Group Financial Review

Management Discussion and Analysis of Financial Performance

The Group delivered another record result in the financial year ended 31 March, 2006. Consolidated net profit attributable to shareholders increased 22.5% to RM247.3 million, surpassing the profit forecast of RM240.8 million as set out in the prospectus dated 31 March 2005.

The results reflect the enhanced scale we have built and the diversification we have achieved around managing risk.

During FY2006, we continued to strengthen our franchise. In Investment Banking, we gained significant market share in key activities such as mergers and acquisitions ("M&A") and equity originations, while maintaining our considerable share in fixed income originations. In Equities, we continued to broaden our client base and increased research coverage to bring superior execution to our clients. In Investment Management or Funds Management, we continued to broaden our product offerings, enhancing our performance and service levels.

Business Environment

The business environment in FY2006 was generally favorable, due to a combination of factors, including positive economic growth and improved corporate profitability.

These factors influence:

- Levels of debt and equity security issuance and merger and acquisition activity, which affect our Investment Banking business;
- Trading volumes and valuations in secondary financial markets, which affect our Securities Trading businesses; and
- Wealth creation, which affects both our Securities Trading and Funds Management business.

The market environment in the second half of FY2006 became challenging, as BNM raised interest rates, to keep pace with the rise in global interest

Simplified Income Statement

RM Million	FY2006	FY2005	+/- RM Million		%	
Interest income	611.5	584.5	+	27.0	+	4.6%
Income from Islamic banking business	76.0	47.6	+	28.4	+	59.7%
Fund based income	**687.5**	**632.1**	**+**	**55.4**	**+**	**8.8%**
Interest expense	(462.9)	(411.0)	-	51.9	-	12.6%
Net fund based income	**224.6**	**221.1**	**+**	**3.5**	**+**	**1.6%**
Other operating income	366.6	292.3	+	74.3	+	25.4%
Total income	**591.2**	**513.4**	**+**	**77.8**	**+**	**15.1%**
Other operating expenses	(194.3)	(188.8)	-	5.5	-	2.9%
Operating profit	**396.9**	**324.6**	**+**	**72.3**	**+**	**22.3%**
Provisions	(59.3)	(58.0)	-	1.3	-	2.2%
Share in results of associated companies	2.6	16.6	-	14.0	-	84.3%
Profit before taxation	**340.2**	**283.2**	**+**	**57.0**	**+**	**20.1%**
Taxation	(91.4)	(79.3)	-	12.1	-	15.3%
Minority interests	(1.5)	(2.0)	+	0.5	+	25.0%
Net profit	**247.3**	**201.9**	**+**	**45.4**	**+**	**22.5%**

Financial Ratios	FY2006	FY2005
Basic earnings per share – net	**19.1 sen**	17.6 sen
Pre-tax return on average shareholders' equity	**17.8%**	16.7%
Pre-tax return on average total assets	**2.0%**	1.8%
Net assets per share	**RM1.63**	RM1.48
Gross dividend rate	**12.5%**	–
Dividend payable/paid	**RM118.8 million**	–

rates. While these developments were consistent with expectations, however, a host of uncertainties weighed on both the treasury and equities markets for much of the year. The continued turmoil in the Middle East elevated geopolitical risk, and the increase in demand for oil coupled with constrained supply, pushed oil prices to an all-time high.

Against this backdrop, and BNM's policy shift to a "measured" approach of raising interest rates, both the equity and treasury markets, experienced significantly lower trading volumes and higher volatility. Monthly average trading volumes on Bursa Malaysia declined by 4.2% in 2005, while the Bursa Malaysia Index rose marginally by 6.3% to close at 926.63 at end-March 2006, from 871.35 points on end March 2005.

However, improving corporate confidence enabled companies to consider strategic acquisitions. Completed and announced M&A volumes improved significantly during the year as many of the larger corporations sought to streamline operations or reduce their debt by divesting non-core businesses. The fixed income origination markets remained resilient in FY2006, due to the expected measured pace of interest rate rises, stable credit spreads, the amount of maturing debt and the increase in M&A related funding.

The Funds Management business continued to register significant expansion, with total assets under management in the industry expanding by RM14.25 billion or 23.8% to RM74.03 billion, given the high savings rate, and the liberalization of the guidelines to allow for greater asset diversification as funds could now be invested offshore.

