Group Financial Review

Management Discussion and Analysis of Financial Performance

In FY2006, the Group continued to make tangible progress in its 3 strategic objectives to deliver value to our shareholders:

- Improve Profitability
- Reduce Risk - Reconfigure the business mix
- Achieve sustainable risk adjusted returns on capital

Financial Ratios	FY2006	FY2005
Earnings per share – net – Basic – Fully diluted	 **17.2 sen** **16.9 sen**	 10.8 sen 10.7 sen
Net assets per share	**RM2.36**	RM2.26
Pre-tax return on average shareholders' equity	**11.2%**	7.0%
Pre-tax return on average total assets	**1.1%**	0.8%
Gross dividend rate	**5.0%**	4.0%
Dividend payable/paid	**RM76.7 million**	RM61.4 million

Within a short span of five (5) years, we have transformed into the third largest retail banking group in the country, to complement our traditional niche in investment banking, and are now making satisfactory progress in gaining market share in insurance.

In our last Letter to Shareholders, we had detailed the targets for financial year ending 31 March 2006. Our commitment is not only to build the organisation's capacity to perform and grow in the next financial year, but also to emerge as a dominant player in the extremely competitive financial services industry.

Our efforts to strengthen and diversify our earnings growth and reduce risks should generate improved risk-adjusted returns.

Our pre-tax return on equity has risen to 11.2% in FY2006, a significant improvement from the 7.0%, achieved in FY2005.

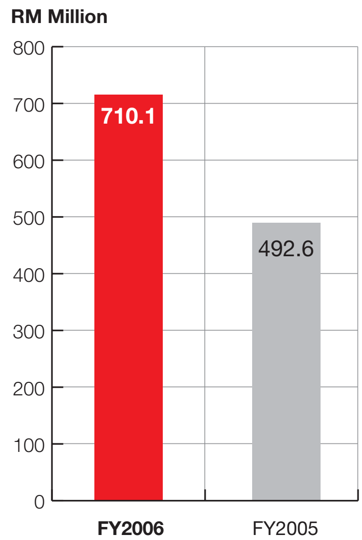
Accordingly, the following management discussion should be read in conjunction with the audited consolidated financial statements for FY2006 of AMMB Holdings Berhad and its subsidiary companies, as well as the targets we had set for ourselves a year ago.

Simplified Income Statement

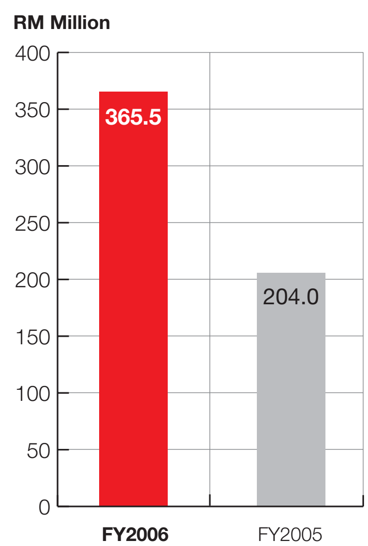
RM Million	FY2006	FY2005	+/- RM Million		+/- %	
Net interest income	**1,419.9**	1,382.4	+	37.5	+	2.7
Income from Islamic banking business	**540.5**	436.0	+	104.5	+	24.0
Fund-based Income	**1,960.4**	**1,818.4**	**+**	**142.0**	**+**	**7.8**
Other operating income	**904.0**	759.4	+	144.6	+	19.0
Total income	**2,864.4**	**2,577.8**	**+**	**286.6**	**+**	**11.1**
Overheads	**(1,175.7)**	(1,022.2)	-	153.5	-	15.0
Insurance business	**(274.5)**	(226.7)	-	47.8	-	21.1
Operating profit	**1,414.2**	**1,328.9**	**+**	**85.3**	**+**	**6.4**
Allowance for losses on loans and financing	**(774.7)**	(770.5)	-	4.2	-	0.5
Other provisions	**(21.2)**	(21.5)	+	0.3	+	1.4
Impairment writeback/(loss)	**89.6**	(45.1)	+	134.7	+	>100.0
Share in results of associated companies	**2.2**	0.8	+	1.4	+	>100.0
Profit before tax	**710.1**	**492.6**	**+**	**217.5**	**+**	**44.2**
Taxation	**(231.1)**	(204.6)	-	26.5	-	12.9
Profit before minority interests	**479.0**	**288.0**	**+**	**191.0**	**+**	**66.3**
Minority interests	**(113.5)**	(84.0)	-	29.5	-	35.1
Net profit	**365.5**	**204.0**	**+**	**161.5**	**+**	**79.2**

Commitment 1: Improve Profitability and Earnings Per Share

Profit Before Tax



Profit After Tax And Minority Interests



The Group registered a strong growth in both pre-tax and net profit, amidst a background of broad based economic growth of 5.3% in 2005.

It achieved a pre-tax profit of RM710.1 million (+44.2%), whilst net profit after tax jumped by 79.2% to RM365.5 million, due to improved performance by all three major business divisions – commercial and retail banking, investment banking and insurance business.

The growth in profits was largely due to:

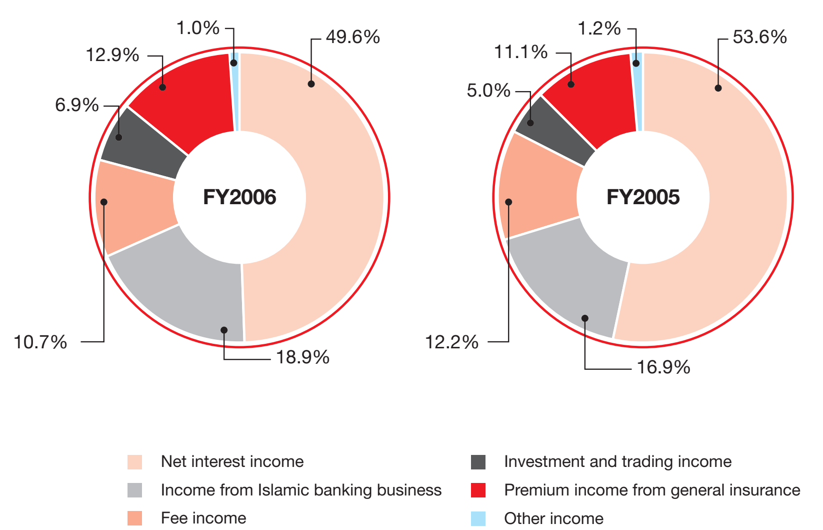
- Fund based income increasing by 7.8% driven by solid growth in retail and SME lending, partly offset by lower net interest margins.
- Other operating income increasing by 19.0% driven by growth in fees, insurance premiums and investment banking business activities.
- Operating expenses increasing by 16.1% largely driven by increase in marketing expenses for higher business volumes in hire purchase and insurance premiums, as well as increase in staff numbers and establishment costs due to the transformation of the finance company operations into a commercial bank.

The largest contributor to the Group's profit is retail and commercial banking operations (47.5%); followed by investment banking (45.1%) and the insurance business (7.4%).

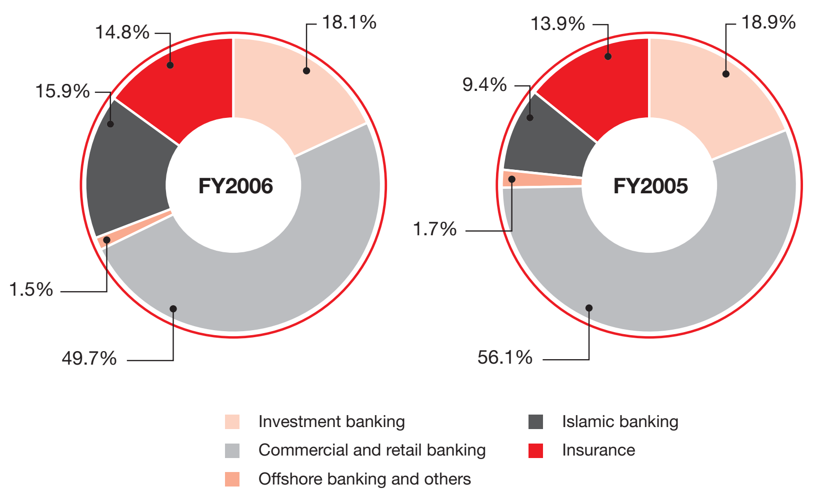
Earnings per share or EPS represents the earnings of the Group divided by weighted average number of shares in issue.

The improved profitability translated into a higher EPS of 17.2 sen, compared with 10.8 sen in FY2005, an increase of 58.4%.

Type Of Income



Operating Revenue By Segments



Commitment 2: Revenue Growth

Revenue growth, the essential foundation for sustainable growth in profits, is a key measure of our performance. It reflects our success in increasing repeat business from our existing customers and winning new customers.

The major components of revenue are net fund income (net interest income + income from Islamic banking business) and other operating income.

Net fund income at RM1,960.4 million increased by RM142.0 million (+7.8%) driven by the impact of both volume and margins.

