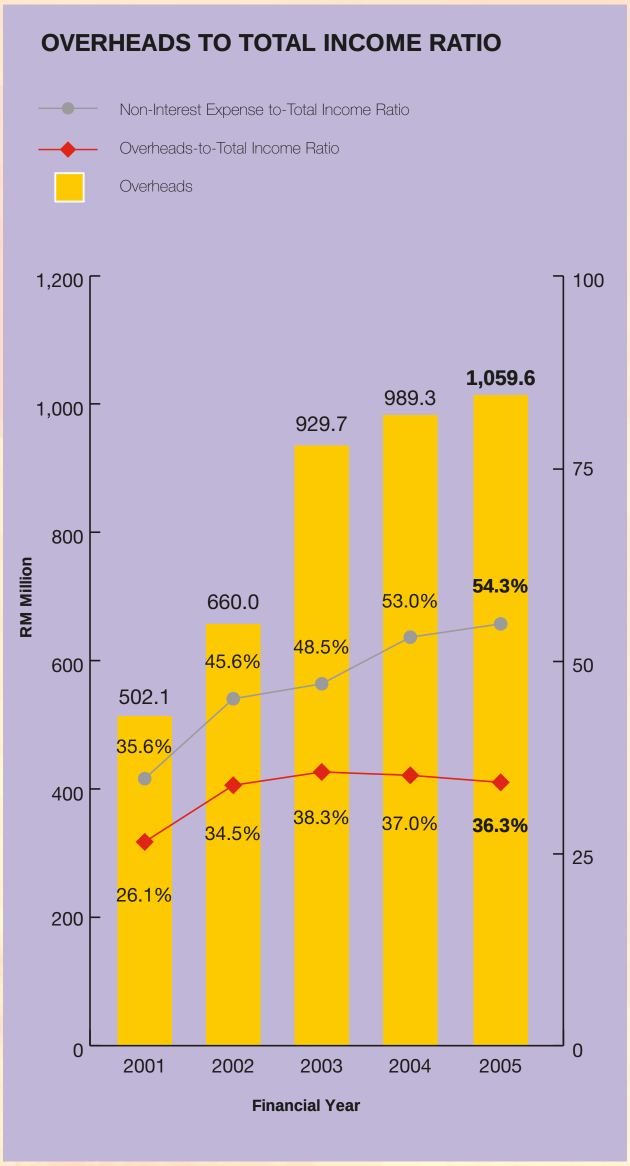
Gains from trading of financial instruments increased by RM12.5 million (+19.4%) due to the higher trading activities in money market and corporate bonds. With lower volumes of trading on the Bursa securities, brokerage fees and commissions registered a decline of RM24.1 million (-32.5%).

TOTAL INCOME BY OPERATIONS



NON-INTEREST INCOME

RM Million	FY 2005	FY 2004	Increase/decrease RM	%
Fee Income	**314.0**	287.0	27.0	9.4%
Investment and trading income	**146.4**	155.1	(8.7)	(5.6%)
Premium income from life and general insurance	**577.2**	445.8	131.4	29.5%
Capital gain arising from the receipt of shares in Bursa Malaysia Berhad	**12.7**	-	12.7	100.0%
Other income	**19.1**	19.9	(0.8)	(4.0%)
Non-interest income	**1,069.4**	**907.8**	**161.6**	**17.8%**



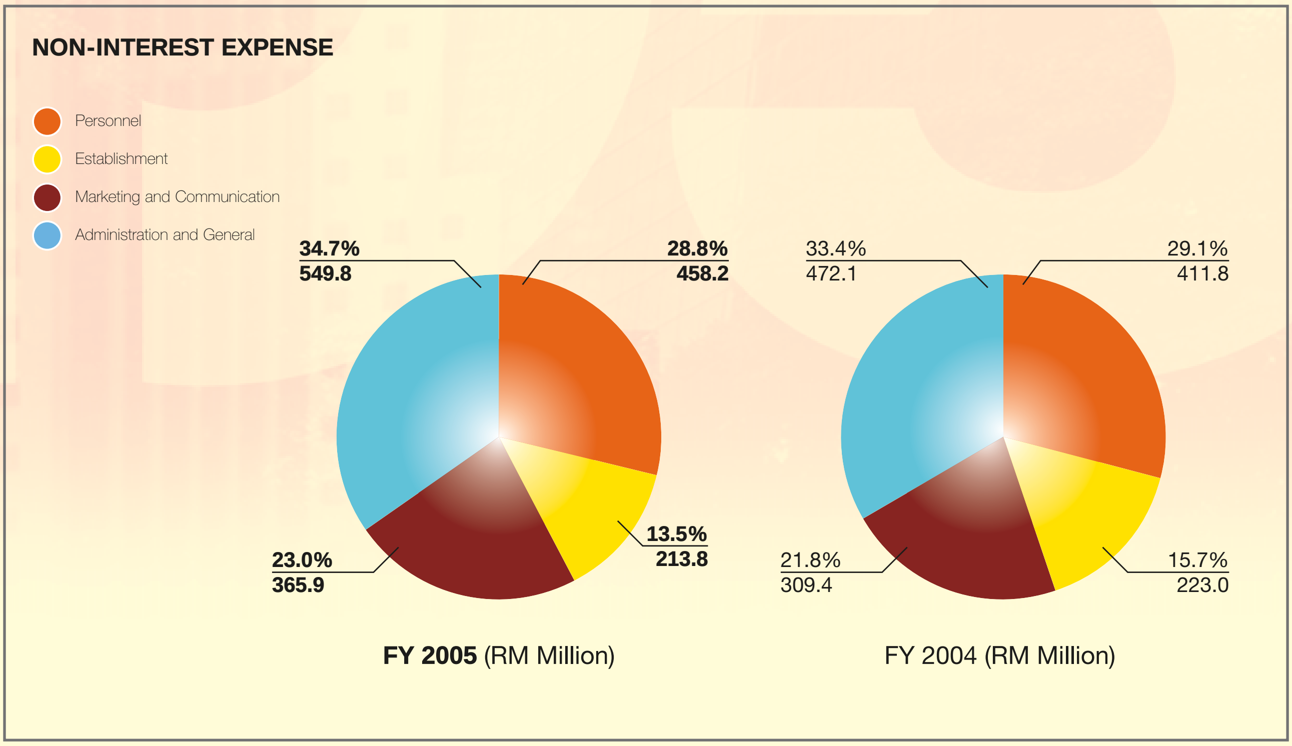
Commitment 3: Improving Overheads to Total Income Ratio

Controlling costs and ensuring that we operate efficiently is one of the ways we maximise returns for shareholders. The cost to expenses ratio expresses the Group's expenses as a percentage of revenue and is one of the most widely used measures of efficiency in the banking industry.

