

Corporate Governance

The Group firmly believes that integrity, excellence and commitment in its people, supported by a sound system of policies, practices and internal controls will help create long-term value for our Shareholders.



BOARD OF DIRECTORS

Principle 1: Board's Conduct of Affairs

Our Shareholders depend on the Company's Board for strategic guidance and oversight of the AmBank Group. The Board recognises its overriding responsibility to act diligently and progressively, in accordance with the law, in serving the interests of Shareholders, as well as its employees, customers and the community at large.

The Board remains fully committed in ensuring that it continues to comply with the Best Practices in Corporate Governance as set out in Part 2 of the Malaysian Code on Corporate Governance.

The roles and responsibilities of the Board include:

- Reviewing and approving the strategic business plans of the Group as a whole and that of the individual operating units. This encompasses the annual budget, medium term corporate plan, new investments/divestments as well as mergers and acquisitions.
- Overseeing the conduct of the business to ascertain its proper management including setting clear objectives and policies within which senior executives are to operate.
- Identifying and approving policies pertaining to the management of all risk categories including but not limited to credit, market, liquidity, operational, legal and reputational risks.
- Reviewing the adequacy and the integrity of internal controls and management information systems, including systems for compliance with applicable laws, rules, regulations, directives and guidelines.
- Serving as the ultimate approving authority for all significant financial expenditure.

Principle 2: Chairman and Group Managing Director

There is a clear division between the roles of the Chairman and Group Managing Director. The roles remain separate and distinct. The Chairman of the Board is non-independent and non-executive.

The Chairman plays an important leadership role within the Group and is involved in:

- Chairing the meetings of Shareholders and the Board;
- Monitoring the performance of the Board and the mix of skills and effectiveness of their individual contributions with the assistance of the Nomination Committee; and
- Maintaining ongoing dialogues with the Chief Executive Officers of the various major subsidiary companies and providing appropriate mentoring and guidance.

The Board delegates to the Group Managing Director and through him and subject to his oversight, to other Senior Management, the authority and responsibility for managing the everyday affairs of the Group.

The Board monitors the Management and performance of the Group Managing Director on behalf of the Shareholders.

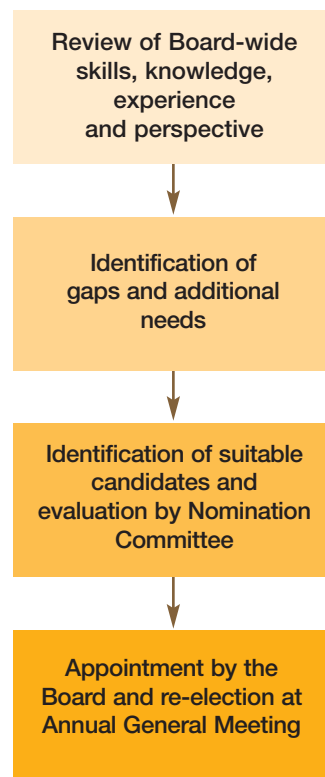
Good corporate governance not only embodies compliance to statutory requirements, but also creates the environment in which fairness, transparency, accountability and responsibility combine to foster integrity and professional conduct at every level of our organisation.

Principle 3: Board Composition, Selection and Appointment

The Board strives to achieve a balance of skills, knowledge, experience and perspective among its Directors.

The Board currently comprises ten (10) Directors of which five (5) are Independent Non-Executive Directors, providing a healthy Board balance.

SELECTION OF DIRECTORS



Appointment and Resignation

Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan bin Haji Baba recently retired as Independent Non-Executive Director of the Company and its various subsidiaries. The Group has been fortunate in having an Independent Director of Prof Tan Sri Rashdan Baba's calibre for almost a decade, who has contributed significantly to the Group's success.

In addition, the Group also extends its gratitude to Y Bhg Tan Sri Lim Kok Wing who had retired after close to two years of service on the Board.

Principle 4: Board Performance

Board Independence

The Independent Non-Executive Directors are from varied business backgrounds, and their experience enables them to exercise independent judgment and objective participation in the proceedings and decision-making processes of the Board.

The Directors participate fully in decision-making on key issues regarding the Company and its subsidiaries. The views of Independent Non-Executive Directors carry substantial weight in Board decisions. They fulfill their roles in ensuring that strategies proposed by the Management are fully discussed and examined as well as ensuring that the interest of Shareholders and Stakeholders of the Company are properly safeguarded.

Independence

The Board applies the criteria as specified under the Bursa Malaysia Listing Requirements to establish whether or not a Non-Executive Director may have a relationship with the AmBank Group which could (or could be perceived to) affect their decision-making.

Senior Independent Non-Executive Director

In line with the recommendations stipulated in Part 2 of the Code on Corporate Governance, the Board has appointed Y A Bhg Tun Mohammed Hanif bin Omar as the Senior Independent Non-Executive Director to whom any concerns on issues affecting the AMMB Holdings Berhad Group of companies may be conveyed.

Election at Next Annual General Meeting

The Company's Articles of Association permits the Board to appoint a person to be a Director of the Company at any time, but the person must seek election by Shareholders at the next Annual General Meeting.

Tenure

The Articles of Association provides that each Director must retire at least once in every three years at the Annual General Meeting, but are eligible for re-election.

Formalisation of Rights, Duties and Obligations

Once a Director is appointed, there are several key elements relating to the formalisation including:

- *Directors Code of Conduct*
This code sets out that Directors will pursue the highest standards of ethical conduct.
- *Director's Deed*
The Deed covers a number of issues including indemnity, Directors' and officers' liability insurance, the right to obtain independent advice and the requirements concerning confidential information.
- *Induction Training*
New Directors take part in a formal induction programme which ensures that Directors meet with the AmBank Group executives and other key staff members and to familiarise themselves with the Group's governance framework, financial management and business operations.

Each new Director receives a set of notes outlining the Director's responsibilities, terms of reference of the various Board Committees and regulatory guidelines. It also sets out details of scheduled Board and Committee meetings.

Selected Training Programmes Attended by Directors

Course Title / Trainer	Date Organised
Executive Workshop on Risk Management <i>(Dr Heinz Riehl via IBBM)</i>	18 July 2005
Executive Briefing on New Financial Reporting Standard <i>(Trainers from Ernst & Young)</i>	4 Jan 2006
Executive Workshop on Anti-Money Laundering and Corporate Fraud <i>(Mr Tan Sin Liang)</i>	18 Jan 2006
Executive Briefing on Islamic Banking <i>(Trainers from IIUM)</i>	18 April 2006

Board members are also encouraged to participate in seminars and conferences and continuous education programmes to keep abreast with the current developments in the financial services industry. Arrangements are also made for them to attend the programmes organised by the Group's Organisational Development Department.

During the year, the Directors attended training courses related to corporate risk, management strategies and developments in the industry.