Volume:

- Net loans and advances grew by RM4.8 billion (+11.9%). The growth was mainly attributed to expansion in retail lending (+RM4.9 billion or 17.9%); and lending to the SME industries (+RM1.4 billion or 40.1%), whilst loans to the large corporates contracted by RM1.7 billion or 16.2%, since these corporates continued to tap the capital markets for funding.
- Customer deposits grew by RM4.5 billion, largely driven by deposits placed by government corporations (+RM2.2 billion), individuals (+RM1.7 billion) and business enterprises (+RM958.8 million).

Margin:

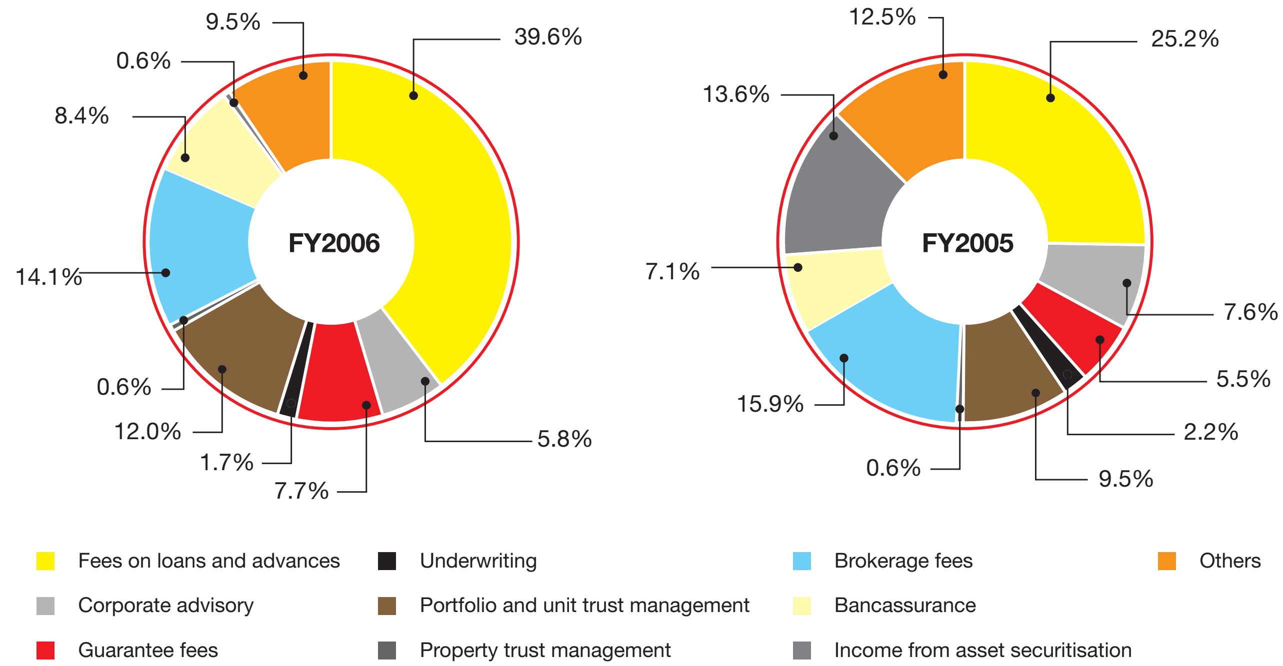
- Pressure on interest margins continued in the year, with the net interest margin decreasing to 2.9%, compared with 3.1% in FY2005. Rising interest rates and competition in the industry especially for retail loans, both mortgages and hire purchase, would continue to put some pressure on interest margins.
- The Group continues to implement various strategies to mitigate the pressure on interest margins. This includes:
  - Rehabilitation and recovery of NPLs;
  - Centralisation of retail collections;
  - Active management of the Group's Treasury fund-based activities, and pro-active hedging of the fixed interest rate loans portfolio;
  - Mobilising "lower-cost" savings and demand deposits;
  - Raising the Base Lending Rate in tandem with the rate rises in the industry; and
  - The introduction of risk adjusted pricing for lending decisions.

Other operating income increased 19.0% to RM904.0 million. As articulated in the past, expansion of selected other operating income activities is an on-going strategy to diversify the Group's revenue streams. The Group has consistently achieved its target of other operating income to operating income ratio of at least 30% (FY2006 : 31.6%).

Other Operating Income

RM Million	FY2006	FY2005	+/- RM Million	%
Fee income	306.9	314.0	- 7.1	- 2.3%
Investment and trading income	198.7	128.2	+ 70.5	+ 55.0%
Premium income from general insurance	369.9	286.9	+ 83.0	+ 28.9%
Capital gain arising from the receipt of shares in Bursa Malaysia Berhad	–	12.7	- 12.7	- 100.0%
Other income	28.5	17.6	+ 10.9	+ 61.9%
Total	**904.0**	**759.4**	**+ 144.6**	**+ 19.0%**

Fee And Other Operating Income



Premium income from the Group's insurance business accounted for 40.9% of other operating income, and registered an increase of RM83.0 million (+28.9%), due both to improved productivity from the agency network and the bundling of insurance with retail banking products.

Transactional fee income, including profits from foreign exchange, service charges and commissions recorded notable increases. This is the result of the on-going emphasis and resources committed to further enhance the Group's payment services infrastructure, and comprehensive trade related services and investment and funds management.

Investment banking related fees increased by RM18.7 million (+7.7%), contributed mainly by the capital market activities of syndications, corporate advisory, underwriting, origination of corporate bonds and funds management activities. This improvement was partly offset by the lower brokerage income from the securities business as both volumes and values of equities traded on Bursa Malaysia registered a decline in FY2006.

Investment and trading income increased by RM70.5 million (+55.0%), due to substantial realised and unrealised gains from trading activities in money market and corporate bonds.

Commitment 3: Improving Efficiency – Reduction of Overheads to Total Income Ratio

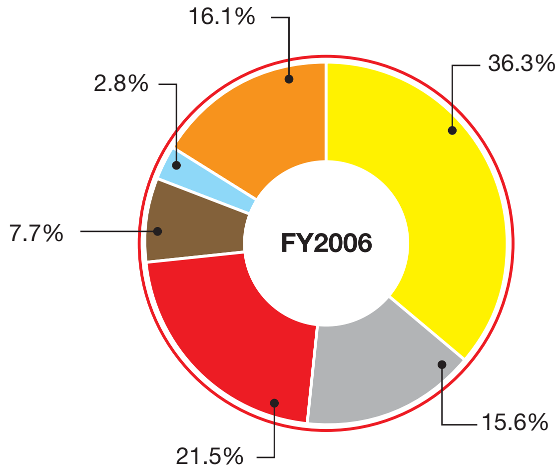
Controlling costs and ensuring that we operate efficiently is one of the ways by which we can improve returns for shareholders. The cost to expenses ratio expresses the Group's expenses as a percentage of revenue and is one of the most widely used measures of efficiency in the banking industry.

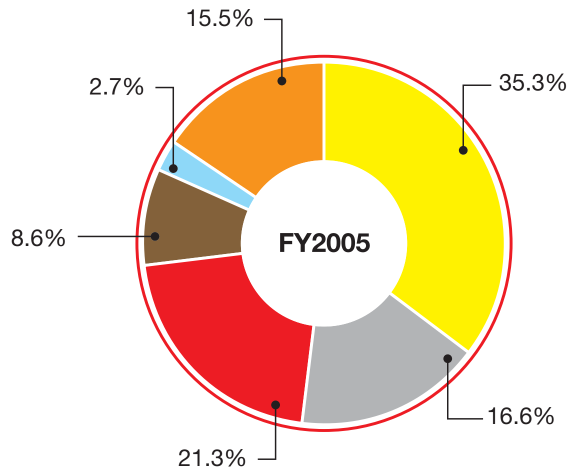
In FY2006, the cost to income ratio [excluding the results of the insurance business] remained broadly stable at 41.0%, rising by only 1.3%. As the insurance company is in an accelerated growth phase, the non-interest expense ratio, which includes the insurance business, does not truly reflect the efficiency of the Group's banking business.