During the year, the overheads to total income ratio [excluding the insurance commissions, claims and transfer to actuarial reserves ("insurance business")] remained broadly stable at 36.3%. As the insurance company is in an accelerated growth phase, the non-interest expense ratio, which includes the insurance business, does not truly reflect the efficiency of the Group's banking business.

Operating expenses [excluding insurance business] increased by RM70.3 million (+7.1%) of which RM24.0 million was in relation to the merger integration between AmBank and AmFinance.

- Marketing and communication expenses rose by RM38.9 million (+16.7%) due to the significant increase in retail business volume.
  - hire purchase loans disbursements rose by RM1.7 billion as commissions of RM600 are paid to dealers for each vehicle financed.
  - acquisition cost of credit cards, as the number of credit cards in circulation jumped 61.6% from 223,800 cards as at March, 2004 to 361,700 cards in March 2005.
- Personnel expenses were RM46.4 million higher as a result of the annual salary increases together with the recruitment of 197 new skilled staff, as AmFinance was being transformed into a full fledged commercial bank.



Commitment 4: Balance Sheet Growth

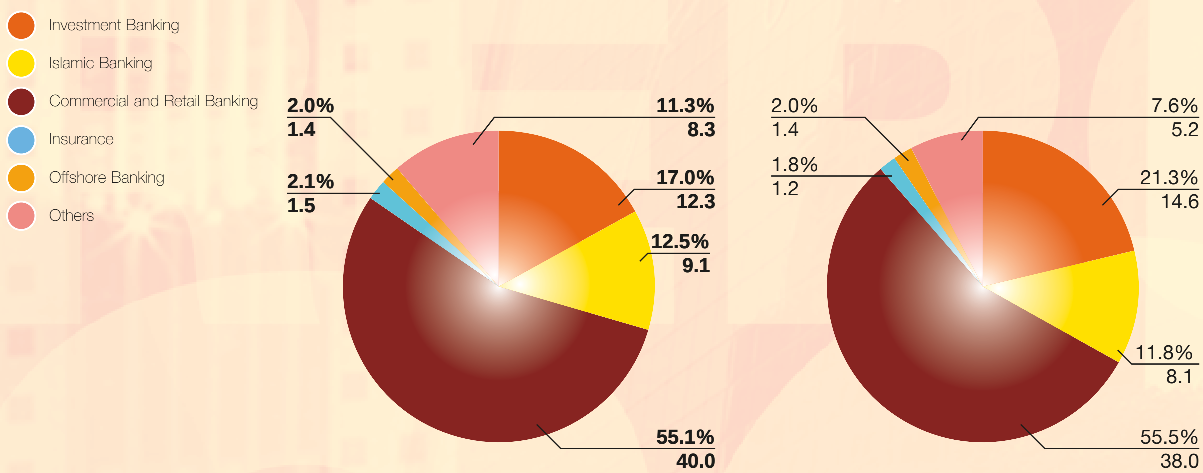
The Group is ranked as the fifth largest banking group in terms of total assets.

The increase in total assets to RM61.9 billion (FY2004: RM60.4 billion), was mainly attributed to the expansion of RM1.7 billion in total loans. Loans and advances comprise approximately 65.0% of the total assets, with another 12.6% being in the form of cash and short-term funds and dealing and investment securities accounting for 13.2%.

Earning assets, net of provisions for bad debts accounted for 92.4% of total assets as compared to 92.3% in FY2004.

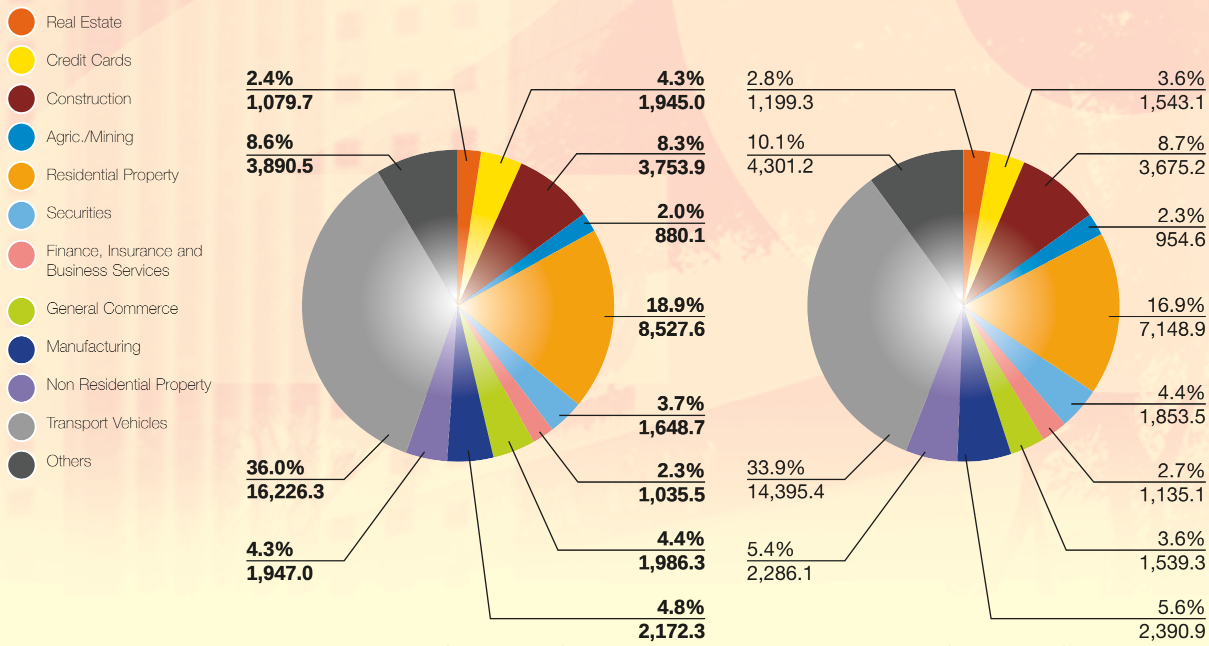
In line with the growth in treasury activities, contra items increased by RM5.2 billion(+28.0%) in the form of interest rate swaps (+RM2.5 billion) and forward exchange contracts (+RM1.4 billion). Irrevocable commitments to extend credit stood at RM9.4 billion, and accounted for 39.1% of off balance sheet commitments.