Performance Evaluation

Performance evaluations are conducted by the Nomination Committee and cover the Board, each Director and the Board Committees.

The framework used to assess the Directors is based on the expectation that they are performing their duties in a manner which should create and continue to build sustainable value for Shareholders and in accordance with duties and obligations imposed upon them under the law and guidelines issued by the regulatory authorities.

Principle 5: Access to Directors

The Management is able to consult the Directors as required on a regular basis. Management and Shareholders have access to Directors through the Chairman, Senior Independent Director and the Group Company Secretary.



Principle 6: Access to Information

All Directors have unrestricted access to information within the Group. The advice and services of the Group Company Secretary are readily available to the Board in matters of law, governance and compliance with statutory duties.

In order to assist Directors in fulfilling their responsibilities, each Director has the right (with the prior approval of the Chairman) to seek independent professional advice regarding their responsibilities at the expense of the Group. In addition, the Board and each Committee, at the expense of the Group, may

obtain professional advice they require to assist them in their work.

Board meetings are held monthly, wherein Board reports are circulated prior to the meetings, allowing the Directors to review further information that may be required. Additional Board meetings are convened whenever necessary. The Senior Management team of the subsidiaries are invited to attend Board Meetings to provide presentations and detailed explanations on matters that have been tabled.

Thirteen (13) Board Meetings were held during the FY2006. The attendance of Board members at the meetings of the Board and the various Board Committees is summarised in the Table.

Group Company Secretary

The Group Company Secretary is in attendance at all Board meetings. He has been empowered by the Board to assist the Board in matters of law, governance and in complying with statutory duties, including compliance with the Bursa Malaysia Listing requirements.

Number of Meetings Attended in FY2006

	Board of Directors	Nomination Committee	Remuneration Committee	Audit & Examination Committee
Y Bhg Tan Sri Dato' Azman Hashim	13/13 (Chairman)	1/1* (Member effective 15 December 2005)	N/A	N/A
Y Bhg Dato' Azlan Hashim	13/13	3/3	3/3	4/4
Y A Bhg Tun Mohammed Hanif Omar	12/13	N/A	N/A	N/A
Y Bhg Tan Sri Datuk Dr Aris Osman @ Othman	10/13	1/1* (Member effective 15 December 2005, Committee Chairman)	N/A	4/4 (Committee Chairman)
Y Bhg Tan Sri Datuk Clifford Francis Herbert	13/13	1/1* (Member effective 15 December 2005)	N/A	N/A
Y Bhg Tan Sri Dato' Mohd Ibrahim Mohd Zain	12/13	N/A	N/A	N/A
Y Bhg Dato' Izham Mahmud	13/13	3/3 (Committee Chairman)	3/3	4/4
Mr Cheah Tek Kuang	13/13	N/A	N/A	N/A
Mr Soo Kim Wai	13/13	N/A	2/2* (Member effective 27 September 2005)	N/A
Puan Shalina Azman	11/13	N/A	N/A	N/A
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba (Resigned on 15 December 2005)	9/10	2/2*	1/1*	3/3*
Y Bhg Tan Sri Dato' Dr Lim Kok Wing (Resigned on 13 March 2006)	4/12	N/A	N/A	N/A

Note:

- The Risk Management Committee of Directors is established at AmMerchant Bank Berhad, AmBank (M) Berhad, AmIslamic Bank Berhad and AmAssurance Berhad.
- * Reflects the number of meetings held during the period the Director was appointed.

Principle 7: Board Committees

The Board delegates certain responsibilities to the Board Committees. The Committees that assist the Board are as follows:

1. Nomination Committee
2. Remuneration Committee
3. Audit & Examination Committee
4. Risk Management Committee

The majority of the members of these four main Committees are independent Directors. Committee performance is reviewed annually. Membership criteria are based on a Director's skills and experience, as well as his ability to add value to the Committee.

The Group Managing Director, the Chief Executive Officers and other Senior Management staff of the Group are invited to attend the relevant Committee meetings.

The Nomination Committee

The Committee is responsible for regularly reviewing the Board's structure, size and composition, as well as making recommendations to the Board on any changes that are deemed necessary. It reviews the performance of the Board, Committees and Directors. It also recommends the appointment of Directors to Committees of the Board as well as annually reviews the mix of skills, experience and competencies that Non-Executive Directors should bring to the Board.

With the growing complexities and challenges facing our industry, the Board plays a key role in setting the direction of the Group.

Principle 8: Procedures for Developing Remuneration Policies

The Remuneration Committee

All members of the Remuneration Committee are Non-Executive Directors. In carrying out its duties, the Committee met three (3) times during FY2006.

The Committee is responsible for determining and recommending to the Board the framework for the remuneration of Directors and the Chief Executive Officers.

Principle 9: Level and Mix of Remuneration

Directors' Remuneration

The Directors' remuneration is designed to ensure that the Group continues to attract and retain Directors with appropriate skills and experience to manage the Group successfully. The Board determines the remuneration of Non-Executive Directors and Executive Directors of the Group with the interested Directors abstaining from discussions and vote with respect to their remuneration.

Principle 10: Risk Management

Risk Management Committee of Directors (RMCD)

As the Company is an investment holding company, the Risk Management Committee of Directors is established as Committees of the Boards of AmBank (M) Berhad, AmMerchant Bank Berhad, AmAssurance Berhad and AmSecurities Sdn Bhd.

The Risk Management Committee comprising of Non-Executive Directors is responsible for the review of risks in all aspects of the Group's business.

It is responsible for overseeing, monitoring and reviewing the Group's risk management, principles and policies, strategies, processes and controls, including credit, market, balance sheet operational risk and compliance. The Committee ensures that timely actions are taken in response to emerging risk issues.



The Risk Management Committee of Directors held the following number of meetings during FY2006:

Subsidiary	Number of RMCD Meetings Held
AmMerchant Bank Berhad	11
AmBank (M) Berhad	6
AmAssurance Berhad	5
AmSecurities Sdn Bhd	3

Principle 11: Accountability

The Audit and Examination Committee

The Audit and Examination Committee (AEC) is responsible for the oversight and monitoring of:

- The Group's financial reporting accounting policies and controls;
- The work of the Group's Internal Audit;
- Compliance with regulatory requirements; and
- The appointment, evaluation and oversight of the external auditor.

It is the Board's policy that at least one member of the Committee shall have accounting/finance experience. The AEC meets regularly with the external auditors and the Group Internal Audit.

During the year, the number of meetings held by the AEC is as follows:

Subsidiary	Number of AEC Meetings Held
AmMerchant Bank Berhad	8
AmBank (M) Berhad	10
AmAssurance Berhad	8
AmSecurities Sdn Bhd	4

Principle 12: Financial Controls

Statement on Internal Control

Responsibility Statement

The Board of Directors is responsible for the Group's system of internal control and its effectiveness, which is designed to ensure effective and efficient operations, internal control, including financial reporting and compliance with laws and regulations.

