Group Financial Review

Management Discussion and Analysis of Financial Performance

Sometimes to move forward, we have to make tough decisions and choices. We did precisely that in FY2007, when we took the bold step to take a significant one-off charge for provisioning to build up the loan loss coverage for non-performing loans.

In our last Letter to Shareholders, we had highlighted our objective of achieving more consistent and improved financial performance, and had indicated that in financial year ended 31 March 2007 (FY2007), we will remain focused on improving the:

- return on equity (ROE) and return on assets (ROA);
- overall productivity and efficiency as measured by the overheads to total income ratio;
- overall asset quality and reduce non-performing loans (NPLs); and
- cost of funding by mobilising more demand and savings deposits from retail, corporate and institutional clients.

This required us build our performance momentum around three themes:

- Reducing overall risk;
- Keeping costs tight while growing revenue; and
- Divesting activities and assets with poor returns.

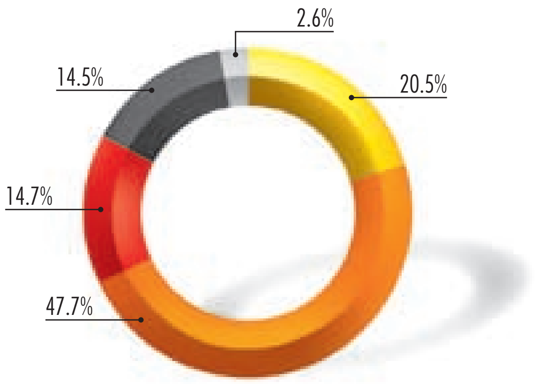
We are pleased to report that we have achieved the targets set for FY2007, with the exception of the ROA and ROE targets, which were affected by our decision to be prudent in taking a significant charge to the income statement in respect of the long outstanding NPLs.

Simplified Income Statement

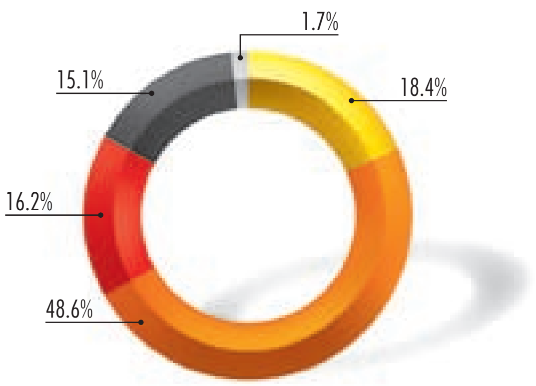
RM Million	FY2007	FY2006	+/- RM Million		+/- %	
Operating revenue	**6,025.6**	**4,871.3**	**+**	**1,154.3**	**+**	**23.7**
Net interest income	1,372.1	1,350.3	+	21.8	+	1.6
Net income from Islamic banking business	506.1	504.4	+	1.7	+	0.3
Net fund income	**1,878.2**	**1,854.7**	**+**	**23.5**	**+**	**1.3**
Other operating income	1,302.6	904.0	+	398.6	+	44.1
Total income	**3,180.8**	**2,758.7**	**+**	**422.1**	**+**	**15.3**
Overheads	(1,073.6)	(1,022.2)	-	51.4	-	5.0
Insurance business	(333.5)	(274.5)	-	59.0	-	21.5
Operating profit	**1,773.7**	**1,462.0**	**+**	**311.7**	**+**	**21.3**
Allowance for losses on loans and financing	(1,514.1)	(774.7)	-	739.4	-	95.4
Other writeback/(provisions)	58.7	(21.2)	+	79.9	+	376.7
Impairment (loss)/writeback	(296.3)	89.5	-	385.8	-	430.8
Share in results of associated companies	1.1	2.2	-	1.1	-	52.6
Profit before taxation and zakat	**23.1**	**757.8**	**-**	**734.7**	**-**	**96.9**
Taxation and zakat	(73.3)	(244.4)	+	171.1	+	70.0
(Loss)/Profit before minority interests	**(50.2)**	**513.4**	**-**	**563.6**	**-**	**109.8**
Minority interests	(153.6)	(113.5)	-	40.1	-	35.3
Net (loss)/profit	**(203.8)**	**399.9**	**-**	**603.7**	**-**	**151.0**
Gross dividend rate	**5.0%**	**4.9%**				
Overheads to total income	**33.8%**	**37.1%**				

Operating Revenue By Segments

FY2007



FY2006



- Investment banking
- Commercial and retail banking
- Islamic banking
- Insurance
- Offshore banking and others

Income Statement

The Group registered strong growth of 21.3% or RM311.7 million to RM1,773.7 million in operating profits for FY2007, reflecting the strong underlying growth momentum in the Malaysian economy. However, arising from this significant one-off charge for provisioning to build up the loan loss coverage for the NPLs to nearly 57%, in line with the industry average, the Group reported a marginal pre-tax profit of RM23.1 million and net loss of RM203.8 million.