TOTAL ASSETS BY LINE OF BUSINESSES



FY 2005 (RM Billion)   FY 2004 (RM Billion)

GROSS LOANS, ADVANCES AND FINANCING – INDUSTRY EXPOSURE



FY 2005 (RM Million)   FY 2004 (RM Million)

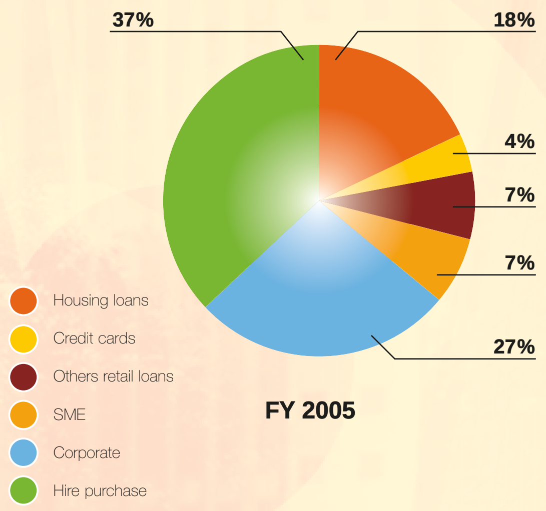
Objective II: Reduce Risk

Commitment 5: Reconfigure the Balance Sheet

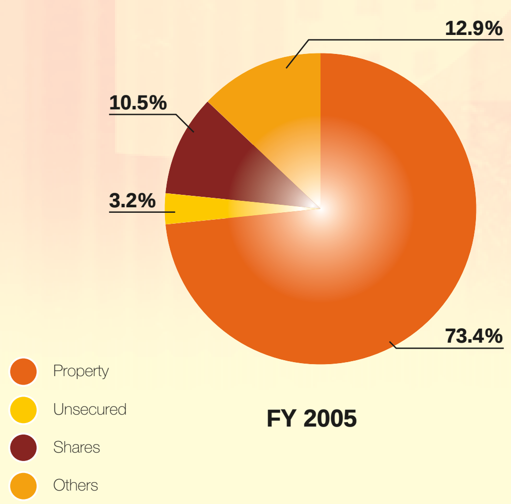
As part of its risk reduction strategy, the Group has rebalanced both its loans portfolio as well as its funding structure.

- Retail lending at RM30.0 billion in March 2005, accounts for 68.0% of the total loans portfolio, in contrast to only 27.0% in 1999, due to strong demand over the last few years from consumers for the financing of motor vehicles, housing and credit card spending.
- In contrast, loans to the large corporations declined to RM11.7 billion as at March 2005 (FY2003: RM21.9 million), as corporates continued to take advantage of the low interest rate environment to tap the capital markets.
- Similarly, as 52.9% of funding is mobilised from retail deposits (33.9% in FY 2000), the Group has reduced reliance on volatile corporate deposits.

LOANS PORTFOLIO



NPLs BY SECURITY TYPE



Objective III: Improve Asset Quality

Commitment 6: Reduce Non-Performing Loans

As interest margins continue to narrow due to intense competition, the Group recognises that proactive management and reduction of the absolute level of NPLs is critical to improve profitability.

Net NPLs ratio

The net NPLs ratio on a 3 months classification has declined from 21.8% in FY2002 to 13.8% in March 2005, and further to 11.8% as at June, 2005 due to:

- action steps taken by the Group Loan Rehabilitation Department to restructure and recover corporate NPLs.
- implementation of early collection strategies, which was possible after we have centralised retail collections and upgraded the call centre in December 2004.
- improved liquidity in both the property and equity markets has facilitated realisation of collaterals.

The net NPLs ratio is expected to decline below 10.0% by end-March, 2006.

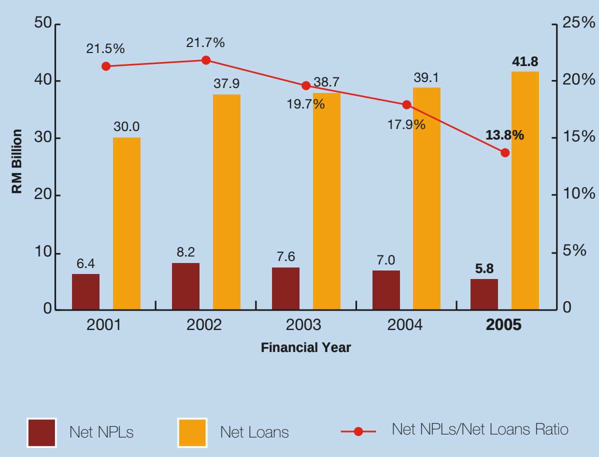
Net Specific Provisions

Reflecting the improvement in NPLs, the net specific provision ("NSP") charge was RM1.0 billion, a reduction of RM33.6 million, despite setting aside an additional RM244.7 million as no value is assigned for property collaterals in the event the loans are more than 7 years and beyond in arrears. As a percentage of net lending assets, NSP reduced to 256 basis points, down from 277 basis points in FY2004.

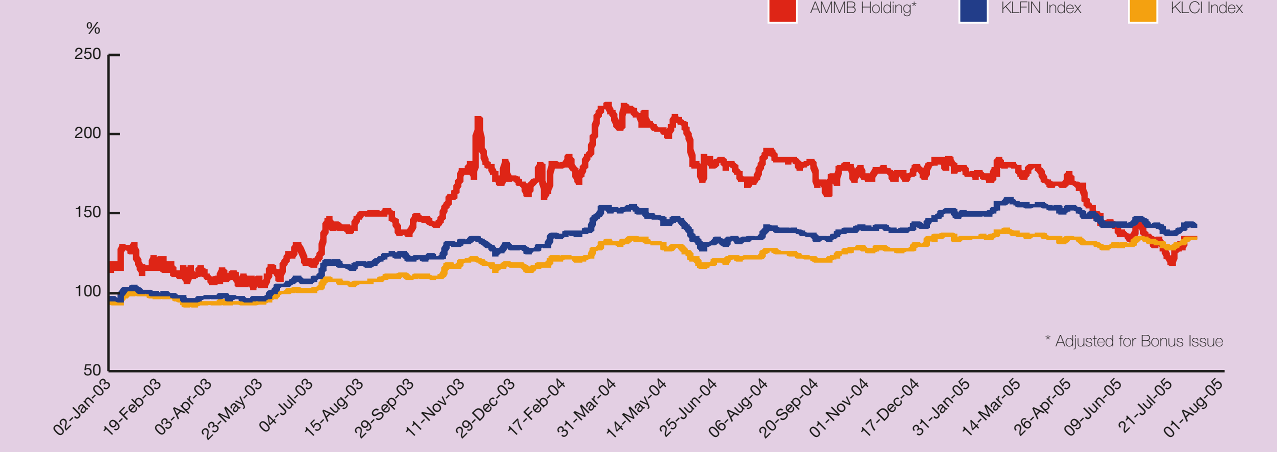
Collateral

The bulk of the NPLs are collateralised, and accordingly the loan loss coverage stood at 43.4% as at end-March, 2005.