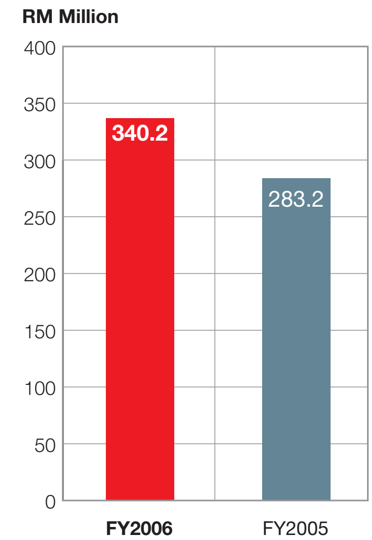
Pre-Tax Profits

The Group reported a pre-tax profit of RM340.2 million for the year ended 31 March 2006, as compared to RM283.2 million in the previous year, with the merchant bank contributing the bulk of the profits at RM309.8 million (+29.2%).

The lower trading volumes in the equities market, coupled with further liberalization of brokerage commission rates, resulted in a significant reduction in the profit contribution from the stockbroking operations. Its pre-tax profit declined sharply by RM34.1 million in FY2005 to RM9.8 million.

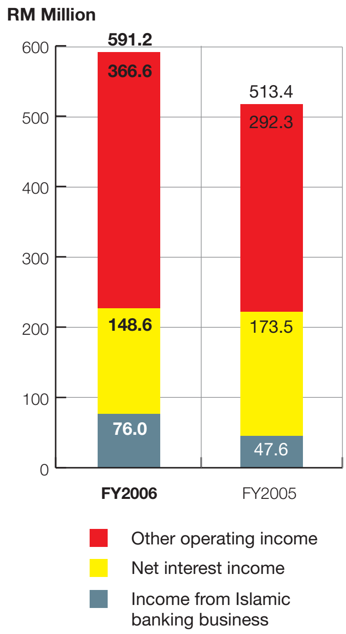
The Funds Management division, on the other hand, registered an improvement of RM3.1 million in profits during the year to RM14.3 million.

Profit Before Tax



Profit After Tax and Minority Interests

Total Income



Revenue

Net interest income decreased by RM24.9 million to RM148.6 million, driven by the increased focus on investment activities, whereby the bulk of the revenue earned was in the form of non-interest or fee income.

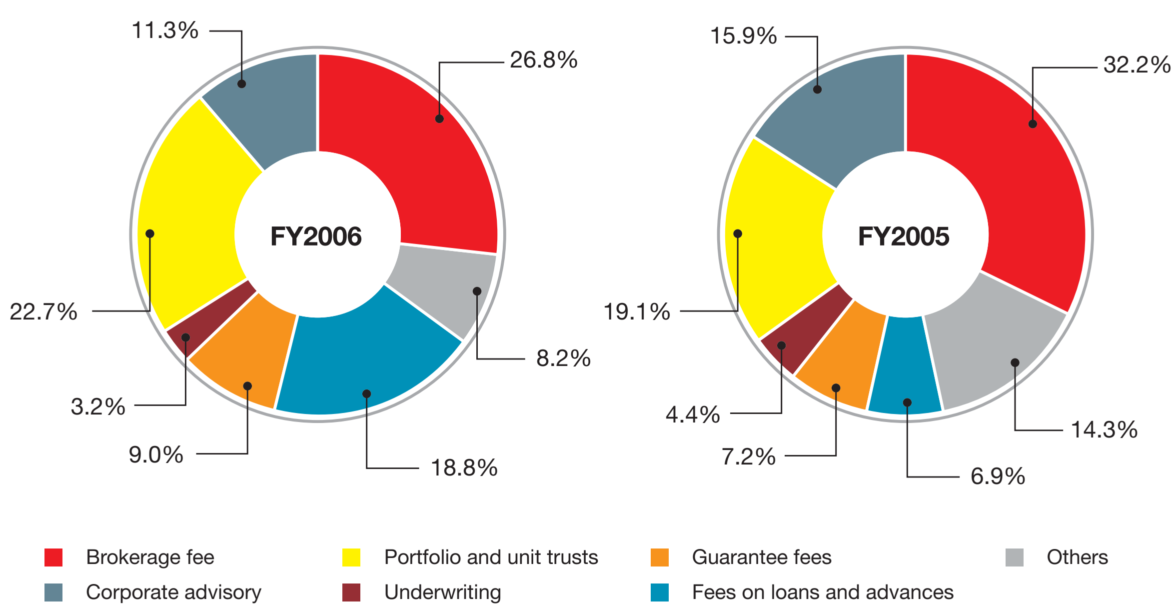
Income from the Islamic capital markets registered a significant jump of RM28.4 million or 59.7% to RM76.0 million, mainly due to the origination of the Islamic fixed income securities, as nearly 96.2% of the corporate bond originations, were denominated as Islamic securities.

Other operating income rose by RM74.3 million due to higher net gain from sale of securities held-for-trading, fees on loans and advances and fees from underwriting of IPOs and bonds, which were sufficient to offset the lower brokerage income from the securities trading.