Total Income – Revenue Growth

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

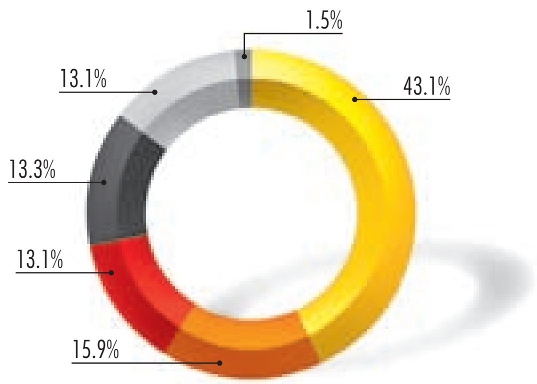
The major components of revenue are net fund income (net interest income + net income from Islamic banking business) and other operating income.

Net fund income: RM1,878.2 million [+1.3% or RM23.5 million]

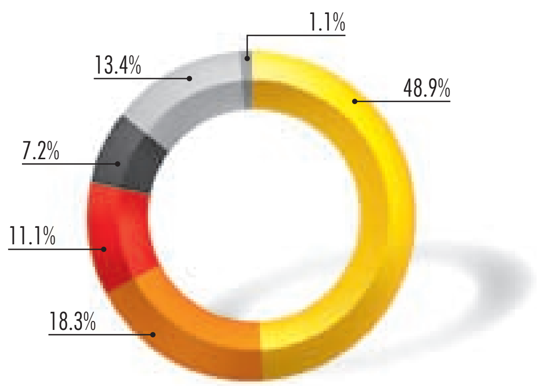
- Growth in net fund income was driven by an increase in net loans and advances (+RM2.7 billion or 6.1%), but was offset by the decline in interest margins.
- Net interest margins decreased to 2.7%, compared with 2.9% in FY2006 due to rising deposit interest rates and competition in the industry especially for retail loans, both mortgages and hire purchase.

Composition Of Income

FY2007



FY2006



- Net interest income
- Net income from Islamic banking business
- Fee income
- Investment and trading income
- Insurance income
- Other income

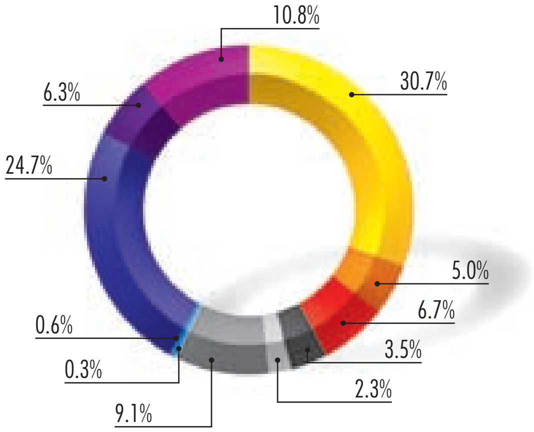
Other operating income: RM1,302.6 million [+44.1% or RM398.6 million].

The expansion of selected other operating income activities is an on-going strategy to diversify the Group's revenue streams to achieve a target of other operating income to total income ratio of at least 30% (FY2007: 41.0%).

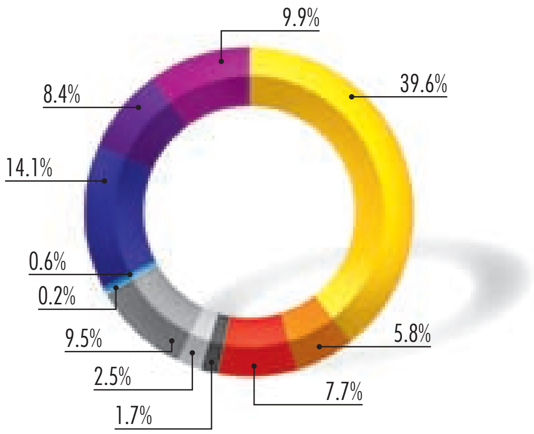
- Investment and trading income increased by RM223.6 million (+112.5%), due to substantial realised and unrealised gains from trading activities in money market and corporate bonds.
- Investment banking related fees increased by RM109.3 million (+35.6%), contributed mainly by the capital market activities of syndications, corporate advisory, underwriting, origination of corporate bonds and funds management activities, as well as higher brokerage income from the securities business as both volumes and values of equities traded on Bursa Malaysia improved in FY2007.
- Premium income from the Group's insurance business accounted for 32.1% of other operating income, and registered an increase of RM48.2 million (+13.0%), due both to improved productivity from the agency network and the bundling of insurance with retail banking products.
- Transactional fee income, including profits from foreign exchange, service charges and commissions recorded notable increases. This is the result of the on-going emphasis and resources committed to further enhance the Group's payment services infrastructure, comprehensive trade related services and investment and funds management.