In establishing and reviewing the system of internal control, the Directors have considered the materiality of relevant risks, the likelihood of such a loss being incurred and the cost of control. Therefore, it follows that the system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

Management of Information

The Group is in strict adherence with the disclosure requirements of Bursa Malaysia as well as with relevant requirements of the Securities Industry Act, 1983. The Group's Code of Ethics and internal control procedures incorporates a policy on confidentiality of material information and corporate disclosures.

Internal Control Environment and Key Processes

The Group has adopted a co-ordinated and formalised approach to internal control and risk management. The AEC of the Board oversees the Group's financial statements and the work of the Group's Internal Audit Department.

The Group Internal Audit provides assurance that the design and operation of the risk and control framework across the Group is effective.

Audit and Examination Committee Report

Terms of Reference

The functions of the Committee are as follows:

- To provide assistance and to review and report to the Board in relation to:
 - Fulfilling the statutory and fiduciary responsibilities of the Company/Group; and
 - Monitoring of the accounting and financial reporting practices of the Company/Group;
- To determine that the Company/Group has adequate established policies, procedures and guidelines, operating and internal controls, and that they are being complied with and are operating effectively in promoting efficiency and proper conduct and protecting the assets of the Company/Group;
- To serve as an independent and objective party in the review of the financial information of the Company/Group that is presented by Management to the Board and Shareholders;
- To review the quarterly results and year-end financial statements of the Company/Group and to ensure compliance with accounting standards and legal requirements;
- To review and approve the scope of audits, audit plans and audit reports of both the external and internal auditors;
- To evaluate the adequacy and effectiveness of the Management control systems of the Company/Group through the review of the reports of both the external and internal auditors that highlight internal accounting, organisational and operating control weaknesses and to determine that appropriate corrective actions are being taken by the Management;



- (g) To ensure the adequacy of the scope, functions and resources of the internal audit functions and that they have the necessary authority to carry out their work;
- (h) To ensure through discussions with the external and internal auditors, that no restrictions are being placed by Management and employees on the scope of their examinations;
- (i) To direct and supervise any special project or investigation considered necessary;
- (j) To prepare, when necessary, periodic reports to the Board summarising the work performed in fulfilling the Committee's primary responsibilities;
- (k) To review any related party transactions and conflict of interest situation that may arise within the Company/Group including any transaction, procedure or course of conduct that raises questions of management integrity; and
- (l) To review the annual appointment of external auditors, or letter of resignation from external auditors, to negotiate and approve the annual audit fees and/or special audit fees, and evaluate basis of billings therewith.

Summary of Key Activities

The following is a summary of the main activities carried out by the Committees during the year:

Internal Audit

- Reviewed and approved the Internal Audit Department's annual audit plan, including its resource and training needs.
- Reviewed the Internal Audit Department's methodology in assessing the risk levels of the various auditable areas and ensured that audit emphasis was given on critical risk areas.
- Monitored the progress of the Internal Audit Department in completing its audit plan and assessed the performance of the Department.
- Reviewed the adequacy and effectiveness of the system of controls, reporting and risk management to ensure there is a systematic methodology in identifying, assessing and mitigating risk areas.
- Reviewed reports of the Internal Audit Department (including internal investigations, Bank Negara Malaysia, external auditors and other external parties) and considered Management's response and accordingly directed Management to take the necessary remedial action. The Committee also followed-up on major issues raised in the reports.

External Audit

- Reviewed the appointment of the external auditors and their independence and effectiveness.
- Reviewed their audit plan, annual audit fees and scope of work for audit and non-audit assignments.
- Reviewed the external auditor's results and report as well as the Management's consequent responses to the findings of the external auditors.

Financial Results

- Reviewed the quarterly results and financial statements of the Group before recommending them for approval to the Board of Directors.
- Reviewed the annual audited financial statements of the Group with the external auditors prior to submission to the Board for approval.
- Compliance with the following regulations was ensured:
 - Provisions of the Companies Act 1965 and the Banking and Financial Institutions Act 1989
 - The Listing requirements of Bursa Malaysia
 - Applicable accounting standards in Malaysia
 - Other relevant regulatory requirements

Related Party Transactions

- Reviewed related party transactions and the adequacy of the Group's procedures in identifying, monitoring, reporting and reviewing related party transactions.

Principle 13: Internal Audit

Internal Audit Function

The Internal Audit function operates under a charter from the AEC that gives it unrestricted access to review all activities of the Group. The Head of the Group Internal Audit reports to the AEC.

The AEC approves the annual audit work plan, and a risk-based audit approach is used to ensure that the higher risk activities in each business unit are audited each year. All audits are conducted in a manner that conforms to international auditing standards.

The audit function covers all major business groups and consists of five (5) main categories of work:

Planned audits	Systems development life-cycle review of major IT infrastructure projects	Special focus reviews	Mandatory audits	Ad-hoc reviews and special assignments
1	2	3	4	5

Among others, the audit plan covers reviews of the adequacy of the following:

- Risk management
- Quality of assets
- Operational controls
- Financial controls
- Customer service
- Compliance with laws and regulations
- Management efficiency
- Lending practices
- Information technology
- Data centres and network security

The Group Internal Audit Department plays an active role in ensuring compliance with the requirements of supervisory regulatory authorities. The Department also works collaboratively with the external auditor to ensure a comprehensive audit scope.

There is a robust process for ensuring prompt resolution of audit issues, which includes monthly reviews of

progress by the Chairman of the AEC. The AEC also receives formal reports on significant issues until satisfactory action has been taken.

External Audit

Messrs. Ernst & Young (E & Y) is the Company's external statutory auditor and the auditor of its consolidated accounts for the preparation of this annual report. The external auditor performs independent audits in accordance with the Malaysian Accounting Standards, and reports directly to the AEC. The AEC also:

- Pre-approves all audit and non-audit services;
- Regularly reviews the independence of the external auditor; and
- Evaluates the effectiveness of the external auditor.

They are elected by the Shareholders of the Company annually.

Non-Audit Services

The external auditor may not provide services that are perceived to be in conflict with the role of the auditor. These include consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

Specifically the policy:

- Limits the non-audit service that may be provided; and
- Requires that audit and permitted non-audit services must be pre-approved by the Audit Committee.

The AEC has reviewed the summary of the non-audit services provided by the external auditor in FY2006 and has confirmed that the provision of services is compatible with the general standard of independence for auditors.

Audit Fees

The total of the statutory and non-statutory audit fees for the AHB Group (excluding expenses and service tax) charged by E & Y in the financial year ended 31 March 2006 amounted to RM1.05 million [FY2005: RM0.89 million].