Other Operating Income

RM Million	FY2006	FY2005	+/- RM Million	%
Fee Income	**161.9**	156.4	+ 5.5	+ 3.5
Fees on loans and advances	**30.5**	10.7	+ 19.8	+ 184.3
Guarantee fees	**14.6**	11.3	+ 3.3	+ 29.2
Underwriting	**5.1**	6.9	- 1.8	- 26.1
Portfolio and unit trusts management	**36.8**	29.8	+ 6.9	+ 23.5
Corporate advisory	**18.2**	24.9	- 6.7	- 26.9
Brokerage fees	**43.3**	50.4	- 7.1	- 14.1
Other Fees	**13.4**	22.3	- 8.9	- 39.9
Trading and investment income	**192.7**	120.7	+ 72.0	+ 59.6
Others	**12.0**	15.2	- 3.1	- 21.0
Total other operating income	**366.6**	292.3	+ 74.3	+ 25.4

Fee Income

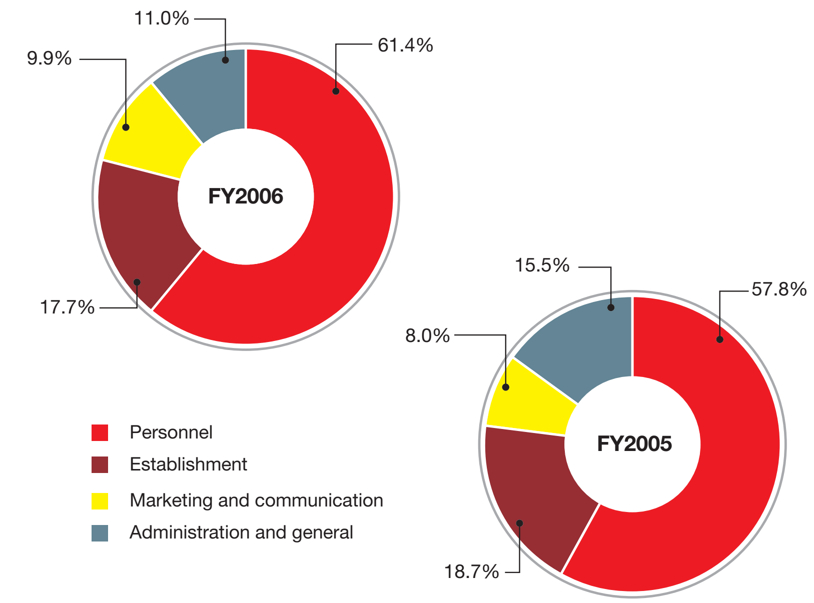


Other Operating Expenses

Whilst personnel costs and marketing and communication expenses rose by RM10.3 million and RM4.2 million respectively, operating expenses for FY2006 registered an overall increase of 2.9% to RM194.3 million. Arising from the expansion in total income, the overheads to total income ratio, registered further improvement to 32.9% in FY2006, as compared with 36.8% in the previous year.

	FY2006	FY2005
Overhead to total income ratio	**32.9%**	36.8%

Other Operating Expenses



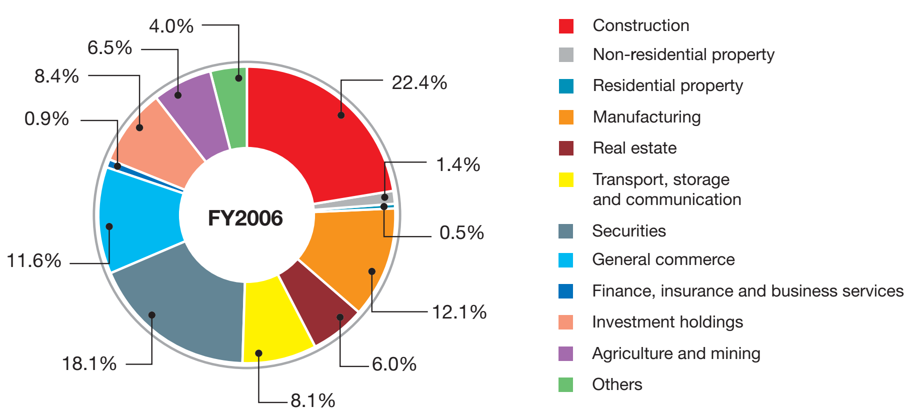
Asset Quality

Efforts to restructure and recover the non-performing loans are showing results. The net non-performing loans outstanding declined to RM294.3 million as at 31 March 2006, from RM681.5 million a year ago. Consequently, the net NPLs ratio too registered a sharp drop to 6.9%, from 14.8% in FY2005. Arising from the decline in NPLs outstanding, the loan loss coverage has improved significantly to 56.6% as at 31 March 2006, compared with 27.0% previously.