Fee Income

FY2007



FY2006



- Loans and advances
- Corporate advisory
- Guarantee
- Underwriting commissions
- Portfolio management
- Unit trust management
- Brokerage rebates
- Real estate investment trust management
- Brokerage and commissions
- Bancassurance commission
- Others

Operating Expenses

	FY2007		FY2006	
	RM Million	%	RM Million	%
Personnel/staff	577.1	41.0%	526.3	40.6%
Establishment	231.0	16.4%	226.4	17.5%
Marketing and communication	142.8	10.1%	158.5	12.2%
Administration and general	122.7	8.7%	111.1	8.6%
Overheads	1,073.6	76.3%	1,022.3	78.8%
Insurance commission	44.8	3.2%	41.2	3.2%
General insurance claims	288.7	20.5%	233.2	18.0%
Total	**1,407.1**	**100.0%**	**1,296.7**	**100.0%**

Operating Expenses – Controlling Operating Expenses

In an extremely competitive environment, controlling costs and ensuring that we operate efficiently is the key to improved profitability. The non-interest expenses ratio expresses the Group's expenses as a percentage of revenue and is one of the most widely used measures of efficiency in the banking industry.

In FY2007, the other operating expenses to net income ratio declined from 47.0% to 44.2%.

Overheads RM1,073.6 million [+5.0% or RM51.4 million]

- Personnel expenses increased by RM50.8 million as a result of annual salary increments, and the recruitment of 80 additional staff, due to the expansion in retail banking activities.
- Establishment expenses rose by RM4.6 million primarily due to increase in amortisation of computer software for the new addition of computer software and higher office rental payment arising from a revision in rental rates.
- Marketing expenses decreased by RM15.7 million largely due to lower advertising and promotional expenses incurred.
- Administration expenses increased by RM11.6 million mainly due to professional fees incurred for outsourcing services, vesting of Islamic banking business to AmIslamic Bank and the strategic tie-up with Australia and New Zealand Banking Group Limited. These increases were partially offset by the cessation of goodwill amortisation with effect from FY2007 in accordance with new financial reporting standard, FRS 3 Business Combinations.

Debt Provisioning Charge

The Group's total NPL provisions (excluding general provisions) rose from RM682.5 million in FY2006 to RM1,458.5 million in FY2007. This increase, however, does not reflect a deterioration of the Group's credit profile, but rather the decision to boost loan loss coverage, due to a change in the provisioning policy for NPLs secured by properties, as follows:-

- 100% provision be made for NPLs in arrears of more than seven years, due to the assignment of zero value for property collaterals;
- 50% provision be made for NPLs in arrears of more than five years, but less than seven years; and
- 20% provision (net of collaterals) for the shortfall in the value of collaterals for loans more than three months in arrears.

Additional provisions were also taken in respect of the hire purchase loans portfolio to reflect the lower realisation values of motor vehicles as prices for new and used cars continued to decline during the year, in response to lower consumer demand.

Accordingly, the loan loss coverage has improved from 36.7% in FY2006 to 56.6% in FY2007. Going forward, as the provisioning has already been taken for the long outstanding loans, originated before the last Asian crises provisioning expenses should register a significant decline, as the Group has put in place rigorous risk management infrastructure and processes.