Non-Audit Services Fees

Non-audit fees charged by E & Y for the financial year ended 31 March 2006 (excluding expenses and service tax) amounted to RM1.26 million [FY2005: RM0.40 million].

The non-audit fees are primarily related to the review of capital raising circulars in respect of the Hybrid Tier One Capital raised by AmBank, subordinated bonds raised by AmMerchant Bank and the establishment of the Islamic banking subsidiary.

Responsibility Statement

The Board of Directors is required by the Companies Act, 1965, to prepare financial statements for each financial year which give a true and fair view of the Group and its state of affairs, results and cash flows at the end of the financial year.

Following discussions with the auditors, the Directors consider that:

- The appropriate accounting policies are consistently applied and supported by reasonable and prudent judgments, and that all accounting standards which they consider applicable have been followed during the preparation of the financial statements.
- The Group keeps accounting records which are disclosed with reasonable accuracy; and
- The financial statements comply with the Companies Act 1965.

The Board and Board Committees also have the general responsibility for taking such steps to safeguard the assets of the Group, and to detect and prevent fraud as well as other irregularities.

Principle 14: Communication with Shareholders

Reaching out to Shareholders and Investors

The Group believes in prompt disclosure to its Shareholders and investors of all price sensitive information to Shareholders as required under Bursa's Listing Rules in a timely manner. As part of the Group's active investor relations programmes to discuss long-term issues and obtain feedback, the Chairman, Directors and Management Personnel of the Group have always looked forward to holding discussions with analysts and Shareholders.

Communication with Shareholders

- The Board members attend the AGMs and EGMs where Shareholders present are given an informative review of corporate proposals, and the Group's financial performance for the year as well as prospects going forward.
- Shareholders are given an opportunity to raise questions or seek clarification from the Board on issues pertaining to resolutions to be passed. Shareholders have the

right to vote on various resolutions related to company matters. If Shareholders are unable to attend a meeting, they can submit their proxies via post. External auditors are also present to assist the Directors in answering questions from Shareholders. The auditor can respond on any business item that concerns them in their capacity as auditor.

- Timely announcements are made to the public with regard to the Company's corporate proposals, financial results and other required announcements. Corporate and financial information on the AmBank Group is also made available to Shareholders and the general public through the AmBank Group website at ambg.com.my, which is updated regularly.

Alternatively, they may also obtain the Group's latest announcements via the Bursa Malaysia's website at <http://announcements.bursamalaysia.com>.



Senior Management personnel responsible for Investor Relations activities:

1. Mr Cheah Tek Kuang, Group Managing Director
2. Ms Amarjeet Kaur, Director, Group Corporate Services

During the year, the Company held investor briefings with its major institutional investors in Kuala Lumpur, Europe, United States, United Kingdom, Singapore, and Hong Kong to ensure that the investing community receive a balanced and complete view of the Group's performance and highlights of the business.

Investor Relations Calendar

2006

26 June 2006

CLSA
ASEAN Access Day
Singapore

6-8 June 2006

Merrill Lynch
The 10th Annual Global Emerging Markets One-On-One Forum
California, USA

10-12 May 2006

Citigroup
Financial Conference 2006
Singapore & Hong Kong

26 January 2006

BNP Paribas
Malaysia Corporate Day
Singapore

12-13 January 2006

Deutsche Bank
Annual Corporate Malaysia Conference
Singapore

2005

10-14 October 2005

Merrill Lynch
Merrill Lynch 8th AsiaPac Financial Services Investor Forum
London

27-28 June 2005

Citigroup
Citigroup Asean Corporate Days (Financial Institutions Investor Conference)
London & New York

7-9 June 2005

Merill Lynch
Global Emerging Markets One on One Investor Forum
California, USA

16-17 May 2005

Citigroup
Invitation to Financial Institutions Investor Conference
Singapore & Hong Kong

18-19 April

ABN Amro Asia Equity Research (M) Sdn Bhd
ABN Amro Malaysia Conference
Boston & New York

22-24 March 2005

CIMB
Invest Malaysia 2005
Kuala Lumpur

Compliance with Bursa Malaysia Listing Requirements

Other Bursa Malaysia Compliance Information

1. Share Buy-back

The Company has not purchased any of its own shares during FY2006 and the preceding financial year.

2. Material Contracts

There were no material contracts (not being contract entered into in the ordinary course of business) entered into by the Group which involved Directors and Shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

3. American Depository Receipt (ADR) or Global Depository Receipt (GDR)

The Company has not sponsored any ADR or GDR programme for the financial year ended 31 March 2006.

4. Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company, Directors or Management by the relevant regulatory bodies during the financial year.

5. Profit Guarantees

During the financial year, there were no profit guarantees given by the Company.

6. Revaluation Policy

The Company has not revalued its landed properties and therefore has not adopted any revaluation policy at the date of this report.

7. Utilisation of Proceeds Raised from Corporate Proposals

During the financial year, the fund raising exercises undertaken by the subsidiaries of the Company are as follows:

(a) The proceeds totaling RM294.781 million from the listing of AmInvestment Group Berhad (AIGB) involving, inter alia, the issue of 210,558,000 shares by AIGB at the issue price of RM1.40 per ordinary share were utilised, as given in Table 1.

(b) On 30 October 2005, AmMerchant Bank Berhad issued RM200 million Subordinated Tier 2 Bonds, which qualifies as part of the capital funds, for the purpose of redeeming the Negotiable Subordinated Certificates of Deposit (NSCD) in part and to defray issuance expenses for the issue. This is illustrated in Table 2.

Table 2: Utilisation of Proceeds by AmMerchant Bank Berhad

Description	Utilisation (RM'000)
Part redemption of NSCD	199,335
Payment of issuance expenses	665
Total proceeds	200,000

(c) On 27 January 2006, AMBB Capital (L) Ltd (AMBB Capital), a wholly owned subsidiary of AmBank (M) Berhad (AmBank), issued US\$200.0 million fixed-to-floating rate step-up non-cumulative non-voting guaranteed preference shares each with a par value and a liquidation preference of US\$100,000. The proceeds of US\$200.0 million (equivalent to approximately RM725.8 million) was then on-lent by AMBB Capital to AmBank in the form of a subordinated term loan, which qualifies as part of the capital funds of AmBank. This is illustrated in Table 3.

Table 1: Utilisation of Proceeds by AmInvestment Group Berhad

Description	Approved Utilisation (RM'000)	Actual Utilisation (RM'000)
Settlement of cash payment due to AHB pursuant to the transfer of 100% of AmSecurities Holding Sdn Bhd to the Company	214,400	214,400
Payment of estimated listing expenses	9,000	4,200
Working capital	71,381	76,181 ¹
Total proceeds	294,781	294,781

Note:

¹ RM50.0 million of the proceeds allocated as working capital of AIGB was injected as share capital in AmMerchant Bank Berhad on 31 May 2005. The balance of RM26.2 million was allocated for utilisation as general working capital for the Group's operations.