NPLs

RM Billion	FY2006	FY2005
Net loans	**4.2**	4.6
Net NPLs	**0.3**	0.7
Net NPLs ratio	**6.9%**	14.8%

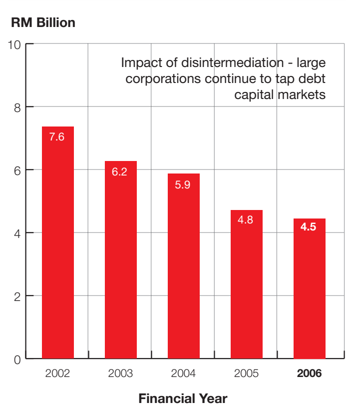
Gross Loans – Industry Exposure

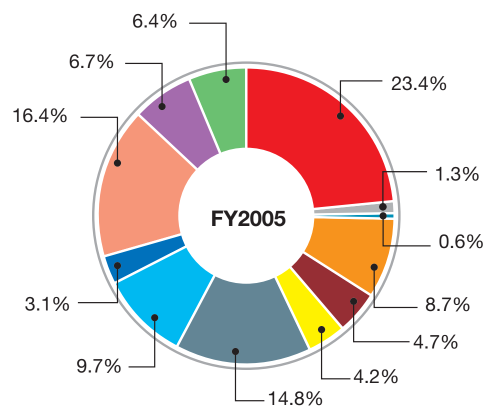


Total Assets

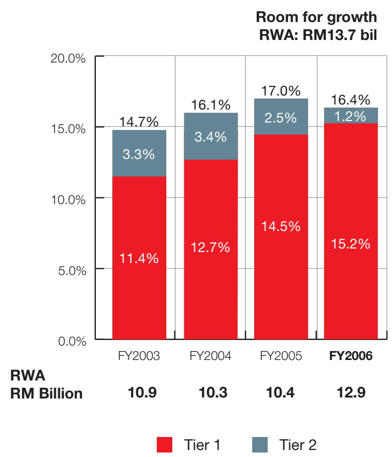
The growth in total assets in FY2006 by RM5.6 billion or 38.1%, was mainly attributed to treasury assets, as overall loans growth remained flat since the larger corporate borrowers continue to rely on the capital markets for their funding. Treasury assets, comprising securities held-for-trading, available for sale and for investments; is the largest component of total assets in FY2006, accounting for 48.8% (FY2005 : 39.9%). Net loans, advances and financing, on the other hand, declined to 20.6% of total assets (FY2005 : 31.0%).

Gross Loans Outstanding

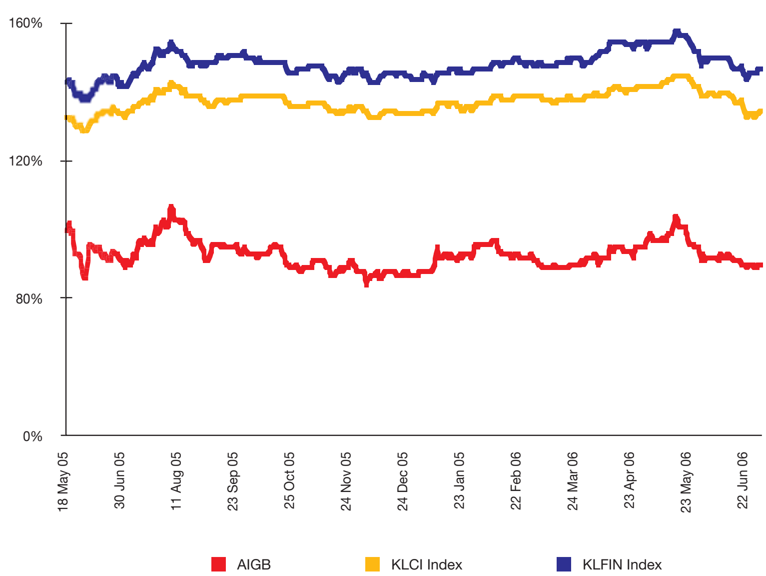




Capital Adequacy



AIGB Share Price Performance (18 May 2005 – 2006 YTD)



Funding Sources

The primary source of funding for the Group is from customer deposits, either term/investment deposits or negotiable instruments of deposits. Deposits and placements with banks and other financial institutions stood at RM7.5 billion, and customer deposits amounted to RM6.4 billion.

The bulk of the funding is mobilized from business enterprises that is RM4.3 billion or 30.9% of total deposits.