Impairment Loss

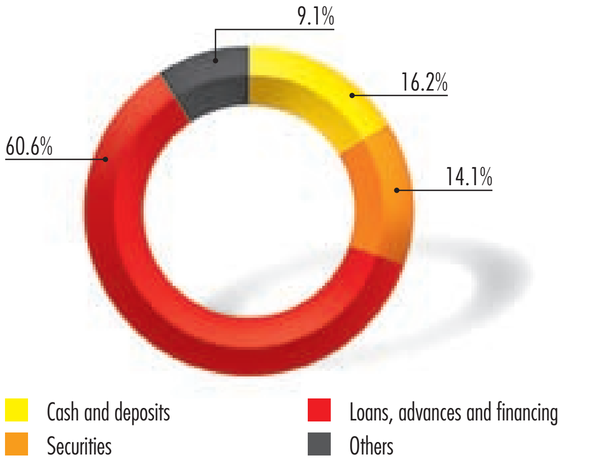
The Group's impairment loss was RM296.3 million as compared to an impairment write back of RM89.5 million in the previous year due to the setting aside of provision for debt equity converted instruments, arising from more stringent basis for provisioning.

Debt Provisioning Charge

RM Million	FY2007	FY2006	FY2006 vs FY2007
Specific allowance - net	1,735.9	951.9	784.0
Recoveries of value impairment on loans sold to Danaharta	(17.3)	(0.9)	(16.4)
Bad debts recovered - net	(260.1)	(268.5)	8.4
	1,458.5	682.5	776.0
General allowance	55.6	92.2	(36.6)
Total	**1,514.1**	**774.7**	**739.4**

Assets Mix Analysis

FY2007



Balance Sheet Management

Total assets were up 8.6% or RM6.2 billion to RM78.6 billion amidst a backdrop of strong GDP growth of 5.5%.

Loans and Advances

- Customer loans and advances, net of cumulative provisions, grew by RM2.8 billion, a 6.1% increase over FY2006. The expansion in loans was mainly attributed to strong loans demand, particularly by the retail and the SME sector, as the implementation of projects under the 9th Malaysian Plan is accelerated.
- The Group monitors its portfolio for risk concentrations and limits are established where appropriate. Lending for purchase of motor vehicles (42.5%) and residential properties (20.2%), represent the largest credit concentration, but the credit risk is effectively mitigated as the exposure is spread across a large number of retail borrowers.

Securities

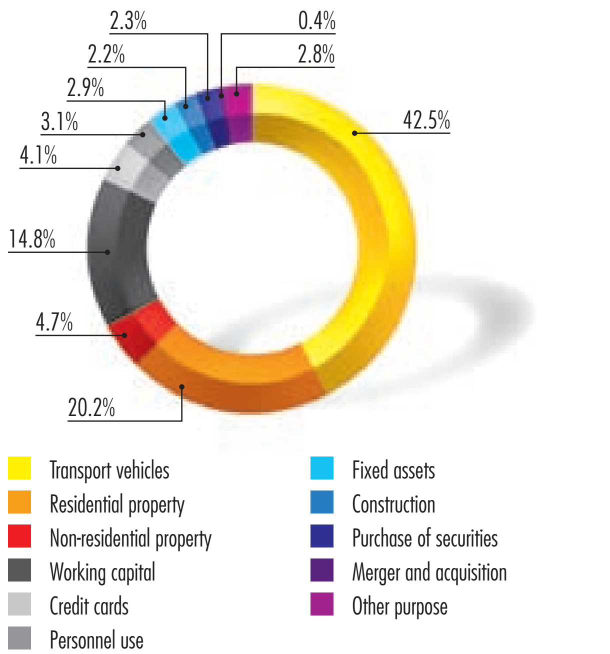
- Securities held for trading expanded by 13.5% in anticipation of increased activity with the depegging of the currency, to account for 8.8% of the total assets.
- Securities held for investment and available for sale decreased by 3.4% due to lower holdings of unquoted debt equity converted securities.

Deposits

- The Group's primary source of funding is from customer deposits, either term/investment deposits, savings deposits, current deposits or negotiable instruments of deposits. Other major sources of funds include shareholders' funds, other interest bearing securities, interbank and other borrowings.