Table 3: Utilisation of Proceeds by AmBank (M) Berhad

Description	Utilisation (RM'000)
Working capital	715,657
Payment of issuance expenses	10,143
Total proceeds	725,800

8. Options, Warrants or Convertible Securities

During the financial year, none of the warrants outstanding were exercised into ordinary shares. As at 31 March 2006, the following warrants were outstanding:

- (i) 143,534,078 Warrants 1997/2007 with an exercise price of RM6.51 per share, which expire on 13 May 2007; and
- (ii) 132,105,145 Warrants 2003/2008 with an exercise price of RM2.19 per share, which expire on 20 March 2008.

9. Variation in Results

There was no profit forecast, projection or unaudited results made or announced for FY2006.

10. Recurrent Related Party Transactions of a Revenue or Trading Nature

At an Extraordinary General Meeting held on 26 September 2005, the Company obtained a shareholders' mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature.

Pursuant to paragraph 10.09(1)(b), Part E, Chapter 10 of the Listing Requirements of Bursa Malaysia, the details of the recurrent related party transactions conducted in FY2006 pursuant to the shareholders' mandate is given in Table 4.

The Transacting Parties for all the Related Parties comprise of AHB and any of its subsidiaries.

Table 4: Details of the Recurrent Related Party Transactions Conducted in FY2006 Pursuant to the Shareholders' Mandate

Related Parties	Nature of Transaction of Transacting Parties	Actual Value (RM'000)	Relationship with the Company
MCM Consulting Sdn Bhd	Purchase of software and hardware and provision of IT related services ¹	2,804	Companies in which a Director and major shareholder were deemed to have an interest
MCM Systems Sdn Bhd		20,708	
MCM Horizon (formerly known as Blue Star Infotech (Malaysia) Sdn Bhd)		8,758	
Harpers Travel (M) Sdn Bhd	Airline ticketing services	1,778	
Computer System Advisers (M) Berhad	Purchase of software and hardware and provision of IT related services	9,580	Companies in which a Director was deemed to have an interest
Unigaya Protection System Sdn Bhd	Armed and unarmed security guard services	285	Companies in which a Director were deemed to have an interest
Modular Corp Sdn Bhd	Provision of electronic card technologies and services	5,608	Companies in which a Director and major shareholder were deemed to have an interest

* IT consultancy related services consist of but not limited to the following services:

1. design, development and customisation of software;
2. integration, installation, implementation, testing and commissioning of the software in the designated systems;
3. provision of maintenance services and upgrades to the existing mainframe related applications and the system;
4. development, optimisation and implementation of the website; and
5. provision of project management services.

Managing Risks

Risk management is of paramount importance in our day-to-day operations. Consequently, we devote significant resources, including investment in personnel and technology to the measurement, analysis and management of risk.

Overview

The Group acknowledges that effective risk management is fundamental to each business unit within the Group for the overall aim of achieving continuous growth in shareholder value. The Group has established a comprehensive risk and compliance management framework to ensure best practice alignment.

The Board provides leadership, oversees risk appetite and ensures that a robust risk and compliance culture prevails. The Risk Management Committee of Directors and the Executive Risk Management Committees oversee the Group's risk management policies and controls. These key risk governing structures are set up in each of the licensed institutions, i.e. AmBank (M) Berhad, AmMerchant Bank Berhad, AmIslamic

Bank Berhad and AmAssurance Berhad (the term Bank hereinafter in this section shall refer to each licenced institution of the Group). On a day-to-day basis, the various risks inherent in the Group's operations are managed by both the Group Risk Management and each business unit. At the Group level, the consolidated risks of the banking institutions within the Group are reviewed by the Group Risk Forum.

Overall Group Risk Management Process



Risk Management Goals



We continuously adapt our approach to managing risks to suit the changing economic environment.

Product Approval Programme

As we recognise the importance of addressing reputational risks among our clients, investors, regulators and the general public, one of the initiatives implemented by the Group is the Product Approval Programme (PRAP). The PRAP ensures that all risks inherent in new products/financing packages and related business activities are identified, and measures to minimise these risks are put in place, before the launch of the products. All new products require the sign-off of the respective risk control units, including Risk Management, Legal, Finance and the Internal Audit as well as approval by the Risk Management Committee/Board.

Risk Management Approach

The Group's approach to risk management may be divided into primary (front-end) and secondary risk management. Primary risk management incorporates risk mitigating measures applied at transactional levels, including collaterals and controls, the matching of risk exposures and the practice of experienced judgment.

Secondary risk management involves mitigating measures that are applied to the residue risk from the primary level, where such risks are normally governed by long term profitability requirements and maximum loss tolerance targets. Pricing and diversification policies, behaviour estimation, exposure limits in relation to profits/capital and quantitative models on portfolio averages, fall under the scrutiny of the Group's secondary risk management framework.

Current Risk Issues and Mitigating Processes

The following are some of the key risk factors relating to the Bank's business and the mitigating actions taken to address the major areas of concerns:

Funding Risks

- Funding risk is the risk that the Bank will not be able to fund its day-to-day operations at a reasonable cost.
- Liquidity could be affected by inability to access long term or short term deposits, repurchase or security-lending markets or draw under credit facilities, whether due to factors specific to us or to general market conditions.
- In addition, the amount and timing of uncertain events, such as unfunded commitments and contingencies, could adversely affect cash requirements and liquidity.