Shareholders' Funds and Capital Adequacy Ratio

The Group's risk weighted capital ratio and net assets per share stood at 16.44% and RM1.63 respectively. Total shareholders' funds expanded by 31.6% to RM2.2 billion from RM1.6 billion as at end-March 2005, from a combination of growth in retained earnings (RM247.3 million) and the proceeds (RM294.8 million) from the issue of new shares in conjunction with the listing of AIGB on 18 May 2005.

Dividends

The Board has adopted a policy of paying out up to 50.0% of net profits as dividends. AIGB had declared an gross interim dividend of 4.0 sen per share and subject to shareholders' approval, has proposed to pay-out a further 8.5 sen per share as the final gross dividend in respect of FY2006. The total gross dividend of 12.5 sen per share is equivalent to a pay-out of RM118.8 million; approximately 48.0% of AIGB's consolidated net profit after tax.

Based on AIGB's initial offer price of RM1.40 per share, AIGB's gross dividend yield works out to be 8.9% per annum. Further the net ROE of 13.0%, had improved from the 12.0% achieved in FY2005.

Moving ahead, with improvements in the Group's capital adequacy ratio, AIGB is confident of maintain this dividend policy.

Credit Ratings

Reflecting the improvement in financial performance, the various rating agencies had also upgraded the credit ratings of the principal subsidiary, AmMerchant Bank Bhd, during the financial year.

	Long-term	Short-term	Last Review
AmMerchant Bank Bhd			
Rating Agency Malaysia Bhd ("RAM")	AA3 (Upgraded)	P1	September 2005
Malaysian Rating Corporation Bhd ("MARC")	A+	MARC-1	November 2005
Standard & Poor's ("S&P")	BB+ (Upgraded)	B	July 2005
Capital Intelligence ("CI")	BB	B	August 2005
Fitch Ratings Singapore Pte Ltd ("Fitch")	BB+ (Upgraded)	B	April 2006

The AmMerchant Bank Bhd'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.

Economic Review

Review and Outlook of the Malaysian Economy

Development in 2005

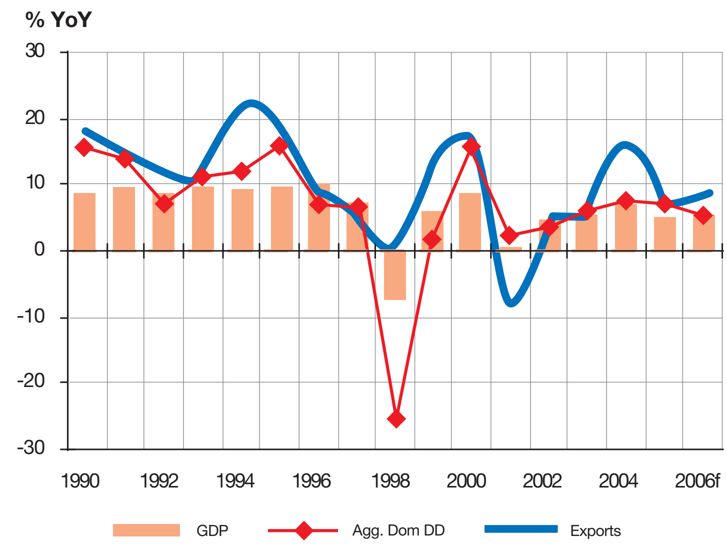
The Malaysian economy expanded slower in 2005 amidst high oil prices and the downturn in the global electronics cycle. Consequently, exports and domestic demand had expanded at a slower pace. Against 7.2% in 2004, real GDP grew by 5.2% in 2005. On the other hand, inflation rose to 3.0%, its highest level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

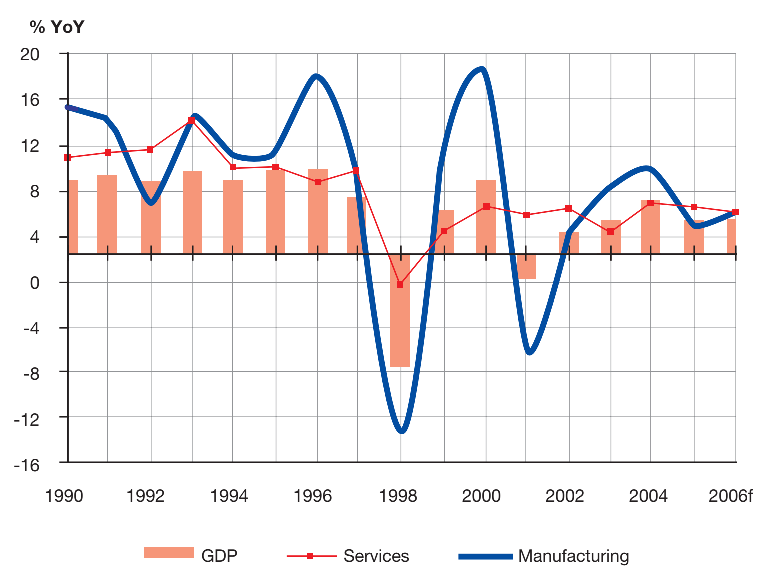
Source: Department of Statistics, F: AIGB forecast

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.