NPLs - 3 MONTHS CLASSIFICATION



SHARE PRICE PERFORMANCE (2003 – 2005 YTD)



Commitment 7: Mitigate Credit Risk

The Group has also taken proactive step to improve the quality of the overall credit portfolio with the implementation of credit rating and credit scoring systems.

The Group continues to diversity its loan portfolio across various types of customers and industries, in order to minimise the risk of concentration to construction sector (excluding housing) now accounts for 10.7% of total loans, as compared with 32.0% in 1999.

Objective IV: Strengthen Capital Position

Commitment 8: Capital Efficiency

We regard shareholders' capital as a scarce resource to be managed carefully and efficiently. A strong capital base is important in maintaining the confidence and trust of our customers and shareholders.

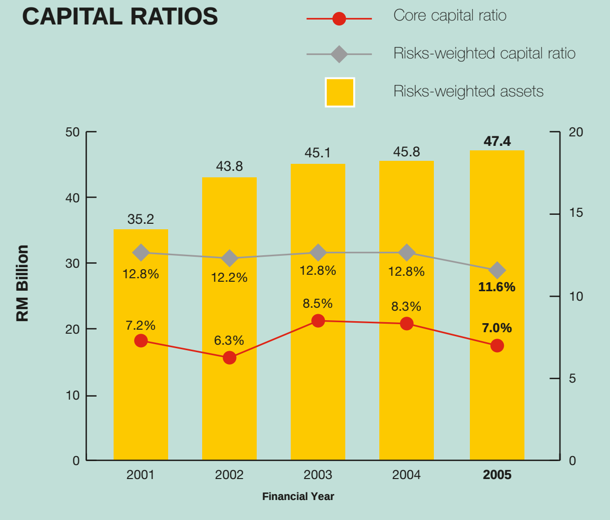
The Group's risk weighted capital ratio as at 31 March 2005 stood at 11.55%, with Tier-1 ratio at 6.98%; significantly above the minimum requirement of 8.0%.

In recent years, the Group has been progressively re-balancing its lending portfolio, by re-weighting the portfolio more heavily towards consumer lending, which is generally less capital intensive than corporate lending. This re-balancing has allowed us to reduce the amount of capital we are required to hold as a proportion of risk weighted assets.

In addition to retained earnings, some of the significant events affecting the Group's capital ratios during the year were:

- Risk weighted assets increased by RM1.6 billion during the year, due to the expansion in credit facilities and holdings of investment securities.
- AHB raised RM153.1 million in capital arising from the exercise of 69.9 million of warrants at an exercise price of RM2.19 per share; and a further RM30.5 million from the exercise of the ESOS.
- Goodwill of RM425.8 million arising from the privatisation of AMFB reduced the Group's Tier 1 capital.

CAPITAL RATIOS



Commitment 9: Shareholder Value

One way of measuring shareholder value is the Total Shareholder Return (TSR). TSR not only reflects the immediate return to shareholders by way of dividends, but also any change in the market's assessment of the long term value which the company is building, which will be seen as a change in the share price.

In FY2005 the Group paid a dividend rate of 4.0% or RM61.4 million, the same rate as in FY2004, and equivalent to 30.4% of net profits, as the Group had reinvested part of the profits to fund future growth of the operations.

Going forward, with improvements in the Group's capital adequacy ratio, the Board has adopted a policy of paying out at least 25.0% of net profits as dividends.

TSR in the year FY2005 was negative 29.6%, due to a decline in the share price, before adjusting for any effects from the corporate exercises. However, if an investor were to look at the share price of the ordinary shares of AMMB Holdings, taking into account the gain from other instruments (warrants B 2003/2008 and entitlement to subscribe to AmInvestment Group Berhad shares) issued by the Company, an investor who had invested since January 2003 would have realised significant capital appreciation of 27.6%, reflecting our commitment to delivery of growth.

Economic Review

Review and Outlook of the Malaysian Economy

Development in 2004

The Malaysian economy continued to strengthen with real GDP rising by 7.1% in 2004 from 5.4% in 2003. The stronger growth was propelled by both the domestic demand and exports. Against 6.1% in the previous year, domestic demand grew by 7.5% in 2004. Meanwhile, exports expanded faster by 16.3% as opposed to 5.7% in the previous year.

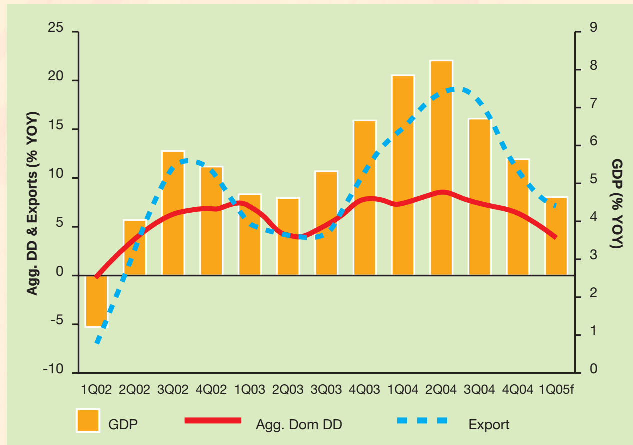
Demand Condition

The monetary policy continued to remain accommodative, helping the domestic demand to gain a greater strength in 2004. The aggregate domestic demand (excluding stocks) rose faster by 7.5% last year from 6.1% in 2003 on the back of stronger private consumption and investment, amidst slower public sector expenditure.

Against 5.5% in 2003, private sector expenditure registered a higher growth of 11.4% in 2004. On the other hand, growth in the public expenditure slowed to 0.8% (2003: 7.2%) following a 3.5% contraction in public investment arising from the Government's objective to further reduce its fiscal deficit. As a result, private sector expenditure contribution to the overall Gross Domestic Product (GDP) growth in 2004 had enlarged to 6.4 percentage points (pps) in 2004 from 3.1 pps in 2003. On the other hand, the public sector expenditure contribution to the overall GDP growth declined to 0.3 pp from 2.3 pps registered in the previous year.

Meanwhile, exports of goods and services had recorded a double-digit growth in 2004 on the back of larger earnings from both the manufactured goods and primary commodities. This was in response to improving global economic and trade environment as well as the upswing in the world electronic industry. Consequently, the contribution by exports to the overall GDP growth rose sharply to 17.7 pps from 6.2 pps in 2003. However, as imports rose faster than exports, the contribution by net exports to the overall GDP growth turned contractionary by 2.5 pps in 2004 as opposed to a positive 2.0 pps in 2003.