Overall Risk Governance Framework and Objectives

BOARD OF DIRECTORS	Approves the risk management strategies and the engagement of new products or activities and establishes the broad risk tolerance level.				
RISK MANAGEMENT COMMITTEE DIRECTORS	<ul style="list-style-type: none"> Independent from management and comprises only directors, chaired by an independent director. 	<ul style="list-style-type: none"> Reviews senior management's activities and ensures that risk management processes are implemented and functioning. 	<ul style="list-style-type: none"> Ensures that risks at all levels are managed effectively and that risk tolerance levels are effectively enforced. 	<ul style="list-style-type: none"> Reviews high-level risk exposures and resultant management decisions. 	
THE EXECUTIVE RISK MANAGEMENT COMMITTEES	<ul style="list-style-type: none"> Implements the risk strategy and capital allocation decisions of the Board. 	<ul style="list-style-type: none"> Reviews risk exposures of the Bank and environment, and sets appropriate risk positioning strategy. 	<ul style="list-style-type: none"> Assesses the Bank's ability to accommodate risks under normal/stress scenarios, reviews compliance with constraints set and assesses risk-return profile. 	<ul style="list-style-type: none"> Evaluates and approves recommendations made by the risk management and business units. 	
GROUP RISK FORUM	<ul style="list-style-type: none"> Reviews and evaluates major risk exposures at Group level. Sets uniform standards in risk measurement and tolerance for the Group. 		<ul style="list-style-type: none"> Reviews and makes decisions on common risk issues for adoption across the Group. 		
RISK MANAGEMENT DEPARTMENT					
<ul style="list-style-type: none"> Central platform for which risks throughout the Bank can be aggregated for overview on a portfolio basis. Sets and standardises risk measurement methodology to enable comparability. Acts as a central resource for evaluating risks to assist the management, business and operating units. Recommends the means to control or minimise risks on a portfolio basis. 					
MARKET AND FUNDING RISK MANAGEMENT COMMITTEE	CREDIT, STRATEGIC & CAPITAL RISK MANAGEMENT COMMITTEE		OPERATIONAL & LEGAL RISK MANAGEMENT COMMITTEE		
MANAGEMENT OBJECTIVES					
<p><i>Market Risk</i></p> <ul style="list-style-type: none"> Ensures that losses from market risk can be promptly attended to. Ensures that risk positions are sufficiently liquid so that the Bank may reduce its position without incurring potential loss beyond sustainability. 	<p><i>Funding Risk</i></p> <ul style="list-style-type: none"> Ensures availability of sufficient funds at reasonable cost to honor all financial commitments. Ensures an optimal funding structure and diversification of funding sources, customer base, and maturity period. 	<p><i>Credit Risk</i></p> <ul style="list-style-type: none"> Ensures that exposure to credit risk is always kept within the Bank's capability and financial capacity to withstand potential future losses. Ensures that net income generated is commensurate with the risks taken. 	<p><i>Strategic Risk</i></p> <ul style="list-style-type: none"> Ensures that corporate strategic goals set by the Group are matched with an appropriate risk appetite and capital base. <p><i>Capital Risk</i></p> <ul style="list-style-type: none"> Manages capital resources. Maintains a strong capital base to drive and support the Group's business developments, whilst ensuring shareholders' returns are optimised. 	<p><i>Operational Risk</i></p> <ul style="list-style-type: none"> Systematically identifies the critical potential points to minimise risk arising from people/failed internal processes/ external events on daily operations. Assesses the potential cost to minimise the risk impact through mitigating measures and policies. 	<p><i>Legal/Regulatory Risk</i></p> <ul style="list-style-type: none"> Ensures that there is no regulatory or legal breach of conduct or applicable laws. Ensures that standard policies and procedures are complied with. Inculcates a standardised compliance culture across the Group.

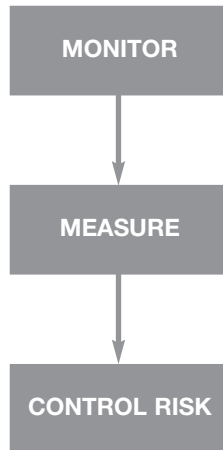
Management Approach:

- The sale of eligible loans to Cagamas Berhad
- Issuance of Negotiable Instruments of Deposit
- Initiating Asset Backed Securitisation
- Proactive management of liquidity gap cumulative profile
- Proactive management of cash flow through maintenance of adequate cash and liquefiable assets above what is required by BNM
- Diversification and stabilisation of liabilities through active management of funding sources, including customer deposit base and interbank exposures
- Exploring the opportunity of foreign currency funding lines

Market Risk

Changes in interest and foreign exchange rates, credit spreads and equity prizes, and increases in volatility can affect the value of financial instruments and may also affect customer-flow-related revenues and proprietary trading revenues. It may also affect the volume of debt and equity, underwriting and merger and acquisition transactions.

The primary objective of market risk management is to ensure that losses



from market risk can be promptly arrested and risk positions are sufficiently liquid so as to enable the Bank to reduce its position without incurring potential loss that is beyond its sustainability.

The market risk of the trading and non-trading portfolio is managed separately. The duration-weighted-gap value-at-risk (DWG VAR) approach is used to compute market risk exposure for non-trading portfolio and parametric value-at-risk (parametric VAR) as well as sensitivity analysis is used to compute risk exposure for trading portfolio.

The market risk exposure of trading and non-trading activities is primarily controlled through a series of limits. Stop loss, parametric VAR and position

sensitivity limits govern the trading activities while the DWG VAR limits govern the non-trading positions.

Each relevant business desk is assigned month-to-date, quarter-to-date and year-to-date stop loss limits based on the business profitability budget. VAR limits are used to control the size of risk positions to ensure they are within sustainable capacity of the Bank. Approved by the Board of Directors of the Bank, these limit structures align specific risk-taking activities with the overall risk appetite of the Bank and of its individual business units.

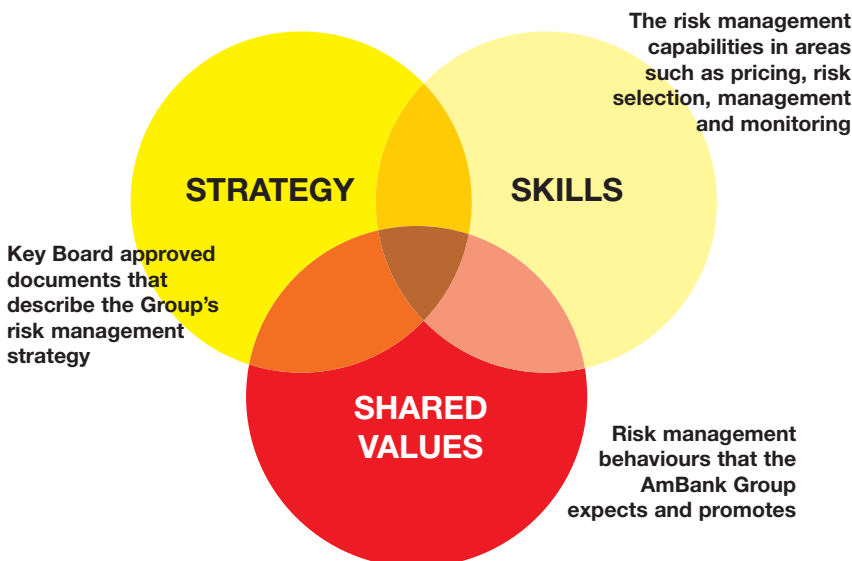
Management Approach

- The development and introduction of floating rate loan products on a continuous basis, e.g. Islamic Floating Rate Financing, Islamic Floating Rate Housing Loan, etc.
- The sale of eligible loans to Cagamas Berhad, issuance of Negotiable Instrument of Deposits and Asset Backed Securitisation initiatives
- The execution of scenario analysis on a periodic basis to serve as an indicator of the Bank's change in economic value under various potential market conditions and interest rate movements.
- To complement the VAR, the Bank has a set of scenario analysis that serves as an indicator of the change in portfolio value under various potential market conditions such as shifts in currency rates, general equity prices and interest rates, as well as the shift in the yield curve.