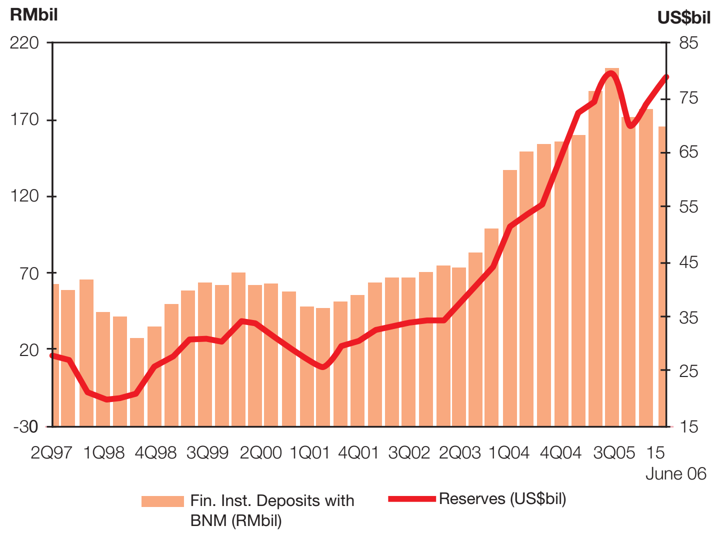
Earlier on 21 July, BNM had removed the fixed exchange rate regime and replaced it with a managed float. The currency appreciated to a high of 3.746 against the US dollar in August and ended at 3.78 at the end of 2005 as the dollar strengthened in response to higher Federal fund rate. The Ringgit was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

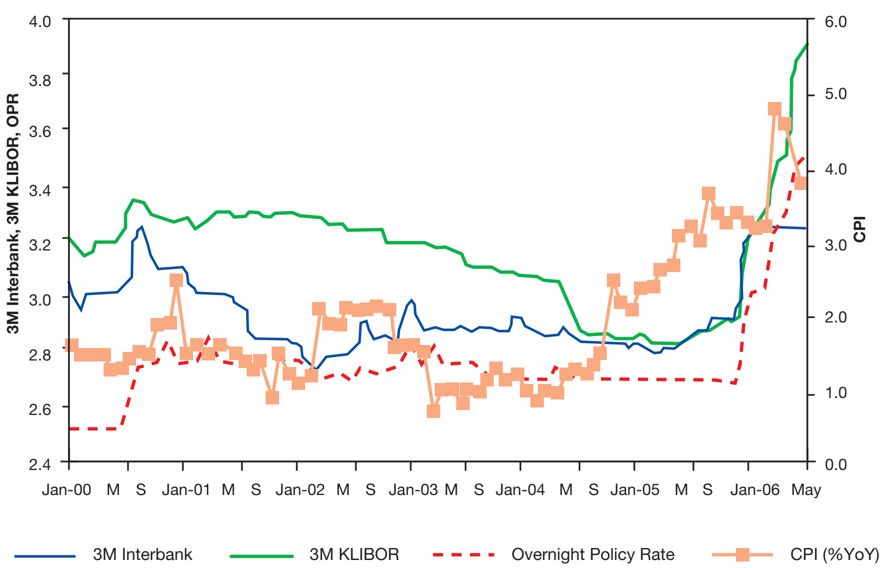
However, inflation is forecast to rise to 4.0% this year, largely on account of higher petroleum product prices. The first half of this year may see the inflation rate averaging 4.0% before decelerating to 3.9% in the second half. Thus, the domestic interest rates would have to be adjusted further. BNM 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	**1,054.1**	924.5	**14.0**	(7.5)	534.4	455.4	17.3	(9.5)
Operating profit before allowance for losses on loans and financing	**400.6**	331.5	**20.8**	(9.2)	226.0	155.4	45.4	11.0
Allowance for losses on loans and financing	**60.4**	48.3	**25.1**	(55.8)	38.2	12.0	>100.0	(85.1)
Profit before tax and after share in results of associated companies	**340.2**	283.2	**20.1**	10.7	187.8	143.4	31.0	140.8
Profit after tax and minority interests	**247.3**	**201.9**	**22.5**	**11.9**	**137.1**	**103.8**	**32.1**	**141.5**
Total assets	**20,231.4**	14,646.4	**38.1**	(11.0)	16,477.7	15,607.6	5.6	(7.0)
Loans, advances and financing (net)	**4,177.6**	4,536.0	**(7.9)**	(14.0)	4,676.0	4,522.9	3.4	(23.9)
Deposits and borrowings	**17,484.7**	12,401.3	**41.0**	(12.3)	13,992.6	13,325.1	5.0	(9.1)
Commitments and contingencies	**25,494.0**	14,825.0	**72.0**	52.5	18,924.5	12,924.2	46.4	23.3
Shareholders' equity	**2,157.4**	1,638.8	**31.6**	(3.8)	2,037.5	1,720.6	18.4	8.9
Pre-tax return on average shareholders' equity (%)^	**17.8**	16.7	**6.4**	9.8	20.2 **	16.7 **	21.2	>100.0
Pre-tax return on average total assets (%)	**2.0**	1.8	**7.1**	18.7	2.4 **	1.8 **	34.9	>100.0
Basic earnings per share								
– gross (sen)	**26.1**	24.6	**5.9**	12.7	29.1 **	25.1 **	16.1	>100.0
– net (sen)	**19.1**	17.6	**8.4**	12.7	21.5 **	18.1 **	19.0	>100.0
Gross dividend per share	**12.5**	–	**100.0**	–	–	–	–	–
Net dividend cover (No. of times)	**2.1**	–	**100.0**	–	–	–	–	–
Net tangible assets per share (RM)	**1.55**	1.41	**10.3**	(3.7)	1.46	1.48	(1.4)	9.7
Net assets per share (RM)	**1.63**	1.48	**10.6**	(3.8)	1.54	1.55	(0.5)	8.9
Overheads to total income (%)	**32.9**	36.8	**(10.6)**	10.3	30.3	36.4	(16.7)	24.8
Number of employees	**1,316**	1,387	**(5.1)**	4.2	1,375	1,355	1.5	0.4
Assets per employee (RM Million)	**15.4**	10.6	**45.6**	(14.6)	12.0	11.5	4.0	(7.3)
Pre-tax profit per employee (RM'000)	**258.5**	204.2	**26.6**	6.2	273.2 **	211.7 **	29.1	>100.0