Overheads increased by RM153.5 million (+15.0%), mainly in the following activities:

- Marketing and communication expenses grew by RM46.4 million (+17.5%) due to a much higher cost of business acquisitions, marketing, advertising and promotional expenses in retail banking:
  - hire purchase loans disbursement rose by RM2.1 billion to RM9.5 billion during the year. Effectively, there is a one-time commission payable known as handling fees, of RM600 for each vehicle financed, which is payable to the car dealers', and
  - acquisition cost of credit cards, as the number of credit cards in circulation jumped 23.3% to 446,000 cards as at March 2006 (2005 : 362,000 cards)

Operating Expenses





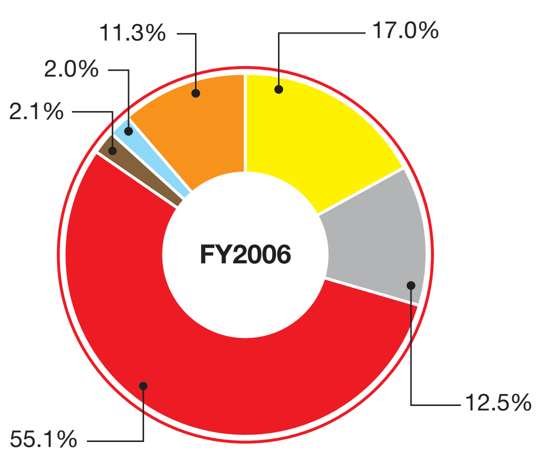
Personnel | Marketing and communication | General insurance commission
Establishment | Administration and general | General insurance claims

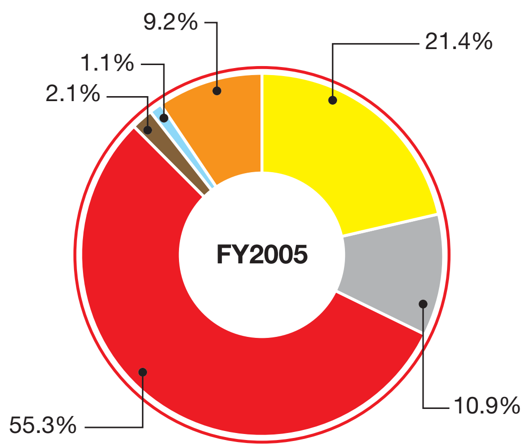
- Personnel expenses increased by RM84.5 million as a result of annual salary increments, coupled with the realignment of the salaries for the staff of the finance company with the salary scales in the commercial bank. Further there was the recruitment of 307 additional staff, due to the expansion in retail banking activities.
- Technology related expenses, increased RM10.3 million, accounted for by the various business initiatives undertaken by AmBank, such as the rollout and upgrading of commercial banking infrastructure at branches, the implementation of a new corporate loans system, cash management system and the general ledger system.
- Amortisation of goodwill (+RM12.3 million), arising from the privatisation of the 37.0% shareholding in AMFB Holdings Berhad, and acquisition of the 30.0% minority shareholding in the Funds Management Division, previously held by Macquarie Bank Limited, Australia.

Commitment 4: Balance Sheet Growth

Total assets were up 16.3% or RM10.1 billion to RM72.3 billion, consolidating further our position as the fifth largest banking group in the country. The increase in total assets, reflected the expansion in loans and

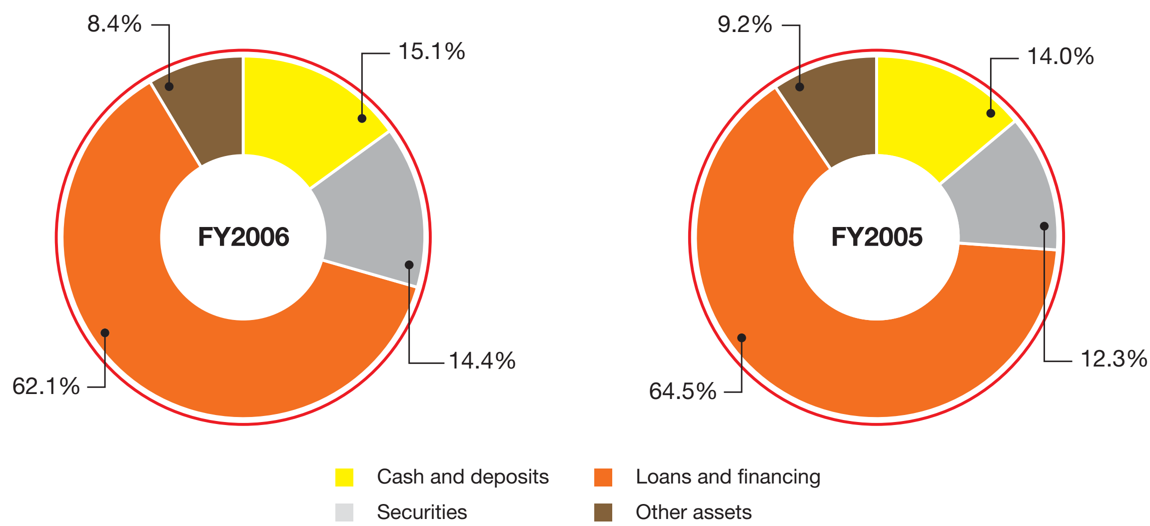
Total Assets By Line Of Businesses





Investment banking | Commercial and retail banking | Offshore banking
Islamic banking | Insurance | Others

Assets Mix Analysis



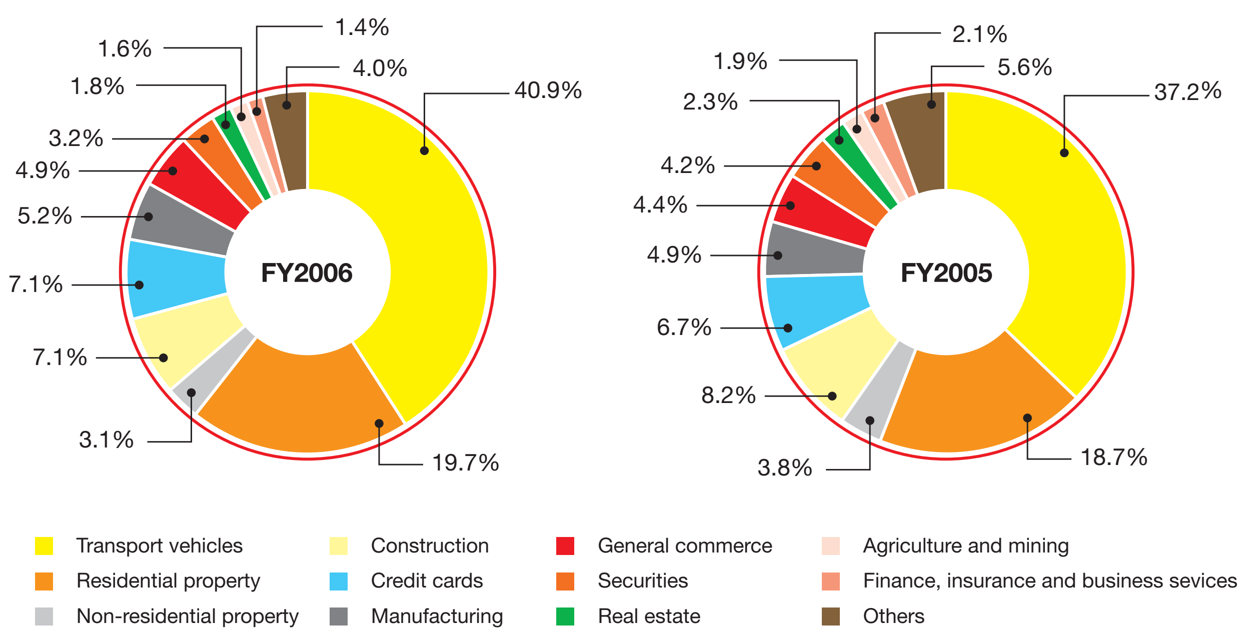
advances, investment and trading securities, as well as placements with financial institutions, amidst a backdrop of strong GDP growth of 5.3%.

- Customer loans and advances, net of cumulative provisions, grew by RM4.8 billion, a 11.9% increase over FY2005. The expansion in loans was mainly attributed to strong loans demand, particularly by the retail and the SME sector.

- The Group monitors its portfolio for risk concentrations and limits are established where appropriate. Lending for purchase of motor vehicles (40.9%) and residential properties (19.7%), represent the largest credit concentration, but the credit risk is effectively mitigated as the exposure is spread across a large number of retail borrowers. The Group retained its position as the largest auto financier in the country, with a dominant market share of approximately 23.0%.

RM Billion	FY2006	FY2005	FY2004
Net Loans	44.8	40.0	38.5
Net Loans growth	11.9%	4.0%	1.3%
Gross Loans growth	13.5%	6.2%	0.1%
Net Interest Margin	2.9%	3.1%	3.3%

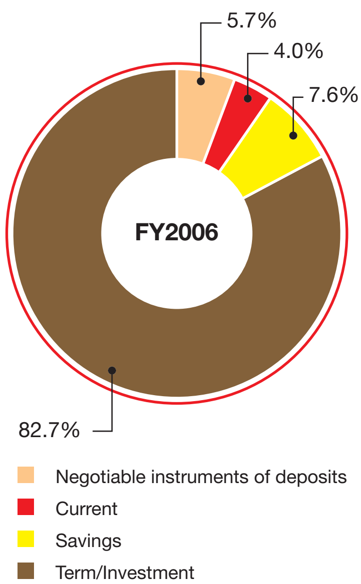
Gross Loans – Industry Exposure



Deposits From Customers

RM Billion	FY2006	%	FY2005	%
Individuals	**19.9**	**51.1**	18.2	52.9
Business enterprises	**12.9**	**33.1**	11.9	34.6
Government	**5.0**	**12.9**	2.8	8.1
Others	**1.1**	**2.9**	1.5	4.4
Total	**38.9**	**100.0**	34.4	100.0
Net interbank lendings	**9.0**		7.6	
Loans to deposits and borrowings ratio	**71.5%**		73.8%	

Deposits

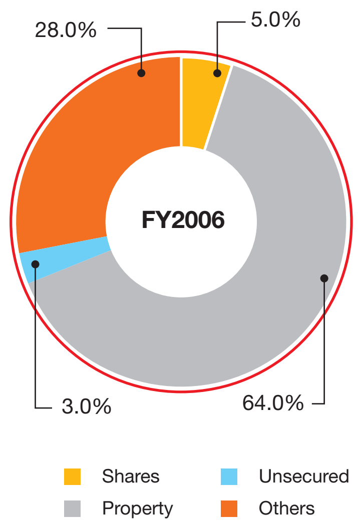


- Securities held for trading expanded by 36.8% in anticipation of increased activity with the de-pegging of the currency, to account for 8.4% of the total assets.
- The Group's primary source of funding is from customer deposits, either term/investment deposits, savings deposits, current deposits or negotiable instruments of deposits. Other major sources of funds include shareholders' funds, other interest bearing securities, interbank and other borrowings.
- Deposits from customers increased by RM4.5 billion to RM38.9 billion as at March 2006, to fund the expansion in lending activities.
- Term/Investment deposits remain the largest component of deposits from customers constituting 82.7% of deposits from customers as at 31 March 2006.