Gross loans - Economic Purposes

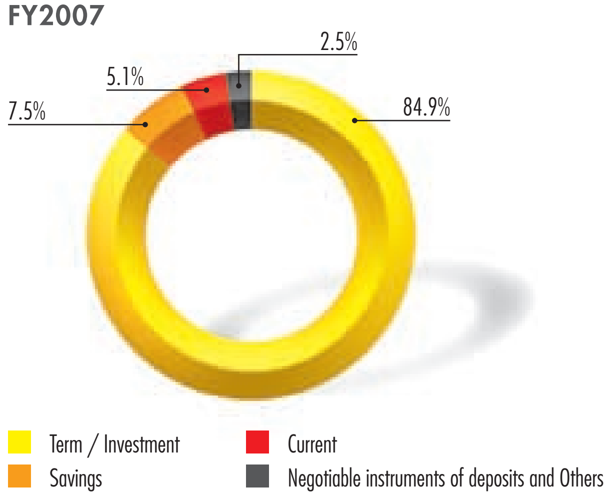
FY2007



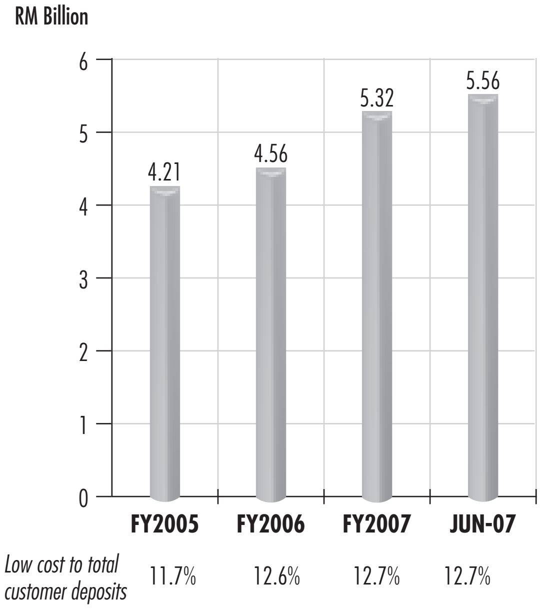
- Deposits from customers increased by RM3.5 billion to RM42.4 billion as at March 2007, as part of the Group's continued efforts to grow deposits, to fund the expansion in lending activities.
- Term/Investment deposits remain the largest component of deposits from customers constituting 84.9% of deposits from customers as at 31 March 2007.
- Demand deposits increased by RM604.3 million to RM2.2 billion as at end March 2007.

Deposits From Customers

FY2007



Low Cost Deposits



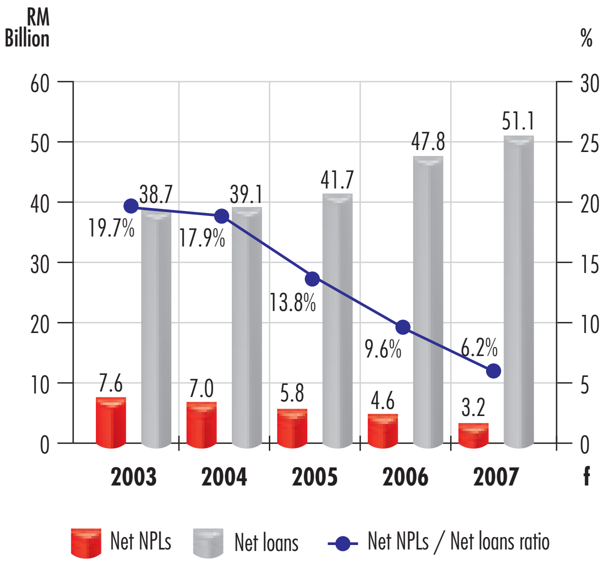
Reducing Overall Risk

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

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

- The Group's Net NPLs to net Loans Ratio (three months classification basis) has been on a declining trend, down to 6.23% in FY2007, from 9.63% a year earlier.

NPLs - 3 Months Classification



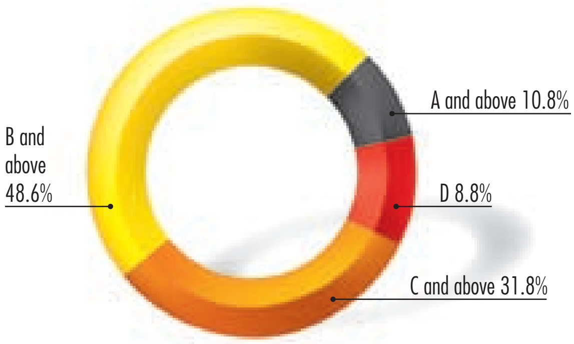
- Total gross NPLs outstanding have declined to RM5.5 billion in FY2007 (FY2006 : RM6.1 billion). The reduction of absolute level of NPLs through restructuring, rehabilitation, rescheduling and foreclosure remains a top priority of both the Group Loan Rehabilitation and the Retail Collections Units.
- In addition, the Group also finalized the pricing for the sale of a NPL portfolio, comprising long outstanding mortgage and corporate loans with a net balance outstanding of RM574.0 million as at end-March, 2007. The sale is presently pending regulatory approvals, and will be completed by September, 2007.
- The overall credit rating of the loans portfolio has also improved, with nearly 59.4% of the corporate loans rated B and above (FY2006: 50.4%).