Refer to page 105 for the explanation of legend.

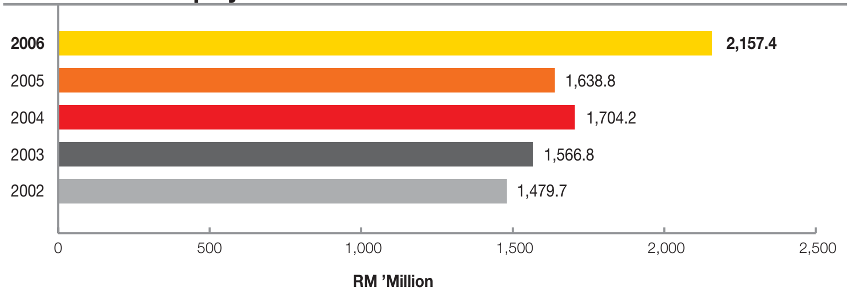
Five-Year Group Financial Review

	FINANCIAL YEAR ENDED 31 MARCH				
	2006	2005@	2004*	2003*	2002*
1 REVENUE (RM MILLION)					
i Operating revenue	**1,054.1**	924.5	999.0	975.5	978.6
ii Operating profit before allowance for losses on loans and financing	**400.6**	331.5	365.2	428.8	321.2
iii Allowance for losses on loans and financing	**60.4**	48.3	109.3	243.2	154.4
iv Profit before tax and after share in results of associated companies	**340.2**	283.2	255.9	185.6	166.8
v Profit after tax and minority interests	**247.3**	**201.9**	**180.4**	**129.4**	**92.2**
2 BALANCE SHEET (RM MILLION)					
Assets					
i Total assets	**20,231.4**	14,646.4	16,462.6	16,894.3	14,167.5
ii Loans, advances and financing (net)	**4,177.6**	4,536.0	5,276.3	5,582.0	6,908.4
Liabilities and Shareholders' Equity					
i Deposits and borrowings	**17,484.7**	12,401.3	14,140.2	14,857.7	12,147.8
ii Paid-up share capital	**1,320.0**	1,109.4	1,109.4	1,109.4	1,109.4
iii Shareholders' equity	**2,157.4**	1,638.8	1,704.2	1,566.8	1,479.7
Commitments and Contingencies	**25,494.0**	14,825.0	9,720.8	8,367.4	11,435.7
3 PER SHARE (SEN)					
i Basic gross earnings	**26.1**	24.6	21.8	15.6	14.7
ii Basic net earnings	**19.1**	17.6	15.6	11.0	8.3
iii Net tangible assets	**155.0**	140.5	146.0	133.2	124.9
iv Net assets	**163.4**	147.7	153.6	141.2	133.4
v Gross dividend	**12.5**	–	–	–	–
4 FINANCIAL RATIOS (%)					
i Pre-tax return on average shareholders' equity ^	**17.8**	16.7	15.2	11.9	11.1
ii Pre-tax return on average total assets	**2.0**	1.8	1.5	1.2	1.1
iii Loans, advances and financing to deposits and borrowings	**23.9**	36.6	37.3	37.6	56.9
iv Overheads to total income	**32.9**	36.8	33.3	28.4	27.2
5 SHARE PRICE (RM)#					
i High	**2.00**	–	–	–	–
ii Low	**1.40**	–	–	–	–
iii As at 31 March	**1.69**	–	–	–	–