Credit Risk

- Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises primarily from lending activities and, to a lesser extent, pre-settlement and settlement exposures of sales and trading activities.
- The primary objective of credit risk management framework is to ensure that exposure to credit risk is always kept within the Bank's capability and financial capacity to withstand potential future losses.

Our Risk Management Culture



Management Approach:

- Implementation of credit risk rating and retail credit scoring models.
- The Bank's strategy over the last few years has been to systematically manage its concentration to large corporate loans and the real estate and construction sector by consciously diversifying the asset base into manufacturing, particularly in the SME and retail housing and credit card market segments.
- Various monitoring controls have also been implemented, by means of:
 - Portfolio management reporting
 - Regulatory and internal lending limits and risk policy compliance at the transaction levels
 - Watchlist on borrowers
 - Compliance with portfolio management strategies

Capital Risk Management

Regulatory capital risk may expose the Bank to insolvency action or assumption of control by the authorities should the capital requirements decline to an unsatisfactory level.

Management Approach:

- The Group Corporate Services department oversees the capital adequacy position of the Bank to ensure compliance with the requirements of BNM and to take prompt action to address projected or actual capital deficiency.
- The management oversees on a quarterly and adhoc basis, the levels and trends of material risks, sufficiency of capital against the various risks and its compliance with established adequacy goals and future capital requirement based on the Bank's reported risk profile.

Operational Risk Management

The Bank faces risks arising from people, failed internal processes and external events affecting its daily operations. As such, major emphasis is placed on people, processes, and systems supported by adequate information technology.

Management Approach:

- Operational risk is minimised with appropriate policies, internal controls and procedures, back-up procedures for key activities and contingency planning.
- Independent reviews by both internal and external auditors are carried out through periodic audits to assess control effectiveness.
- The execution of risk assessment methodology, in respect of:
 - Process Risk Mapping to analyse process flows to determine possible risk level inherent.
 - Risk Self Assessment for business, operational and support units to identify strengths and weaknesses in its operating environment and assess its operations and activities against potential operational risk vulnerabilities.
 - Incidence and Loss Management Reporting to analyse and estimate probable occurrences of operational incidences and loss from information collated in a database.
 - Key Risk Indicators is one area being identified to be developed.

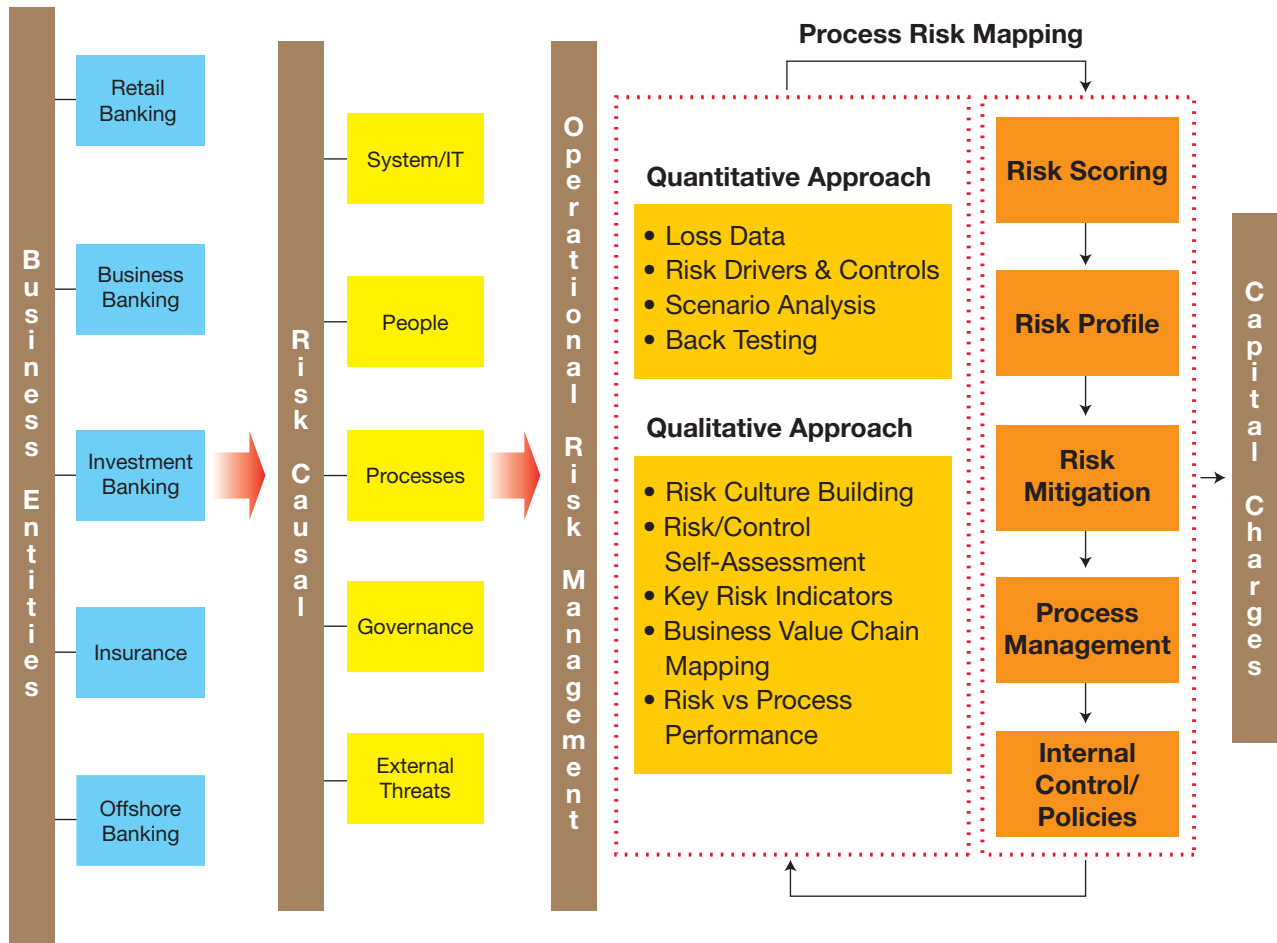
Legal & Regulatory Risk Management

- Proactive regulatory risk monitoring and control processes are essential for any banking group to provide assurance that its products and services are offered in a manner consistent with regulatory requirements and industry best practices.
- The potential legal and regulatory risks faced by the Bank arises from the breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgment, that may lead to the incurrence of losses, disruption or resulting in financial and reputational risk.
- Group Compliance undertakes the task by ensuring that appropriate measures are introduced and applied accordingly, whilst inculcating a compliance culture across all levels of staff.