Chart 1: GDP, Agg. Dom. DD & Exports (% YOY)



Source: Department of Statistics, AmSecurities forecast

Table 1: Real GDP By Demand Aggregate

% Change	2000	2001	2002	2003	2004	2005f
Consumption	**10.5**	**5.4**	**6.1**	**7.8**	**9.5**	**7.9**
Public	1.6	17.3	11.9	11.5	6.0	2.7
Private	13.0	2.4	4.4	6.6	10.5	9.4
Investment (ex-stocks)	**25.7**	**-2.8**	**0.3**	**2.7**	**3.1**	**1.7**
Public	19.4	14.5	11.2	3.9	-3.5	-5.1
Private	32.6	-19.9	-15.1	0.4	15.8	12.5
Agg. Dom. Demand	**15.5**	**2.5**	**3.9**	**6.1**	**7.5**	**6.0**
Public	11.2	15.7	10.9	7.2	0.8	-1.4
Private	17.5	-3.3	0.3	5.5	11.4	10.0
Exports	16.1	-7.5	4.5	5.7	16.3	9.9
Imports	24.4	-8.6	6.3	4.2	20.7	8.3
Real GDP	**8.9**	**0.3**	**4.4**	**5.4**	**7.1**	**5.5**

Source: Department of Statistics f: AmSecurities forecast

Table 2: Contribution To Growth By Demand Aggregate

Percentage Points	2000	2001	2002	2003	2004	2005f
Consumption	**5.9**	**3.0**	**3.6**	**4.5**	**5.7**	**5.0**
Public	0.2	2.0	1.6	1.4	1.0	0.4
Private	5.7	1.1	2.0	3.1	4.7	4.6
Investment (ex-stocks)	**6.9**	**-0.9**	**0.1**	**0.8**	**0.9**	**0.5**
Public	2.7	2.2	2.0	0.7	-0.6	-0.8
Private	4.1	-3.1	-1.9	0.0	1.5	1.3
Stocks	1.1	-2.2	1.7	-1.9	2.9	-2.4
Agg. Dom. Demand	**12.7**	**2.2**	**3.7**	**5.3**	**6.6**	**5.4**
Public	2.9	4.2	3.3	2.3	0.3	-0.4
Private	9.8	-2.0	0.2	3.1	6.4	5.9
Exports	17.6	-8.8	4.8	6.2	17.7	11.6
Imports	22.6	-9.1	6.1	4.2	20.1	9.1
Net Exports	**-5.0**	**0.3**	**-1.3**	**2.0**	**-2.5**	**2.5**
Real GDP	**8.9**	**0.3**	**4.4**	**5.3**	**7.1**	**5.5**

Source: Department of Statistics f: AmSecurities forecast

Supply Condition

With the exception of construction, all sectors of the economy chartered growth in 2004 on the back of favourable domestic and external demand condition. Both the manufacturing and services sectors remained as the pillar of the economy and chartered stronger growth of 9.8% and 6.8% respectively in 2004 compared with 8.4% and 4.5% in 2003. Meanwhile, agriculture and mining grew by 5.0% and 3.9% respectively, slower when compared with the 5.6% and 5.8% chartered in 2003. Nonetheless, the construction industry contracted by 1.5% largely impacted by lower public investment.

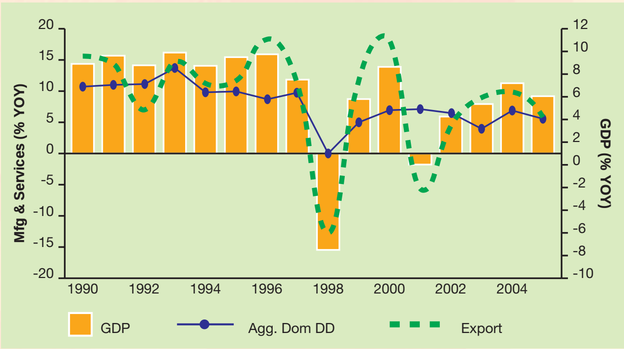
With the exception of construction sector, all sectors had contributed positively to the overall GDP growth in 2004. While manufacturing and services sectors contributed 3.0 pps and 3.9 pps, mining and agriculture contributed 0.3 pp and 0.4 pp respectively. On the other hand, the contribution by construction sector remained at 0.0 pp.

External Trade and Current Account

Malaysia's external trade had shown a remarkable performance in 2004, arising from better global economic and trade environment. Consequently, the current account recorded a larger surplus of RM56.5 billion or 13.3% of Gross National Product (GNP) last year against RM50.6 billion or 13.6% of GNP in 2003. This was sustained by the large trade surplus of RM80.7 billion (2003: RM81.1 billion) and a smaller deficit in the services account of RM8.8 billion (2003: RM15.3 billion).

The stronger export growth was underpinned by the upswing in the global demand for electronics and expansion in most commodity exports. Gross exports had risen by 20.5% to RM480.7 billion last year from 11.6% to RM398.9 billion in 2003. While imports also expanded further at 25.9% to RM400.1 billion against 4.8% to RM317.7 billion. Meanwhile, the substantial decline in the services account deficit mirrored a significant improvement in the travel receipts (RM19.4 billion) following higher tourist arrivals in 2004. However, the deficit in the income account had widened to RM24.5 billion from RM22.5 billion in 2003 following higher profit and dividend outflows. The transfer outflows had also increased in 2004 arising from remittances made by foreign workers.

Chart 2: GDP Manufacturing & Services (%YOY)



Source: Department of Statistics

Table 3: Real GDP By Sector

% Change	2000	2001	2002	2003	2004	2005f
Agriculture	6.0	-0.6	2.6	5.6	5.0	3.4
Mining	0.3	-1.5	4.0	5.8	3.9	4.6
Manufacturing	18.3	-5.9	4.1	8.4	9.8	5.8
Construction	0.6	2.1	2.3	1.5	-1.5	-1.3
Services	6.7	6.0	6.4	4.5	6.8	5.7
Real GDP	**8.9**	**0.3**	**4.1**	**5.4**	**7.1**	**5.5**

Source: Department of Statistics f: AmSecurities forecast

Table 4: Contribution To Growth By Sector

Percentage Points	2000	2001	2002	2003	2004	2005f
Agriculture	0.6	-0.1	0.2	0.5	0.4	0.3
Mining	0.0	-0.1	0.3	0.4	0.3	0.3
Manufacturing	5.4	-1.9	1.2	2.5	3.0	1.8
Construction	0.0	0.1	0.1	0.0	0.0	0.0
Services	3.7	3.2	3.6	2.6	3.9	3.3
Other Items	-0.8	-0.9	-1.3	-0.7	-0.5	-0.2
Real GDP	**8.9**	**0.3**	**4.1**	**5.4**	**7.1**	**5.5**