Reconfiguring The Balance Sheet

We also have used diversification principle to reduce the credit risk of our loans portfolio by rebalancing the Group's loans portfolio from predominantly being a corporate lender to a retail lender.

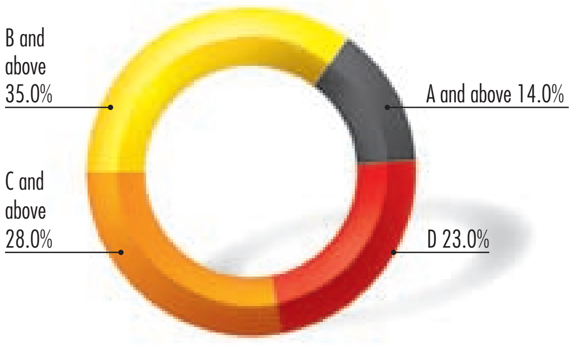
Significant Improvement In Overall Credit Quality

March 2007



- *59.4% of Portfolio Rated B and above*
- *8.8% of Portfolio Rated D*

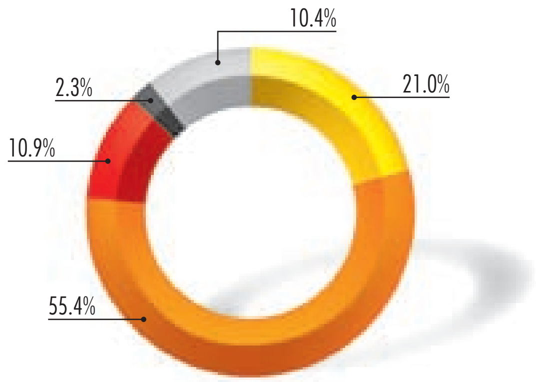
March 2005



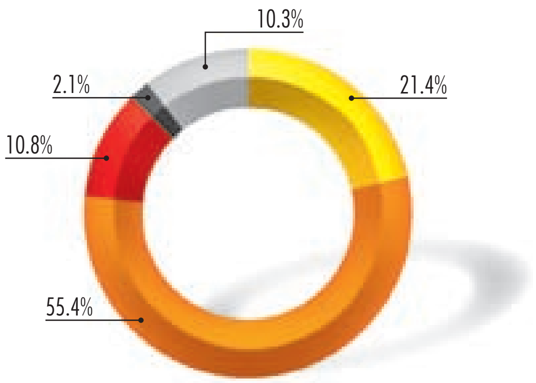
- *49.0% of Portfolio Rated B and above*
- *23.0% of Portfolio Rated D*

Total Assets By Segments

FY2007



FY2006



- Reflecting the rapid growth of the Group's retail banking franchise, retail loans now make up about 68.1% of the Group's loans assets. In an environment where half the population is younger than thirty years old, and disposable incomes are rising, our retail based loans portfolio has a lot of potential for future growth, especially in the auto loans, mortgages, credit card and investment products segments, in which the Group has strong franchises in.

- SME lending increased by RM68.6 million, as these customers still continue to rely on bank financing and traditional loan products for their working capital and funding business expansion. The SME segment is also a natural market for the commercial bank's trade finance and cash management products.

- The rapid development of the capital markets has accelerated the disintermediation process, whereby the larger corporate borrowers are able to source longer term funding more cheaply. Although the bulk of funds by large corporates are raised in the capital markets, however, FY2007 witnessed a marginal expansion of 9.5% in total loans outstanding to large corporations, rising to RM11.4 billion from a year ago (FY2006 : RM10.4 billion).

- Concurrently, the funding structure too has been changed, with nearly 54.3% of the deposits being mobilised from retail customers. This rebalancing of both the loans portfolio and the funding structure, improves the Group's earnings sustainability.

Strengthening Capital Position

Our capital levels remain strong, with the overall Group's risk weighted capital ratio as at 31 March 2007 at 12.6%, with Tier-1 capital ratio of 8.7%, significantly above the minimum requirement of 8.0%. With the progressive rebalancing of the lending portfolio more heavily towards consumer lending, which is generally less capital intensive than corporate lending, the capital adequacy ratio on Basel 2 stood at 11.6%, with Tier-1 capital ratio at 8.0%.

As part of the efforts to tap the capital markets, on 21 December 2006, AmIslamic Bank raised RM400 million Subordinated Sukuk Musyarakah as Tier 2 capital.