**Management Approach:**

- Some of the measures that have been introduced include monitoring and reporting, training, offering advice and disseminating information. There is a process in place to standardise compliance practices across the Group.
- The compliance monitoring and reporting system is essentially a mechanism through which businesses monitor their compliance with rules and regulations as well as provide monthly, quarterly and exception reporting that is carried out on-line. This reaffirms our commitment to a centralised compliance infrastructure that embraces regular self-assessment by staff, thus providing management with the assurance that staff are aware and comply with regulatory requirements.
- The conduct of Risk Awareness Programmes and regular training.
- Compliance awareness training is conducted on a regular basis to ensure that staff keep abreast with banking, securities and anti-money laundering laws as well as other regulatory developments. The Compliance Repository, an online resource tool, continues to provide staff with easy access to rules and regulations through various search modes. The training programmes are designed to help staff develop their skills to identify compliance issues and cultivate good corporate ethics.

Operational Risk Management Approach



- Group Compliance also provides advice on regulatory matters and measures to be implemented by the Group to facilitate compliance with rules and regulations. To further promote understanding, Group Compliance facilitates briefings, disseminates information and leads coordination efforts.

Strategic Risk

- Strategic risk at the Bank's corporate level are the Bank's risks of not achieving its corporate strategic goals which also includes various risks associated with pursuing and executing corporate exercises with regards to:
 - Mergers and Acquisitions/divestments
 - Corporate Restructuring
 - Strategic alliances with external parties
 - Fund Raising

Management Approach:

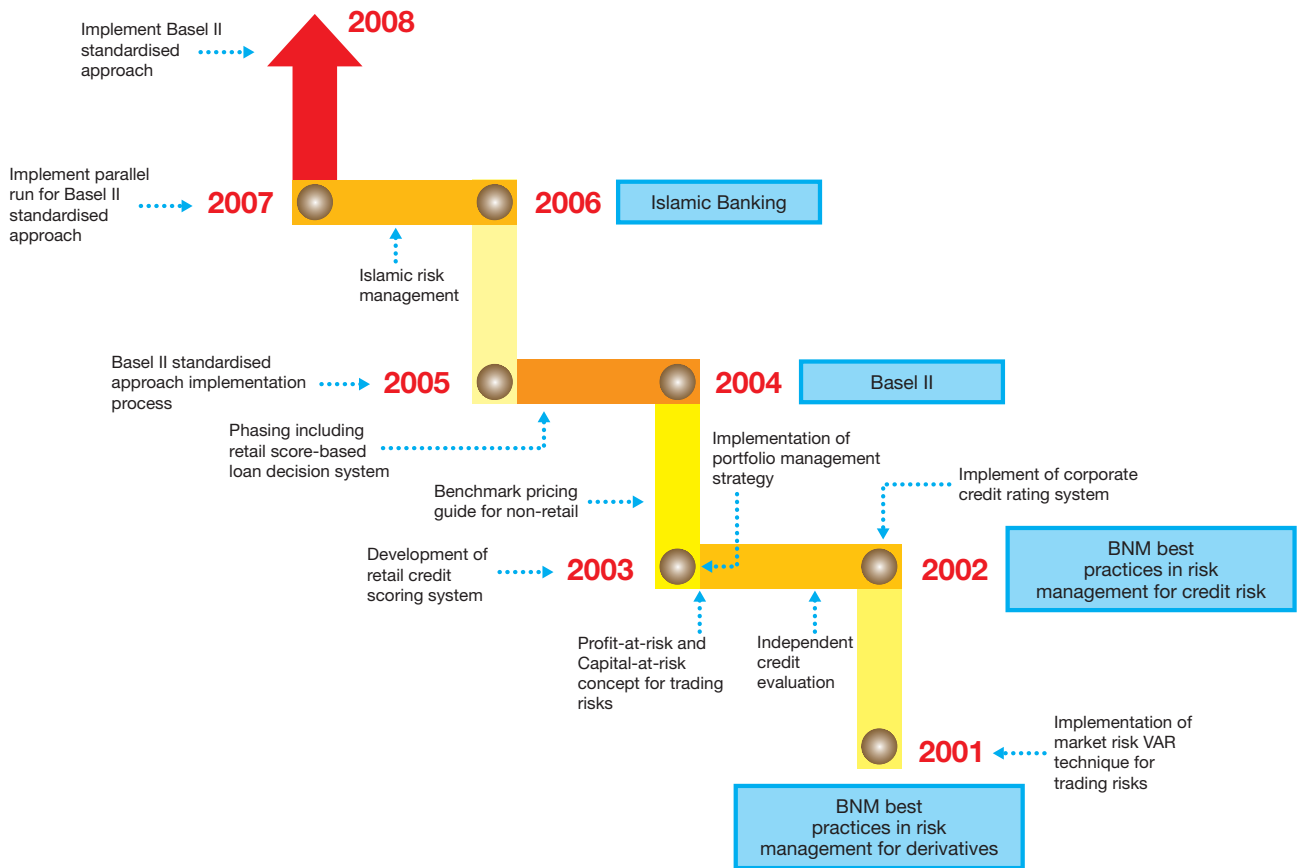
- Complete Board involvement in setting strategic goals where the Board is regularly updated on

matters affecting corporate strategy implementation and corporate projects/transactions. Board strategy forums, amongst others, focus on longer term issues and strategic initiatives.

- The Group Strategic Steering Committee monitors the effectiveness of the management processes used for corporate transactions.
- Adherence to group project management framework, such as the establishment of the Steering Committee, project office and workstreams appropriate to the project or transaction.

Seeing a risk is one thing, anticipating it is another.

Risk Management: Yearly Developments and Initiatives



- Formal due diligence and verification processes, including taxation, legal, finance, treasury and regulatory sign-offs and execution of confidentiality agreements.

Business Continuity

Our Business Continuity Management (BCM) places importance on building up the organisational resilience and capability to safeguard the interest of the Group's stakeholders as well as its brand and reputation against the various adverse events that may potentially threaten the operations. The placement of BCM framework on Group-wide basis provides guidance in adopting a standard approach to formulate continuity strategy and assistance in understanding and applying BCM principles.

The BCM identifies resources such as systems, work space and premises, facilities and communications that are required in ensuring the continuation of critical business operations in the event of an interruption. The BCM programme will also enhance the capability of existing continuity plans and disaster discovery centre in the established area such as information technology and treasury.

and operational risk and the formulation of a functional blueprint as well as implementation roadmap.

Phase 2 of the Project involves system implementation of the standardised approach for credit risk and a review of the existing policy and processes.

Key Initiatives for BASEL II

To further enhance the Risk Management processes, the Bank has embarked on an Integrated Risk Management Project to ensure compliance with Basel II. Phase 1 of the Project involved a diagnostic/gap analysis covering credit, market

Plans Going Forward

The economy is undergoing structural changes and shorter business cycles. Furthermore, the speed of information flows too has resulted in a more volatile business environment. In view of this, the Group will continue to strengthen its risk management systems and processes.