Source: Department of Statistics f: AmSecurities forecast

Table 5: Balance Of Payments

RM Billion	2001	2002	2003	2004	2005f
Current Acc. Bal	**27.7**	**30.5**	**50.6**	**56.5**	**69.5**
% of GNP	9.0	9.1	13.6	13.3	14.9
Merchandise Balance	69.9	72.1	97.7	104.5	116.9
Services Balance	-8.4	-6.0	-15.3	-8.8	-8.6
Income Balance	-25.6	-25.1	-22.5	-24.5	-24.9
Net Transfer	-8.2	-10.6	-9.3	-14.6	-13.8
Real GDP (% YoY)	**0.3**	**4.1**	**5.3**	**7.1**	**5.5**

Source: Department of Statistics f: AmSecurities forecast

Financial Account and External Reserves

The financial account of the balance of payments had turned around in 2004 with a large surplus of RM15.1 billion as compared with a deficit of RM12.1 billion in 2003. The large surplus was attributed to higher net inflow of foreign direct investment (FDI) of RM9.7 billion against RM4.2 billion in 2003 as well as a surge in portfolio funds of RM33.0 billion (2003: RM4.2 billion). The surge in portfolio investment was due primarily to anticipation of the Ringgit revaluation arising from the weakening of the US dollar as well as the prospect of China's Yuan revaluation.

The higher FDI in 2004 was channelled to sectors such as services, manufacturing, oil and gas. The services sector was the major recipient of new FDI particularly in new growth areas such as the business support and shared services. The sector witnessed significant inflows of FDI in the financing, insurance, real estate and business services.

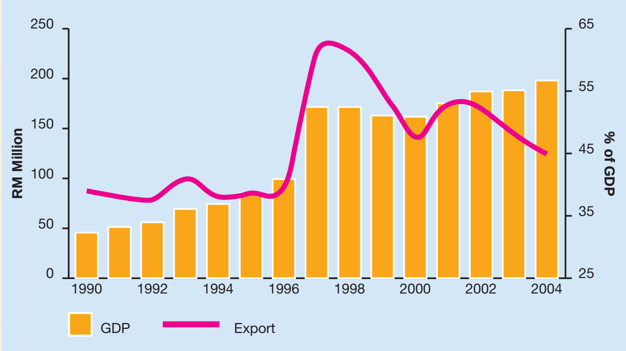
Consequently, the international reserves of Bank Negara Malaysia (BNM) strengthened to a record level of RM253.5 billion (US$66.7 billion) as at end of December 2004 as compared with RM170.6 billion (US$44.9 billion) as at end of December 2003. The reserves position was adequate to finance 8.2 months of retained imports and covered 6.1 times the country's short-term external debt.

Meanwhile, the country's total external debt had increased to RM197.3 billion (US$51.9 billion) last year from RM186.7 billion (US$49.1 billion) in 2003. However, as a ratio to GNP it had reduced to 46.6% from 50.2% in 2003. The increase in external debt resulted from an accumulation of short-term debt by the banking sector. Nevertheless, the share of short-term debt to total debt remained low accounting for 21.8% of total external debt. The overall debt service ratio declined to 4.3% in 2004 from 6.2% in 2003.

Table 6: Capital Accounts Of Balance Of Payments

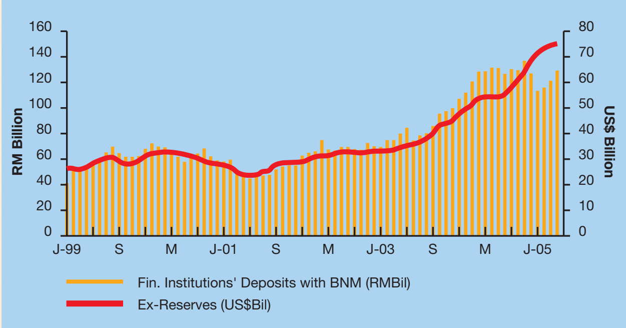
RM Billion	2000	2001	2002	2003	2004	2005f
CAPITAL ACC:						
Direct Investment	6.7	1.1	4.9	4.2	9.7	6.4
Portfolio Investment	-9.4	-2.5	-6.5	4.2	33.0	7.0
Other Investment	-21.1	-13.4	-10.4	-20.5	-28.9	-15.7
Official	3.9	7.1	4.7	-11.2	-1.1	-9.9
Private	-25.1	-20.5	-15.1	-9.3	-27.3	-5.9
Financial Acct.	-23.8	-14.8	-11.9	-12.1	15.1	-2.3
E & O	-11.8	-9.2	-4.4	0.4	11.5	1.3
Overall Balance	-3.4	3.7	14.2	39.1	83.0	68.4

Chart 3: External Debt And Ratio To GDP



Source: Department of Statistics

Chart 4: Ext. Reserves And Fin. Inst Deposit With BNM



Source: Bank Negara Malaysia

Prospects in 2005

According to International Monetary Fund (IMF) the global economy is expected to be less favourable in 2005 as growth is set to moderate to 4.3% from 5.1% in 2004. Major economies such as the US, Japan and the EU are witnessing deceleration in economic activities. Growth in the US economy is expected to be modest with real GDP increasing by 3.5% from 4.1% in 2004. As interest rates will continue to increase at measurable level this year, business investment and consumer spending in the US are expected to moderate, thus help reduce the current account deficit.

As in the case of Japan, the expected slowdown in external and domestic demand as well as volatile oil prices are short-term downside risks that would drag its economic growth in 2005. The economy is projected to chart growth of 0.8% slower compared with 2.6% registered in 2004.

Meanwhile, Euro Zone's growth performance in 2005 is expected to remain uneven as stronger domestic demand in France and Spain will be offset by weaker domestic demand in Germany and Italy. The strong appreciation of the Euro would also impact economies such as Germany and France, which are dependent on exports. Overall, growth for the Euro Zone may slow to 1.6% in 2005 from 2.0% in 2004.

Growth in the East Asian economies is projected at around 6.7% in 2005 compared with 7.8% in 2004. While China would remain the driver of growth for the region projected at 8.5%, growth in other economies would vary between countries, depending on their exposure to the downturn in the global electronic cycle and the impact of higher oil prices.

Given the global economic scenario, Malaysia is also expected to chart a slower but respectable growth of 5.5% in 2005 compared with the 7.1% in 2004. The slower growth projection is to reflect the impact of slower external demand particularly for electronic and electrical products.