An indicator that our risk management policies and practices have taken effect is the improvement of the Group's loans asset quality:

- The Group's Net NPLs to Net Loans Ratio (three months classification basis) has been on a declining trend, down to 9.6% in FY2006, from 13.8% an year earlier.
- Total gross NPLs outstanding have declined to RM6.1 billion in FY2006 (FY2005 : RM7.6 billion). The reduction of absolute level of NPLs through restructuring, rehabilitation, rescheduling and foreclosure remains a top priority of both the Group Loan Rehabilitation and the Retail Collections Units. Further, the centralisation of retail collections and upgrading of the call centre in December, 2004, has made it possible to implement early

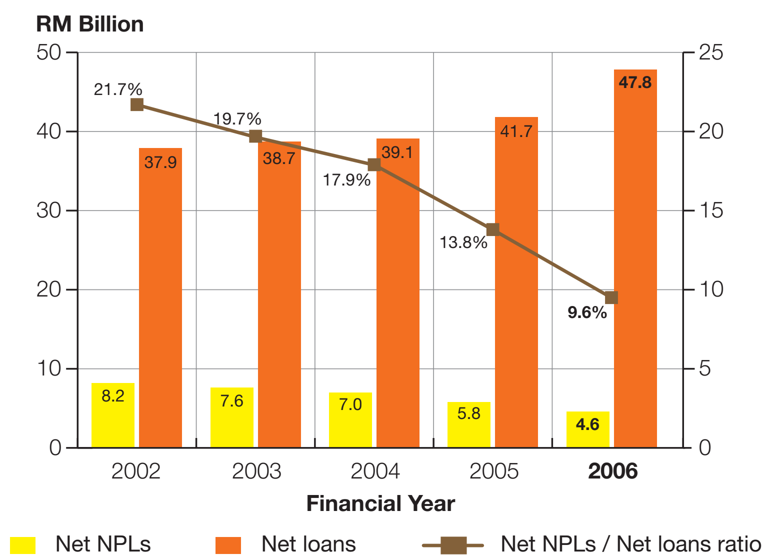
NPLs By Security Type



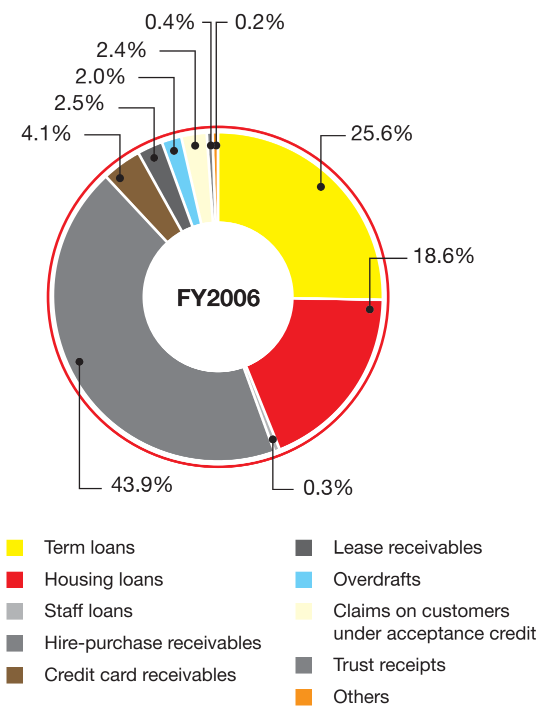
Commitment 5: Reduce Risk – Reconfigure the Business Mix

Concurrent with our commitments to revenue growth as mentioned earlier, we are also focused on the reduction and management of risks that confront the Group's businesses. This is to ensure that the Group will, over time, be able to deliver satisfactory risk-adjusted returns to its shareholders.

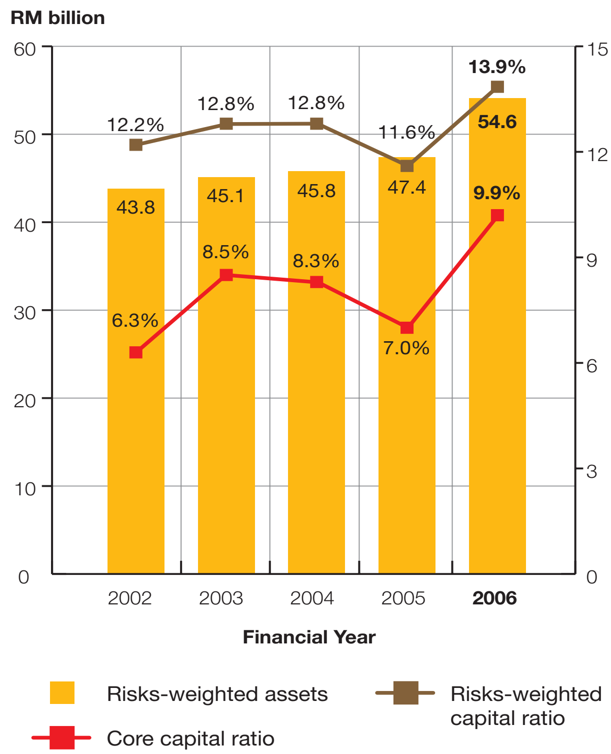
NPLs – 3 Months Classification



Loans Portfolio



Capital Ratios



collection strategies. In addition, improved liquidity in both the property and equity markets has facilitated realisation of collaterals.

- The Group's total NPL provisions (excluding general provisions) declined from RM742.0 million in FY2005 to RM682.5 million in FY2006, reflecting the improvement in asset quality.

- The Group has set aside additional specific provision of RM227.5 million in FY2006 (FY2005: RM244.7 million) for NPLs of seven (7) years and beyond, whereby no value was assigned to the underlying collaterals.

We also have used diversification principle to reduce the credit risk of our loans portfolio by rebalancing the Group's loans portfolio from predominantly being a corporate lender to a retail lender. Concurrently, the funding structure too has been changed, with nearly 51.1% of the deposits being mobilised from retail customers. This rebalancing of both the loans portfolio and the funding structure, improves the Group's earnings sustainability.

Loans By Sector

	FY2006	FY1999
Retail	68.0%	27.0%
SME	10.0%	5.0%
Corporate	22.0%	68.0%

- Reflecting the rapid growth of the Group's retail banking franchise, retail loans now make up about 68.0% of the Group's loans assets. In an environment where half the population is younger than thirty years old, and disposable incomes are rising, our retail based loans portfolio has a lot of potential for future growth, especially in the auto loans, mortgages, credit card and investment products segments, in which the Group has strong franchises in.

- The rapid development of the capital markets has accelerated the disintermediation process, whereby the larger corporate borrowers are able to source longer term funding more cheaply. Hence, FY2006 witnessed a marginal contraction of 13.8% in total loans outstanding to large corporations, down to RM10.4 billion from a year ago (FY2005 : RM12.0 billion).

- One of the early benefits from the transformation of the finance company's 171 branches into commercial banking branches, has been the rapid expansion of RM1.4 billion or 40.1% in SME lending, as these customers still continue to rely on bank financing and traditional loan products for their working capital and funding business expansion. The SME segment is also a natural market for the commercial bank's trade finance and cash management products.

The transformation of the Group's finance company branches in FY2006 into full fledged commercial banking branches has also accelerated the Group's ability to lower its funding costs.

- Demand deposits increased by RM223.9 million to RM1.7 billion as at end March 2006.

- Going forward, the Group has launched cash management services in early 2006, to capture clearing balances of large corporate customers and SMEs arising from payments and collection activities.

Commitment 6: Maintain Strong Capital Position

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

With the progressive rebalancing of the lending portfolio more heavily towards consumer lending, which is generally less capital intensive than corporate lending, the Group's risk weighted capital ratio as at 31 March 2006 stood at 13.94%, with Tier-1 capital ratio of 9.96%, significantly above the minimum requirement of 8.0%. This re-balancing has allowed us to reduce the amount of capital we are required to hold as a proportion of risk weighted assets.

During the year, AmBank, became the second domestic bank to tap the international capital markets to raise USD200.0 million (RM684.0 million) in Hybrid Tier One Capital.