The Group's capital adequacy ratio further improved, with the capital injection of RM1,075 million by ANZ Funds Pty Limited on 18 May, 2007, comprising:

- 163,934,426 converting preference shares at the issue price of RM3.05 per converting preference share raising RM500 million. the shares are convertable into 163,934,426 new ordinary shares of the Company; and

- RM575.0 million Exchangeable Bonds issued by AmBank, which are exchangeable into 188,524,590 new ordinary shares of the Company.

Loans By Sector

	FY2007		FY2006	
	RM Million	%	RM Million	%
Retail	34,583.4	68.1%	32,010.0	67.9%
SME	4,806.8	9.5%	4,738.2	10.1%
Corporate	11,352.0	22.4%	10,366.7	22.0%
Total	**50,742.2**	**100.0%**	**47,114.9**	**100.0%**

Credit Ratings

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

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

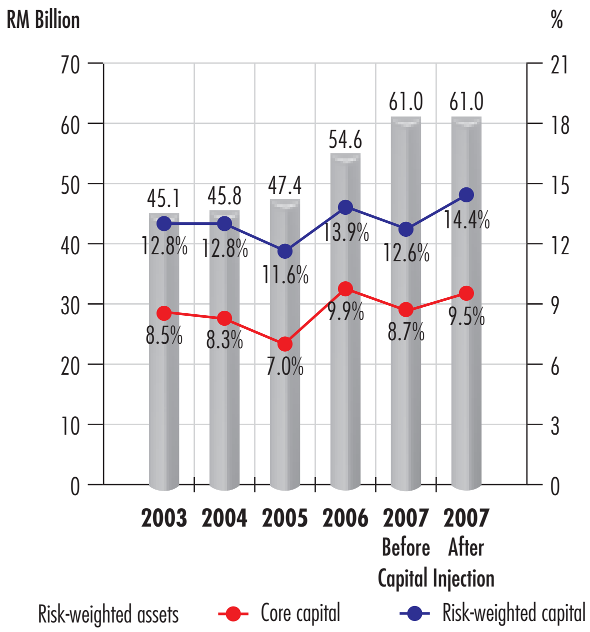
The Company's RM150.0 million 3.0% 5-year Redeemable Unsecured Bank Guaranteed Bonds 2002/2007 with detachable Warrants was accorded a long-term ratings of AAA (bg) and AA3 (bg) for Tranche I of RM100.0 million and Tranche 2 of RM50.0 million respectively by RAM.

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

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

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

Capital Ratios



Dividend Payment

Our policy is to pay up to 25.0% of net profits as dividends. Although the Company reported a net loss, we are proposing to maintain the dividend payment at a similar rate as the last financial year of 5.0% less tax totalling RM76.7 million.

Conclusion

Whilst, this year's financial results are disappointing, but it was prudent to take the one-off provisioning charge. We are confident that the ongoing initiatives to strengthen risk management, coupled with the strategic partnership with the ANZ Banking Group, will going forward, translate into stronger earnings and balance sheet growth.

Economic Review

Review and Outlook of the Malaysian Economy

DEVELOPMENTS IN 2006

The Malaysian economy performed stronger in 2006. Real Gross Domestic Products (GDP) rose 5.9% last year from 5.0% in 2005, chiefly driven by domestic demand. Exports had also sustained a positive growth, but real net external demand had recorded a contraction as exports moderated faster than imports. On the supply side, real GDP growth continued to be pillared by the manufacturing and services sectors.

Malaysia also charted a firmer balance of payment position in 2006. The current account surplus had increased to RM93.4 billion or 16.8% of Gross National Products (GNP) from RM75.7 billion or 15.3% of GNP in 2005. Subsequently, the external reserves had expanded by RM25.3 billion to RM290.4 billion (US$82.5 billion) in 2006 from RM265.1 billion (US$70.5 billion) in the preceding year.

The expansionary net external operations, along with increased claims on private sector and government, resulted in a larger private sector liquidity in 2006.This is measured by the broad money supply, or M3, which recorded a double-digit growth of 13.9% or RM93.0 billion in 2006 compared with 8.0% or RM49.7 billion in 2005.

While maintaining an accommodative monetary policy, Bank Negara Malaysia had raised the official policy rate (OPR) twice each by 25 basis points to 3.5% in 2006. This was aimed at aligning monetary conditions to the higher inflation following the Government decision to raise fuel prices. The rate of inflation in 2006 had increased to 3.6% from 3.0% in 2005.

Meanwhile, the Ringgit appreciated by 3.1% to RM3.6675 against the US Dollar last year. The local unit had also appreciated against other major as well as regional currencies.