Demand Condition

Domestic demand would continue to pillar economic growth in 2005 and to be driven by the private sector. However, growth in the domestic demand will be slower at 6.0% compared with 7.5% in 2004 resulting from a contraction in public spending.

At the same time, private spending in 2005 would continue to expand but at the moderate pace of 10.0%. Both the consumption and investment spending are projected to chart a slower growth of 9.4% and 12.5% respectively in 2005 from 10.5% and 15.8% in 2004. Consequently, private spending contribution to the overall real GDP growth is expected to decline to 5.9 pps this year from 6.4 pps in 2004. Meanwhile, public spending contribution is projected to record a contraction of 0.4 pp from a positive 0.3 pp in 2004 largely following a 5.1% contraction in public investment.

Exports are also projected to grow moderately at 9.9% in 2005 from 16.3% in 2004, reflecting a slowdown in external demand. Subsequently, the contribution by exports to the overall GDP growth in 2005 is projected to decrease to 11.6 pps from 17.7 pps in 2004. Nevertheless, as imports may experience a slower growth of 8.3% (2004: 20.7%), the contribution by net exports to the overall GDP growth may revert to a positive 2.5 pps compared with –2.5 pps in 2004.

Supply Condition

On the supply side, both the manufacturing and services are again expected to be on the forefront to drive the overall GDP growth in 2005. While the manufacturing sector would be affected by weaker performance of the electrical and electronics sub-sector arising from slower external demand, it is expected to chart a respectable growth of 5.8% (2004: 9.8%) in 2005.

On the other hand, the services sector is projected to grow at 5.7% (2004: 6.8%) to be supported largely by consumer spending. The services sub-sectors that are expected to record growth include hotel, retail and wholesale. A sustainable growth in tourist arrivals would also boost growth in the hotel and retail sub-sectors.

The construction sector is projected to record a further fall of 1.3% in 2005 largely on account of declining public investment. This is attributed to the Government's decision to further reduce its development expenditure. However, the sector would be supported by expansion in the property sector, particularly residential property. Easy access and attractive cost of financing would help boost growth in the property sector.

Meanwhile, growth in the agriculture sector is expected to be at 3.4% in 2005 as compared with 5.0% in the preceding year. This is underpinned by a sustained increase in palm oil production, which will continue to be the major contributor to the total agriculture exports.

Growth in the mining sector is projected at 4.6% on account of sustained growth in the output of crude oil and gas in tandem with the strong global demand and better prices.

External Balance and Monetary Policy

Malaysia's external balance position is likely to remain strong in 2005. The merchandise account may record a larger surplus of RM116.9 billion compared with RM104.5 billion in 2004, as exports continue to outpace imports. The surplus in the merchandise account will be more than sufficient to accommodate the projected deficit in the services account (RM8.6 billion), income account (RM24.9 billion) as well as deficit in the transfer account (RM13.8 billion). As a result, the current account is projected to chart a larger surplus of RM69.5 billion or 14.9% of GNP in 2005 compared with RM56.5 billion or 13.3% of GNP in 2004. The enlarged surplus in the current account balance reflects the widening of resource or savings-investment balance in the economy.

On the other hand, the financial account position in 2005 may show a small deficit of RM2.3 billion from a surplus position of RM15.1 billion in 2004. This is on account of a smaller portfolio inflow and larger repayment of external loans especially from the public sector. However, as the

surplus in the current account is expected to be higher, the overall balance may continue to record a large surplus of RM68.4 billion (2004: RM83.0 billion) in 2005. This would result in the external reserves to rise to RM322.0 billion or US$84.7 billion by the end of 2005. As at end July, Malaysia's external reserves had surged to RM298.7 billion or US$78.7 billion, which was RM45.2 billion or US$11.9 billion higher compared with the level recorded at end of December 2004.

The higher external reserves inevitably would trigger a further expansion in liquidity. In the first six months of this year, the private sector liquidity as measured by the broad money (M3) had expanded by RM34.7 billion or 5.6% after recording a growth of RM68.0 billion or 12.4% for the whole of 2004. The build-up of larger excess liquidity therefore resulted in more intervention by the Central Bank in the money market to stabilise interest rates.

Bank Negara Malaysia on 21 July 2005 had announced the decision to replace the Ringgit fixed exchange rate policy against the US dollar with managed float against a basket of currencies following China's decision to let the Yuan fluctuate versus a basket of currencies. As a result, capital inflow may increase in the remaining months of 2005 following improvement in investor confidence.

Generally, the monetary policy stance remains accommodative in 2005, while the Government continues to undertake fiscal consolidation.

However, improvement in growth performance may shift the monetary policy to managing inflation. In the first half of this year, Malaysia's inflation rate had averaged 2.7% compared with 1.0% in the same period a year ago. In June, the inflation rate had reached 3.2%, the highest since March 1999 (3.2%).

The strengthening of the Ringgit would help moderate the cost of imports, but the consumer price index may continue to rise above 3.0% during the second half particularly in response to higher fuel and energy cost, amidst rising food prices. However, this would not call for a major shift in the interest rate level as the higher inflation is not caused by demand pressures.

Interest rates would remain generally low till the end of this year to support private sector activity and overall growth, amidst flush liquidity condition. The benchmark overnight policy rate (OPR) would likely stay at the 2.7% level perhaps until the third quarter, suggesting the bank's base lending rate (BLR) would also remain unchanged during the period.

The OPR may rise to 3.0% by the end of 2005, but to be below the US Federal fund rate by 1.0% should the US short-term rate continues to be raised to 4.0% to contain inflation. This negative differential may narrow in 2006 as interest rate may be adjusted further as growth of the domestic economy continues to strengthen. Real GDP is forecast to rise to 6.0% in 2006 on account of a better external demand condition. The firming up of domestic spending would also help the economy to chart a higher growth in 2006.

Conclusion

The Malaysian economy had performed remarkably stronger in 2004 and this has provided a firmer platform for the economy to expand further in 2005. Despite a slowdown in the global economy, the Malaysian economy is expected to chart a favourable growth of 5.5% in 2005 and to be driven by the private sector. As the fiscal policy demands for a consolidation, the monetary policy stance would have to remain accommodative to support the economy. In this regard, interest rate would stay low although rising inflation demands for some rate increases. The economy may show a better growth of 6.0% in 2006, which allows for a gradual tightening of monetary policy and interest rates.