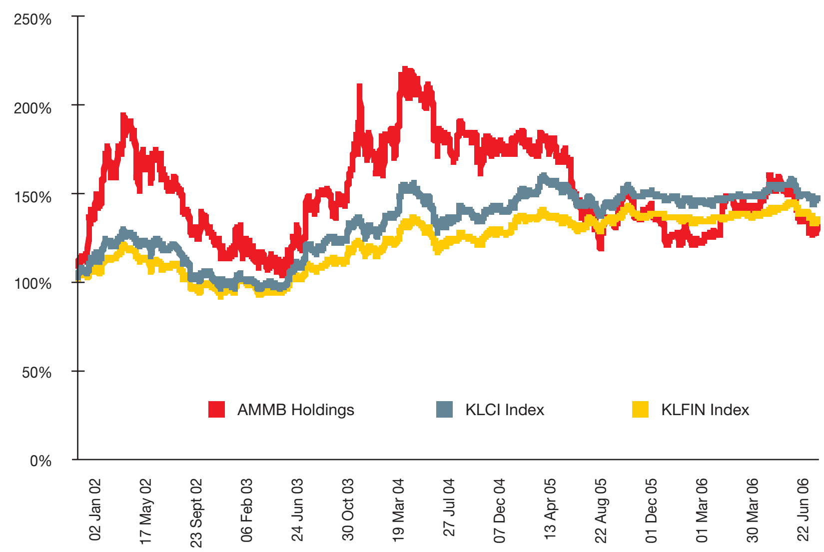
Conclusion

Hopefully, this year's financial results, has shown that we're delivering on our commitments and our efforts are beginning to bear fruit.

Reflecting the better financial performance in FY2006, the Group is proposing to increase the dividend paid to 5.0%, less tax (FY2005 : 4.0%, less tax) or RM76.7 million. This is equivalent to 21.0% of net profits, and is consistent with our policy of paying up to 25.0% of net profits as dividends.

We're confident that the ongoing initiatives and measures being implemented, coupled with the reinvestment of part of the current year profits, will translate into stronger earnings and balance sheet growth going forward.

AMMB Holdings Berhad – Share Price Performance



Credit Ratings

Reflecting the improvement in financial performance, the various rating agencies had upgraded the credit ratings of the principal subsidiaries, AmBank (M) Berhad and AmMerchant Bank Berhad.

	AmBank (M) Berhad		AmMerchant Bank Berhad	
	Long-term	Short-term	Long-term	Short-term
Rating Agency Malaysia Bhd ("RAM")	A2	P1	AA3	P1
Malaysian Rating Corporation Bhd ("MARC")	Not Rated		A+	MARC-1
Standard & Poor's ("S&P")	BBB-	A-3	BB+	B
Capital Intelligence	Not Rated		BB	B
Fitch Ratings Singapore Pte Ltd ("Fitch")	BBB-	F3	BB+	B
Moody's Investor Service	Baa2	P3	Not Rated	

The Company's RM150.0 million 3.0% 5-year Redeemable Unsecured Bank Guaranteed Bonds 2002/2007 with detachable Warrants was accorded a long-term ratings of AAA (bg) and AA3 (bg) for Tranche 1of RM100.0 million and Tranche 2 of RM50.0 million respectively by RAM.

The AmMerchant Bank Berhad's RM460.0 million Redeemable Unsecured Subordinated Bonds and RM200.0 million Subordinated Tier 2 Bonds have been accorded a long-term rating of A1 by RAM respectively.

The Hybrid Securities of USD200.0 million issued by AmBank (M) Berhad has been accorded a rating of Ba2/BB/BB by Moody's/Fitch/S&P.

The AmBank (M) Berhad's RM200.0 million Redeemable Unsecured Subordinated Bonds' long-term rating of A3 was also reaffirmed by RAM.

Economic Review

Review and Outlook of the Malaysian Economy

Development in 2005

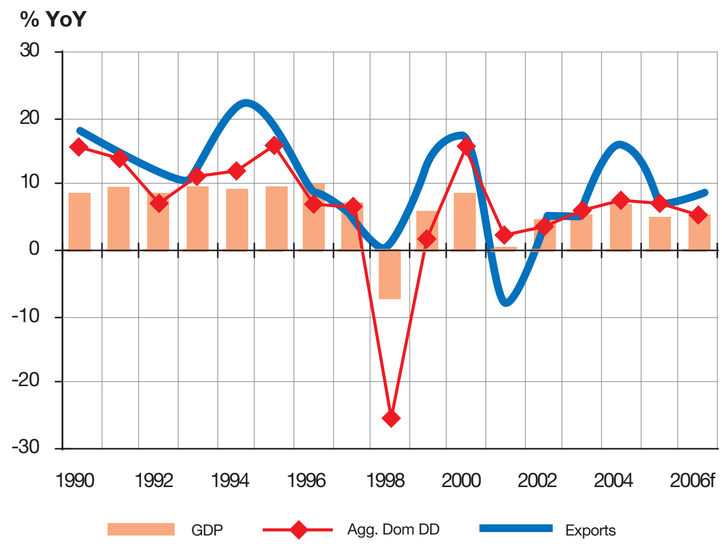
The Malaysian economy expanded slower in 2005 amidst high oil prices and the downturn in the global electronics cycle. Consequently, exports and domestic demand had expanded at a slower pace. Against 7.2% in 2004, real GDP grew by 5.2% in 2005. On the other hand, inflation rose to 3.0%, its highest level since 1998.

Meanwhile, the current account balance of payments in 2005 recorded a significantly larger surplus of RM75.3b or 16.0% of GNP compared with RM56.5b or 13.3% of GNP in 2004. This mirrors the enlarged surplus in the resource balance of the economy.

In 2005, the external reserves saw a smaller accumulation of RM12.9 billion (or US$3.8 billion) to RM266.4 billion (or US$70.5 billion) as opposed to RM82.9 billion (or US$21.8 billion) to RM253.5 billion (or US$66.7 billion) in 2004. This was largely due to outflow of portfolio and other short-term capital. Subsequently, private sector liquidity or M3 registered a smaller expansion of 7.3% or RM49.7 billion last year compared with 12.4% or RM68.0 billion in 2004.

Despite the enlarged private sector liquidity, interest rates were higher in 2005 following the decision by Bank Negara Malaysia (BNM) to raise the overnight policy rate (OPR) by 30 basis points to 3.0% on November 30. Meanwhile, the Ringgit ended the year higher by 0.5% to 3.7800 against the US dollar after BNM reviewed the exchange rate policy and replaced the fixed exchange rate regime with a managed float on July 21.

Chart 1 : GDP, Aggregate Domestic Demand & Exports (% YoY)



Demand Conditions

Aggregate domestic demand (including change in stocks) grew slower at 4.3% in 2005 compared with 10.8% in the preceding year, as the level of inventories was lower following the deceleration in production and imports, which was caused by slower exports. Consequently, the contribution by aggregate domestic demand to the overall GDP growth fell to 4.0 percentage points (pps) from 9.6 pps in the previous year.

On the other hand, excluding stocks, domestic demand registered a steady growth of 7.3%, marginally slower compared with 7.5% in the preceding year. Private consumption in particular remained strong, registering a growth of 9.2% in an environment of higher job vacancies and rising disposable income, amidst ample liquidity and low interest rate conditions. Although private investment showed moderation, the overall capital

Table 1 : Real GDP by Demand Aggregate

% change	2001	2002	2003	2004	2005	2006F
Consumption	**5.4**	**5.8**	**7.7**	**9.5**	**8.3**	**5.8**
Public	17.3	10.4	11.4	6.2	5.4	2.7
Private	2.4	4.4	6.6	10.5	9.2	6.8
Investment (ex-stock)	**-2.8**	**0.3**	**2.7**	**3.1**	**4.7**	**7.3**
Public	14.5	11.2	3.9	-8.7	0.3	5.0
Private	-19.9	-15.1	0.4	25.8	7.2	10.4
Agg. Domestic Demand	**2.5**	**3.9**	**6.1**	**7.5**	**7.3**	**6.3**
Public	15.7	10.9	7.2	-2.1	3.1	3.8
Private	-3.3	0.3	5.5	13.1	9.5	7.5
Exports	-7.5	4.5	5.7	16.3	8.6	7.8
Imports	-8.6	6.3	4.2	20.7	8.0	9.7
Real GDP	**0.3**	**4.4**	**5.5**	**7.2**	**5.2**	**5.5**

Source: Department of Statistics, F: AmInvestment Group Berhad (AIGB) forecast formation in 2005 recorded a faster growth of 4.7% compared with 3.1% in the preceding year.

This was due to a reversal in public investment as the Government stepped-up the implementation of projects under the Eighth Malaysia Plan. Subsequently, the contribution by capital formation to the overall GDP growth had shown an increase to 1.3 pps from 0.9 pp in 2004.

Meanwhile, exports of goods and services had registered slower growth of 8.6% compared with 16.3% in 2004 as a result of the softening IT sector. Imports growth had slowed more rapidly to 8.0% (2004 : 20.7%) thus resulting in a larger trade surplus of RM99.8 billion against RM80.7 billion in 2004. The slower growth in imports of intermediate goods reflected the subdued performance of the IT sector. Subsequently, net export contribution to the overall GDP growth had reverted to a positive 1.3 pps from a negative 2.4 pps in 2004.

While the faster deceleration in imports had negatively impacted the overall inventory position in 2005, it helped to strengthen further the external current account balance, which recorded a larger surplus of RM75.3 billion or 16.0% of GNP compared with RM56.5 billion or 13.3% in 2004. This mirrors the larger resource surplus in the economy as gross investment (including stocks) as a percentage of GNP fell to 20.8% (2004 : 24.0%) compared with the national savings of 36.8% (2004 : 37.3%). Thus, the economy had expanded below its optimal level.