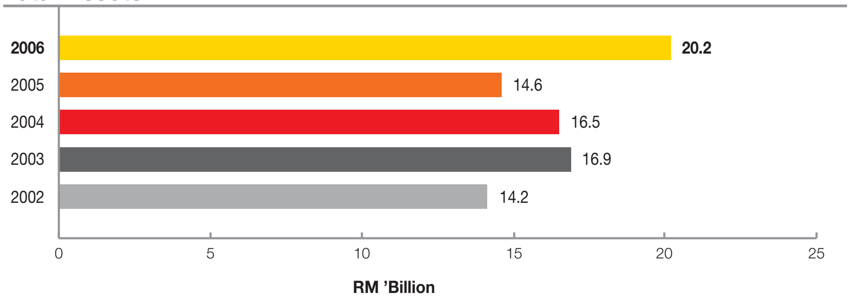
** Annualised.
^ Adjusted for minority interests.
@ Adjusted to conform with the requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions issued by Bank Negara Malaysia that have been applied retrospectively for one financial year.
# The entire issued and paid-up share capital of the Company was admitted to the Official List of Bursa Malaysia Securities Berhad and listed on the Main Board on 18 May 2005.
* The comparative figures are prepared as if AmMerchant Bank Berhad and AmSecurities Holding Sdn Bhd have been the wholly-owned subsidiary companies of the Company.

Five-Year Group Financial Review

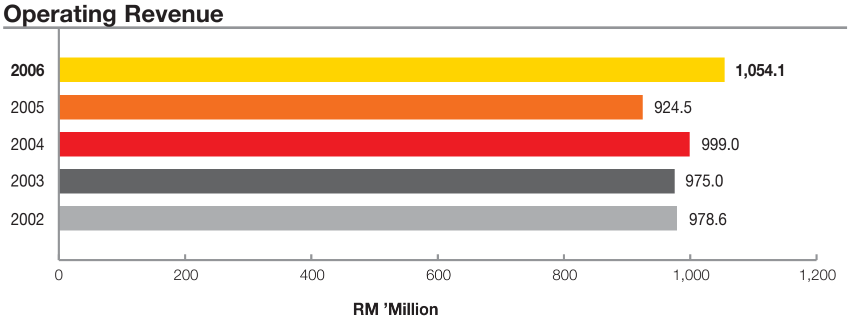
Shareholders' Equity



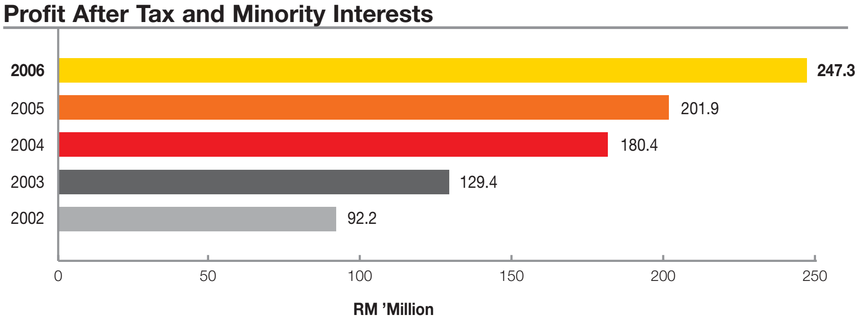
Total Assets



Operating Revenue



Profit After Tax and Minority Interests



Financial Calendar

2005

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

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

Issuance of notice of entitlement and payment of interim dividend of 4.0% less tax.

8 December
Date of entitlement to the interim dividend of 4.0% less tax.

21 December
Payment of the interim dividend of 4.0% less tax.

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 final dividend for the financial year ended 31 March 2006.

18 July
Issuance of notice of 2nd Annual General Meeting, notice of entitlement and payment of final dividend of 8.5% less tax, and annual report for the financial year ended 31 March 2006.

9 August
2nd Annual General Meeting.