Group Financial Highlights

	YEAR ENDED 31 MARCH				HALF-YEAR ENDED 30 SEPTEMBER			
	RM Million		Growth Rate +/(-)%		RM Million		Growth Rate +/(-)%	
	2005	2004	**2005**	2004	2004	2003	2004	2003
Operating revenue [@]	**4,639.4**	4,421.8	**4.9**	4.5	2,220.3	2,132.0	4.1	6.0
Operating profit before loan and financing loss and allowances [@]	**1,260.2**	1,208.2	**4.3**	(3.5)	518.1	575.7	(10.0)	12.7
Loan and financing loss and allowances	**770.5**	865.6	**(11.0)**	(2.4)	262.4	437.2	(40.0)	32.5
Profit before tax and after share in result of associated companies [@]	**489.7**	342.6	**42.9**	(5.9)	255.7	138.5	84.6	(23.4)
Profit after tax and minority interests [@]	**201.9**	**215.0**	**(6.1)**	**(12.4)**	**110.2**	**154.3**	**(28.6)**	**9.9**
Total assets [@]	**61,885.0**	60,362.4	**2.5**	3.0	60,117.0	58,913.0	2.0	6.2
Loans, advances and financing (net) [@]	**40,220.9**	38,545.0	**4.3**	1.3	39,143.7	39,290.0	(0.4)	2.9
Deposits and borrowings	**54,218.9**	52,872.0	**2.5**	0.6	52,438.6	52,207.2	0.4	5.2
Commitments and contingencies	**23,944.9**	18,708.7	**28.0**	17.4	21,167.8	18,705.7	13.2	(9.2)
Shareholders' funds [@]	**4,784.2**	4,028.5	**18.8**	18.7	4,103.3	3,533.8	16.1	6.4
Pre-tax return on average shareholders' funds (%) [^]	**7.0**	4.8	**46.0**	(44.1)	9.1 [**]	3.5 [**]	>100.0	(65.2)
Pre-tax return on average total assets (%)	**0.8**	0.6	**39.1**	(9.9)	0.8 [**]	0.5 [**]	80.1	(27.8)
Basic earnings per share [@]								
-gross (sen)	**16.3**	11.1	**47.1**	(34.7)	19.8 [**]	8.0 [***]	>100.0	(61.1)
-net (sen)	**10.7**	13.4	**(20.3)**	(19.3)	11.8 [**]	20.5 [***]	(42.4)	4.8
Fully diluted earnings per share [@]								
-gross (sen)	**16.1**	10.5	**53.9**	(38.5)	19.1 [**]	7.7 [***]	>100.0	(62.1)
-net (sen)	**10.6**	12.7	**(16.6)**	(24.0)	11.4 [**]	19.9 [***]	(42.7)	2.1
Gross dividend per share	**4.0**	4.0	**-**	21.2	-	-	-	-
Net dividend cover (No. of times)	**3.3**	4.0	**(18.0)**	(41.0)	-	-	-	-
Net tangible assets per share (RM) [@]	**2.00**	2.02	**(0.8)**	(2.2)	2.05	2.15 [#]	(4.7)	7.1
Overheads to total income (%)	**36.3**	37.0	**(2.1)**	(3.2)	35.5	35.1	0.9	(18.4)
Number of employees	**8,973**	8,776	**2.2**	5.9	8,990	8,367	7.4	4.5
Assets per employee (RM Million)	**6.9**	6.9	**0.3**	(2.8)	6.7	7.0	(5.0)	1.7
Pre-tax profit per employee (RM'000)	**54.6**	39.0	**39.8**	(11.2)	56.9 [**]	33.1 [**]	71.8	(26.7)

Refer to page 91 for the explanation of legend.

Five-Year Group Financial Review

	FINANCIAL YEAR ENDED 31 MARCH				
	2005	2004	2003	2002	2001
1 REVENUE (RM MILLION)					
i Operating revenue @	**4,639.4**	4,421.8	4,232.1	3,434.6	3,391.2
ii Operating profit before loan and financing loss and allowances @	**1,260.2**	1,208.2	1,251.5	945.2	1,222.7
iii Loan and financing loss and allowances	**770.5**	865.6	887.3	467.1	511.8
iv Profit before tax and after share in results of associated companies @	**489.7**	342.6	364.2	478.1	710.9
v Profit after tax and minority interests @	**201.9**	**215.0**	**245.5**	**218.4**	**400.2**
2 BALANCE SHEET (RM MILLION)					
Assets					
i Total assets @	**61,885.0**	60,362.4	58,611.9	55,339.3	44,086.0 *
ii Loans, advances and financing (net) @	**40,220.9**	38,545.0	38,060.4	37,290.9	29,328.7 *
Liabilities and Shareholders' Funds					
i Deposits and borrowings	**54,218.9**	52,872.0	52,536.4	49,574.5	39,230.5 *
ii Paid-up share capital	**2,130.5**	1,858.8	1,502.6 #	1,375.4 #	1,337.4 #
iii Shareholders' funds @	**4,784.2**	4,028.5	3,393.4	2,593.6	2,320.6
Commitments and Contingencies	**23,944.9**	18,708.7	15,941.2	18,506.9	15,061.5 *
3 PER SHARE (SEN)					
i Basic gross earnings @	**16.3**	11.1	17.0 #	25.5 #	41.2 #
ii Basic net earnings @	**10.7**	13.4	16.7 #	16.1 #	30.0 #
iii Fully diluted gross earnings @	**16.1**	10.5	17.0 #	25.2 #	40.8 #
iv Fully diluted net earnings @	**10.6**	12.7	16.6 #	15.9 #	29.7 #
v Net tangible assets @	**200.0**	201.6	206.2 #	168.6 #	160.5 #
vi Gross dividend	**4.0**	4.0	3.3 #	3.3 #	3.3 #
4 FINANCIAL RATIOS (%)					
i Pre-tax return on average shareholders' funds ^	**7.0**	4.8	8.6	14.1	25.8
ii Pre-tax return on average total assets	**0.8**	0.6	0.6	1.0	1.7
iii Loans, advances and financing to deposits and borrowings	**74.2**	72.9	72.4	75.2	74.8
iv Overheads to total income	**36.3**	37.0	38.3	34.5	26.1
5 SHARE PRICE (RM)					
i High	**2.83**	4.22	4.16 #	3.80 #	5.40 #
ii Low	**3.92**	1.84	2.09 #	1.52 #	1.96 #
iii As at 31 March	**2.81**	4.00	2.16 #	3.50 #	1.96 #

** Annualised
^ Adjusted for minority interests
# Adjusted for bonus issue
@ After adjusting for the adoption of Bank Negara Malaysia's Revised Guidelines on Financial Reporting for Licensed Institutions dated 5 October 2004 on the accounting treatment of charging handling fees paid to motor vehicle dealers for hire purchase loans in the period that it was incurred to the income statement and 3-month classification of non-performing loans from the previous 6-month classification, which have been applied retrospectively
* Adjusted for loans sold to Cagamas Berhad (excluding Islamic financing)

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