Subsequently, the overall balance of payments had increased by another RM12.8 billion, which raised the external reserves to RM266.4 billion or US$70.5 billion as at end of 2005 from RM253.5 billion (or US$66.7 billion) at end of 2004. This was sufficient to finance about 7.7 months of retained imports and covered 6.3 times the country's short-term debts.

However, the reserves accumulation in 2005 was smaller compared with the RM82.9 billion or US$21.8 billion increase registered in the preceding year as a result of negative financial account balance following outflow of capital. In 2005, portfolio investment recorded a net outflow of RM9.2 billion compared with an inflow of RM33.8 billion in 2004. The repayment of external loans by the Government and private sector had also increased the level of fund outflow in 2005.

Table 2 : Contribution to Growth – Demand

% Points	2001	2002	2003	2004	2005	2006F
Consumption	**3.0**	**3.4**	**4.7**	**5.8**	**5.2**	**3.8**
Public	2.0	1.4	1.6	0.9	0.8	0.4
Private	1.1	2.0	3.1	4.9	4.4	3.4
Investment (ex-stock)	**-0.9**	**0.1**	**0.8**	**0.9**	**1.3**	**2.0**
Public	2.2	2.0	0.7	-1.6	0.5	0.7
Private	-3.1	-1.9	0.0	2.5	0.8	1.3
Stocks	-2.2	2.1	-2.0	2.9	-2.9	1.2
Agg. Domestic Demand	**2.2**	**3.5**	**5.4**	**6.7**	**6.5**	**5.7**
Public	4.2	3.3	2.3	-0.7	0.9	1.1
Private	-2.0	0.2	3.1	7.4	5.7	4.6
Exports	-8.8	4.8	6.2	17.7	10.1	9.5
Imports	-9.1	6.1	4.2	20.1	8.8	10.9
Net Exports	**0.3**	**-1.3**	**2.0**	**-2.4**	**1.3**	**-1.4**
Real GDP	**0.3**	**4.4**	**5.5**	**7.2**	**5.2**	**5.5**

Source: Department of Statistics, F: AIGB forecast

Table 3 : Balance of Payments

RM Billion	2002	2003	2004	2005	2006F
Current Acc. Balance	30.5	50.6	56.5	75.3	81.8
% of GNP	9.0	13.6	13.3	16.0	15.7
Merchandise Balance	72.1	97.8	104.5	126.5	130.3
Services Balance	-6.0	-15.3	-8.8	-10.3	-10.9
Income Balance	-25.1	-22.5	-24.5	-23.9	-21.1
Net Transfer	-10.6	-9.3	-14.6	-17.0	-16.5
Real GDP (% YoY)	**4.4**	**5.4**	**7.1**	**5.3**	**5.5**

Source: Department of Statistics, F: AIGB forecast

Supply Conditions

With the exception of construction, all sectors of the economy registered expansion and contributed positively to the overall GDP growth in 2005. The manufacturing and services sectors remained as pillars of the economy. While the services sector had remained steady, charting a 6.5% growth compared with 7.0% in 2004, the manufacturing sector recorded a slower growth of 5.1% as opposed to 9.8% in the preceding year. Growth in the services sector during the year was bolstered by strong private consumption and increased tourist arrivals.

The developments in the manufacturing sector were influenced by the cyclical turns in the global electronics industry. While in the first half of the year it experienced slower production growth, the sector recovered in the second half as the export-oriented industries regained strength. During this period, global semiconductor sales began to pick up as demand increased.

Value added in the agriculture sector recorded a moderate increase of 2.5% in 2005. Higher palm oil production was offset by the weaker performance of other agriculture sub-sectors including rubber. Meanwhile, growth in the mining sector also moderated, largely due to lower production of crude oil following the shutdown of oil fields and plants for maintenance purposes.

Value added in the construction sector declined for the second consecutive year at 1.6% (2004: -1.5%), reflecting the fewer infrastructure projects and in line with the Government's aim to further consolidate its fiscal position. Apart from the fewer public sector jobs, the residential and non-residential segments continued to expand due to resilient demand for houses and firm interest for office and retail space.

Table 4 : Real GDP by Sector

% change	2001	2002	2003	2004	2005	2006F
Agriculture	-0.6	2.8	5.5	5.0	2.5	3.3
Mining	-1.5	4.3	5.8	3.9	0.8	0.2
Manufacturing	-5.9	4.3	8.6	9.8	5.1	6.6
Construction	2.1	2.0	1.5	-1.5	-1.6	0.2
Services	6.0	6.5	4.7	7.0	6.5	5.9
Real GDP	**0.3**	**4.4**	**5.5**	**7.2**	**5.2**	**5.5**

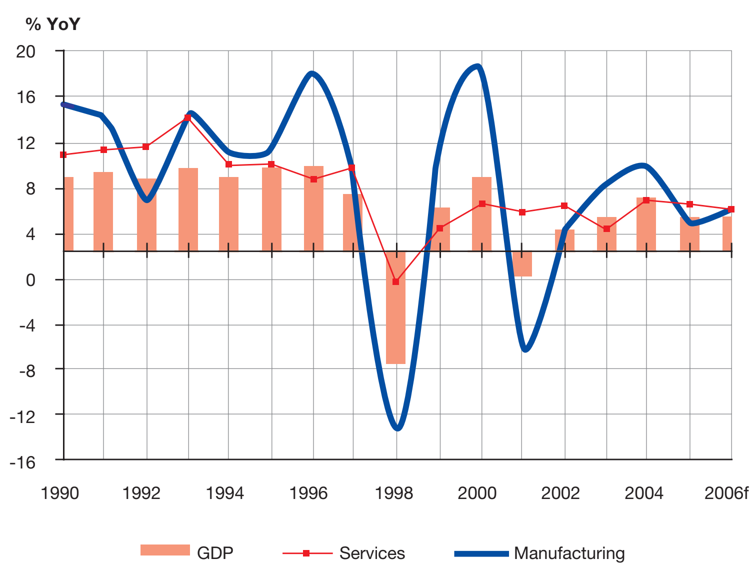
Source: Department of Statistics, F: AIGB forecast

Table 5 : Contribution to Growth by Sector

% Points	2001	2002	2003	2004	2005	2006F
Agriculture	-0.1	0.2	0.5	0.4	0.2	0.3
Mining	-0.1	0.3	0.4	0.3	0.1	0.0
Manufacturing	-1.9	1.3	2.5	3.0	1.6	2.1
Construction	0.1	0.1	0.0	0.0	0.0	0.0
Services	3.2	3.7	2.6	4.0	3.7	3.4
Other items	-0.9	-1.2	-0.7	-0.5	-0.4	-0.3
Real GDP	**0.3**	**4.4**	**5.5**	**7.2**	**5.2**	**5.5**

Source: Department of Statistics, F: AIGB forecast

Chart 2 : GDP, Manufacturing, Services (% YoY)



Prospects in 2006

Demand Conditions

The Malaysian economy is expected to strengthen in 2006 with the real GDP projected to grow at 5.5%. Growth in 2006 would continue to be driven by exports and supported by domestic demand. The global semiconductor up-cycle, which began in the second half of 2005, sustained global economic growth. Higher prices of primary commodities are expected to provide positive impact on Malaysia's export performance in 2006. Overall, export growth is expected to accelerate to 7.8% from 8.6% in 2005.

The strengthening of external demand would also have positive influence on domestic demand. In 2006, aggregate domestic demand is projected to chart a stronger growth of 7.6% from 4.3% in 2005 following higher stock accumulation, higher consumption and investment spending. Private consumption in particular is expected to chart a growth of 6.8% arising from higher disposable income following improvement in the economy and employment conditions as well as better commodity prices.

The favourable external demand and stronger economic activity in 2006 would also provide the momentum for private investment, which is projected to expand by 9.3%. The bulk of private investment in 2006 is expected in the manufacturing and services sectors.

Meanwhile, the implementation of new projects under the Ninth Malaysia Plan (9MP) would also help raise spending in the private sector.

Supply Conditions

Growth on the supply side is expected to be balanced, as all sectors are expected to contribute positively to the overall GDP growth. The manufacturing and services sectors are projected to contribute about 5.5 pps to the overall GDP growth and account for almost 90% of the economy. Value-added growth in the manufacturing sector is expected to strengthen to 6.6% in 2006 (2005: 5.1%), to be led by the electrical and electronics sector (E&E) following the recovery in the global semiconductor industry. The expansion in the sector would be reinforced by the stronger external demand for other manufactured products and the improvement in the domestic construction sector.

The services sector would continue to remain strong in 2006, to record a growth of 5.9%. Expansion in the sector will be led by the trade related activities following higher growth in the manufacturing sector and overall business activities. Meanwhile, domestic tourism activities are expected to gather further momentum amidst the intensification of efforts in preparation for Visit Malaysia Year 2007. As the Government is aiming to achieve a target of 17.5 million tourists in 2006, this would contribute to the higher growth in the wholesale and retail trade, hotels and restaurants sub-sectors. Meanwhile, demand for trade financing and other types of credit by businesses are expected to rise in 2006 with the firmer manufacturing growth and trade activities.

The agriculture sector is forecast to grow by 3.3% in 2006 in response to higher production of major primary commodities, particularly palm oil, which account for about one-third of the value-added of the sector. Implementation of some programs under the Ninth Malaysia Plan (9MP) would also help the sector to grow in 2006. In the mining sector, it is expected to grow by 0.2% in 2006 driven by improvement in crude oil and natural gas output on account of strong demand and better prices.

After two consecutive years of decline, the construction sector is expected to rebound in 2006 to register growth of 0.2% following implementation of projects under the 9MP. Growth in the sector will be supported by the residential and non-residential sub-sector resulting from the attractive financing conditions and vigorous business activities.

Inflation, Monetary and Exchange Rate Policy

The country recorded an inflation rate of 3.0% in 2005 compared with 1.4% in 2004, the highest since 1998 (5.1%). The higher inflation was associated principally with rising costs following the increase in international oil prices. In 2005, oil prices averaged US$56.50 a barrel, surging 33.0% from US$42.48 a barrel in 2004.

Despite the higher inflation, the Government had maintained the accommodative monetary policy stance and retained interest rates at low levels to support economic growth. As the economy recorded an uptrend in the third and final quarter and the inflation risks biased towards the upsides, BNM raised the overnight policy rate (OPR) by 30 basis points to 3.0% on 30 November. It was the first

adjustment since the introduction of the OPR on 26 April 2004 to replace 3-month intervention rate as the indicator of monetary policy.

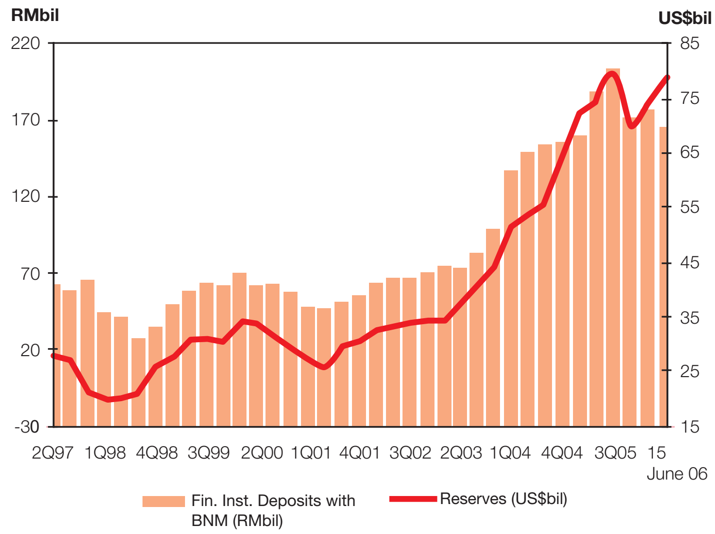
Earlier on 21 July, BNM had removed the fixed exchange rate regime and replaced it with a managed float. The currency appreciated to a high of 3.746 against the US dollar in August and ended at 3.78 at the end of 2005 as the dollar strengthened in response to higher Federal fund rate. The Ringgit was also affected by capital outflows.

The expectation of Ringgit appreciation on account of higher interest rates has re-attracted capital inflows since the beginning of this year. Consequently, Malaysia's external reserves have shown increases. In January to May of this year, the external reserves had increased by US$8.2 billion to US$78.67 billion compared with the decrease of US$8.17 billion in the last five months of last year.

The Ringgit had also strengthened against the US dollar and breached the 3.60 level in May. The softening of the US dollar and further capital inflows could push-up the Ringgit to a high of 3.50 this year. The firmer Ringgit would benefit the economy, as it would contribute towards reducing cost of imports and moderating domestic inflationary pressure.

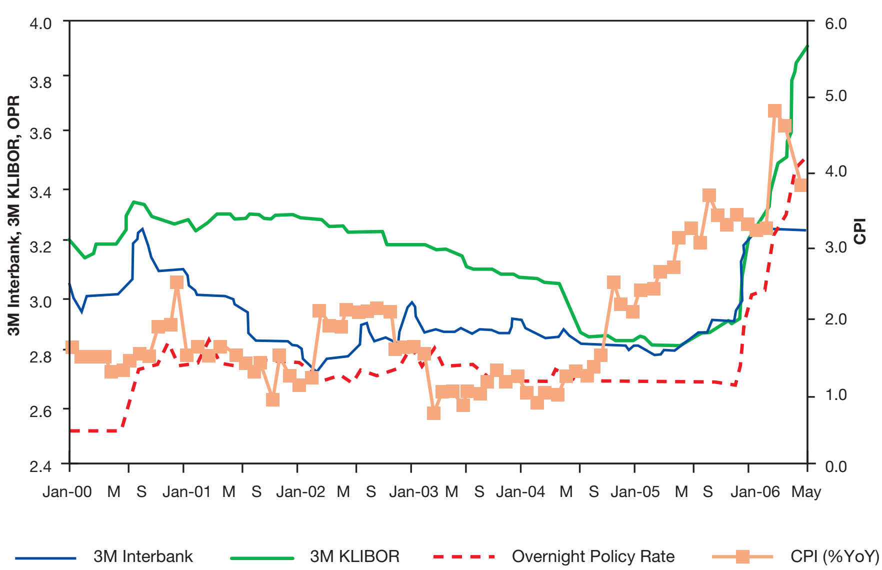
However, inflation is forecast to rise to 4.0% this year, largely on account of higher petroleum product prices. The first half of this year may see the inflation rate averaging 4.0% before decelerating to 3.9% in the second half. Thus, the domestic interest rates would have to be adjusted further. BNM had on 26 April further raised the OPR by 25 basis points to 3.50%. Although, arguably higher interest rates would not be directly effective in taming inflation as it is cost related, the higher rate is needed to raise real returns on deposits and more importantly, to stabilise capital flows.

Chart 3 : Ext. Reserves & Fin. Inst. Deposit with BNM



Admittedly, the gap between the OPR and the US Federal fund rate has widened and it is expected to widen further following additional adjustments in the US rate. The Federal fund rate is expected to rise by another 25 basis points this year from the current rate of 5.0%. Thus potentially, the domestic OPR could rise to 4.0% this year, which would help contain the gap at 125 basis points against the US Federal fund rate. The OPR would be marginally above the neutral level on the expectation that the inflation rate would decelerate to under 4.0% in the second half of this year.

Chart 4 : Interest Rates & Inflation



Conclusion

The Malaysian economy grew slower in 2005 compared with the preceding year primarily due to the softer external demand. The economy had expanded below its optimal level as the resource surplus enlarged following moderating investment spending.

In 2006, real GDP is expected to expand moderately faster at 5.5% on account of better external and domestic demand performance. The better export performance would help trigger an increase in production, raise capacity utilisation and investment as well as strengthen imports and push-up inventories. The higher exports would have also positive impact on domestic consumption following better employment conditions and increase in disposable income.

On the other hand, inflation is expected to rise to 4.0% this year, and therefore the domestic interest rate would have to be adjusted upward. However, the increase in interest rates would not mirror a major tightening of monetary policy as interest rates are expected to be adjusted moderately. At the same time, the Ringgit is expected to strengthen further, possibly reaching a high of 3.50 against the US dollar, which would help reduce cost of imports and moderate the domestic inflationary pressure.

Group Financial Highlights

	Year Ended 31 March				Half-Year Ended 30 September			
	RM Million		Growth Rate +/(-)%		RM Million		Growth Rate +/(-)%	
	2006	2005@	2006	2005	2005	2004@	2005	2004
Operating revenue	**4,976.8**	4,485.3	**11.0**	1.4	2,456.8	2,150.3	14.3	0.9
Operating profit before allowance for losses on loans and financing	**1,484.8**	1,263.1	**17.6**	4.5	719.1	523.1	37.5	(9.1)
Allowance for losses on loans and financing	**774.7**	770.5	**0.5**	(11.0)	322.0	262.4	22.7	(40.0)
Profit before tax and after share in results of associated companies	**710.1**	492.6	**44.2**	43.8	397.1	260.7	52.3	88.2
Profit after tax and minority interests	**365.5**	**204.0**	**79.2**	**(5.1)**	**207.2**	**111.7**	**85.5**	**(27.6)**
Total assets	**72,260.6**	62,114.2	**16.3**	2.9	66,901.7	60,297.1	11.0	2.3
Loans, advances and financing (net)	**44,860.5**	40,099.6	**11.9**	4.0	44,062.0	39,048.8	12.8	(0.6)
Deposits and borrowings	**62,704.6**	54,360.1	**15.4**	2.8	57,665.1	53,425.2	7.9	2.3
Commitments and contingencies	**37,310.4**	23,944.9	**55.8**	28.0	29,749.4	21,167.8	40.5	13.2
Shareholders' equity	**5,029.0**	4,813.3	**4.5**	19.5	4,851.8	4,088.6	18.7	15.7
Pre-tax return on average shareholders' equity (%)^	**11.2**	7.0	**59.6**	46.9	13.2 **	9.2 **	43.8	>100.0
Pre-tax return on average total assets (%)	**1.1**	0.8	**31.4**	39.7	1.2 **	0.9 **	42.5	83.3
Basic earnings per share								
– gross (sen)	**25.9**	16.5	**57.1**	48.5	30.0 **	20.0 **	49.7	>100.0
– net (sen)	**17.2**	10.8	**58.4**	(19.5)	19.5 **	12.0 **	62.1	(41.5)
Fully diluted earnings per share								
– gross (sen)	**25.5**	16.2	**57.3**	55.4	29.7 **	19.3 **	53.8	>100.0
– net (sen)	**16.9**	10.7	**58.6**	(15.7)	19.3 **	11.6 **	66.6	(41.9)
Gross dividend per share	**5.0**	4.0	**25.0**	–	–	–	–	–
Net dividend cover (No. of times)	**4.8**	3.3	**43.4**	(17.3)	–	–	–	–
Net tangible assets per share (RM)	**2.12**	2.01	**5.2**	(0.1)	2.04	2.05	(0.3)	(4.7)
Net assets per share (RM)	**2.36**	2.26	**4.5**	4.2	2.28	2.19	4.0	(5.6)
Overheads to total income (%)	**41.0**	39.7	**3.5**	7.1	41.4	44.1	(6.0)	25.7
Number of employees	**9,280**	8,973	**3.4**	2.2	9,074	8,990	0.9	7.4
Assets per employee (RM Million)	**7.8**	6.9	**12.5**	0.6	7.4	6.7	9.9	(4.7)
Pre-tax profit per employee (RM'000)	**76.5**	54.9	**39.4**	40.6	87.5 **	58.0 **	50.9	75.1

Refer to page 117 for the explanation of legend.

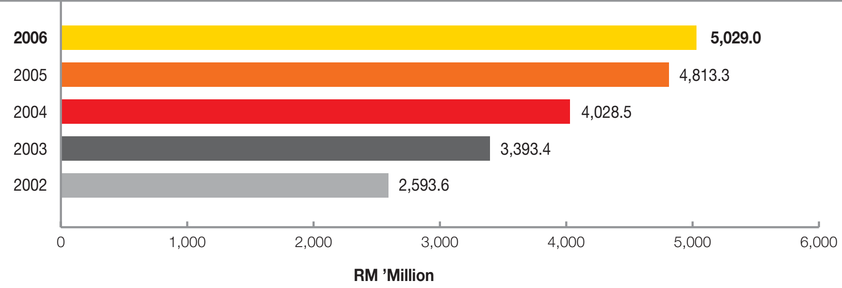
Five-Year Group Financial Review

	Financial Year Ended 31 March				
	2006	**2005@**	**2004**	**2003**	**2002**
1 Revenue (RM Million)					
i Operating revenue	**4,976.8**	4,485.3	4,421.8	4,232.1	3,434.6
ii Operating profit before allowance for losses on loans and financing	**1,484.8**	1,263.1	1,208.2	1,251.5	945.2
iii Allowance for losses on loans and financing	**774.7**	770.5	865.6	887.3	467.1
iv Profit before tax and after share in results of associated companies	**710.1**	492.6	342.6	364.2	478.1
v Profit after tax and minority interests	**365.5**	**204.0**	**215.0**	**245.5**	**218.4**
2 Balance Sheet (RM Million)					
Assets					
i Total assets	**72,260.6**	62,114.2	60,362.4	58,611.9	55,339.3
ii Loans, advances and financing (net)	**44,860.5**	40,099.6	38,545.0	38,060.4	37,290.9
Liabilities and Shareholders' Equity					
i Deposits and borrowings	**62,704.6**	54,360.1	52,872.0	52,536.4	49,574.5
ii Paid-up share capital	**2,130.5**	2,130.5	1,858.8	1,502.6 #	1,375.4 #
iii Shareholders' equity	**5,029.0**	4,813.3	4,028.5	3,393.4	2,593.6
Commitments and Contingencies	**37,310.4**	23,944.9	18,708.7	15,941.2	18,506.9
3 Per Share (Sen)					
i Basic gross earnings	**25.9**	16.5	11.1	17.0 #	25.5 #
ii Basic net earnings	**17.2**	10.8	13.4	16.7 #	16.1 #
iii Fully diluted gross earnings	**25.5**	16.2	10.5	17.0 #	25.2 #
iv Fully diluted net earnings	**16.9**	10.7	12.7	16.6 #	15.9 #
v Net tangible assets	**211.8**	201.4	201.6	206.2 #	168.6 #
vi Net assets	**236.0**	225.9	216.7	225.8 #	188.6 #
vii Gross dividend	**5.0**	4.0	4.0	3.3 #	3.3 #
4 Financial Ratios (%)					
i Pre-tax return on average shareholders' equity ^	**11.2**	7.0	4.8	8.6	14.1
ii Pre-tax return on average total assets	**1.1**	0.8	0.6	0.6	1.0
iii Loans, advances and financing to deposits and borrowings	**71.5**	73.8	72.9	72.4	75.2
iv Overheads to total income	**41.0**	39.7	37.0 *	38.3 *	34.5 *
5 Share Price (RM)					
i High	**2.91**	3.92	4.22	4.16 #	3.80 #
ii Low	**2.21**	2.81	1.84	2.09 #	1.52 #
iii As at 31 March	**2.83**	2.83	4.00	2.16 #	3.50 #

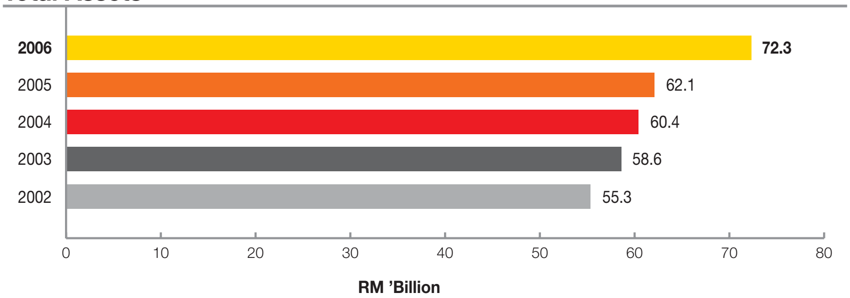
** Annualised.
^ Adjusted for minority interests.
# Adjusted for bonus issue.
@ Adjusted to conform with the requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions issued by Bank Negara Malaysia that have been applied retrospectively for one financial year.
* Included total income and overheads of life policyholders' funds.

Five-Year Group Financial Review

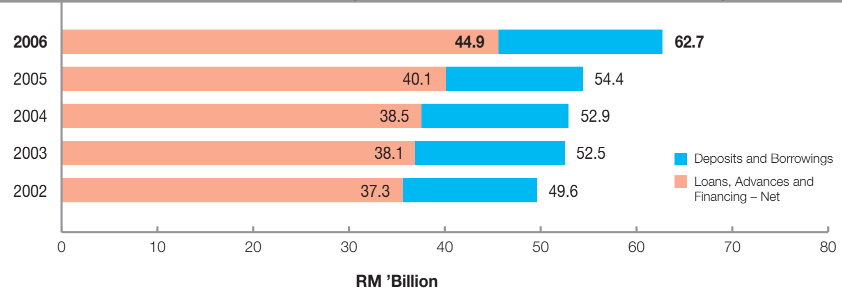
Shareholders' Equity



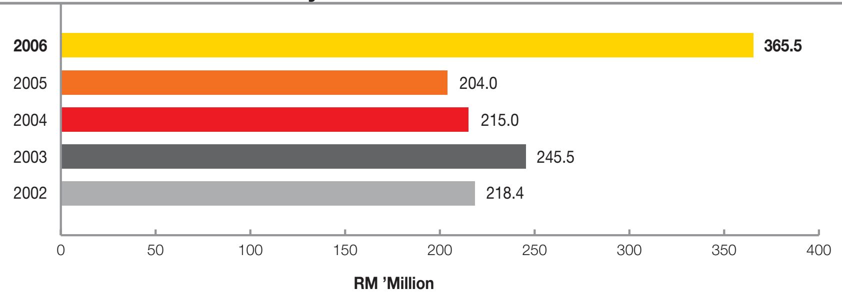
Total Assets



Loans, Advances and Financing – Net / Deposits and Borrowings



Profit After Tax and Minority Interests



Financial Calendar

2005

16 May
Announcement of audited consolidated results and first and final dividend for the financial year ended 31 March 2005.

10 August
Announcement of unaudited consolidated results for the financial first quarter ended 30 June 2005.

2 September
Issuance of notice of 14th Annual General Meeting, notice of 17th Extraordinary General Meeting, notice of entitlement and payment of first and final dividend of 4.0% less tax, and annual report for the financial year ended 31 March 2005.

26 September
14th Annual General Meeting and 17th Extraordinary General Meeting.

3 October
Date of entitlement to first and final dividend of 4.0% less tax.

17 October
Payment of first and final dividend of 4.0% less tax for the financial year ended 31 March 2005.

18 November
Announcement of unaudited consolidated results for the financial half year ended 30 September 2005.

2006

10 February
Announcement of unaudited consolidated results for the financial third quarter ended 31 December 2005.

31 May
Announcement of audited consolidated results and first and final dividend for the financial year ended 31 March 2006.

18 July
Issuance of notice of 15th Annual General Meeting, notice of entitlement and payment of first and final dividend of 5.0% less tax, and annual report for the financial year ended 31 March 2006.

9 August
15th Annual General Meeting.