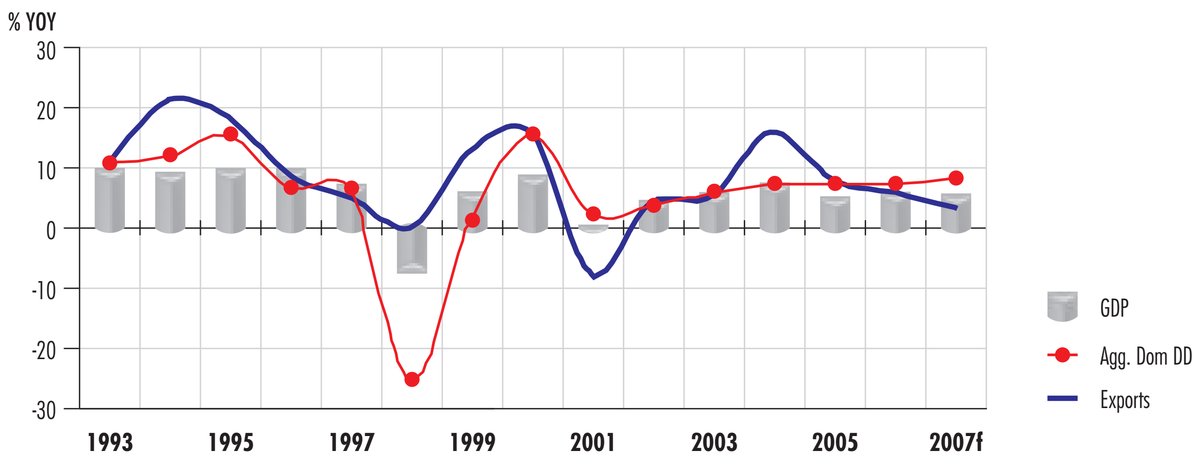
Demand Conditions

Real aggregate domestic demand, including stock changes, had increased faster at 7.1% in 2006 from 5.6% in 2005. This was on account of a firmer investment spending and smaller inventory drawdown. Gross capital formation had expanded by 7.9% last year compared with 5.0% in 2005. Both the public and private sector contributed to the faster growth in investment in 2006. While private investment grew by 7.0% (2005: 3.3%) to expand production capacity in manufacturing, services and oil and gas sectors, public investment increased by 8.9% (2005: 6.8%) to improve infrastructure and provide more facilities in the social services sector. Subsequently, investment contributed a larger 1.8 percentage points (pps) to the overall GDP growth in 2006 as compared with 1.1 pps in 2005.

The performance of consumption spending was slower last year, recording a total increase of 6.6% against 8.2% in 2005. Both the public and private consumption rose slower at 5.0% and 7.1% respectively in 2006 compared with 6.4% and 8.7% in 2005. The contribution of consumption to the overall real GDP growth in 2006 therefore decreased to 4.0 pps from 4.8 pps in 2005.

Meanwhile, the share of consumption to overall GNP measured in current prices had remained steady in 2006 at 58.8% against 60.0% in 2005. However, savings

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



had increased to 37.7% of GNP last year from 36.5% in 2005. As a result, the resource surplus of the economy had widened to 16.9% of GNP in 2006 from 15.3% in 2005 despite a firmer expansion in investment. This signifies the continuing underperformance of both the consumption and investment, thus growth of the overall GDP.

On the external front, growth of real exports of goods and services had moderated to 7.4% last year from 7.9% in 2005, mainly due to slower exports of electrical and electronics (E&E) products. The mineral sector also saw a slower growth in exports following lower production of oil and gas. However, exports of agriculture commodities, especially palm oil and rubber, saw a sharp uptrend in response to higher volumes. The prices of palm oil and rubber also recorded increases in 2006.

Consequently, the contribution by exports to the overall real GDP growth decreased to 9.1 pps in 2006 from 9.5 pps in 2005. As real imports grew faster than exports at 8.6%, the contribution by net exports to the overall GDP growth was flat last year as opposed to 0.4 pp in 2005.

Table 1: Real GDP By Demand Aggregate

% change	2002	2003	2004	2005	2006	2007f
Consumption	**5.5**	**8.2**	**9.4**	**8.2**	**6.6**	**7.8**
Public	11.9	8.6	7.6	6.4	5.0	7.4
Private	3.9	8.1	9.8	8.7	7.1	7.9
Investment (ex-stock)	**0.6**	**2.8**	**3.6**	**5.0**	**7.9**	**12.0**
Public	20.6	-0.3	-21.5	6.8	8.9	11.4
Private	-23.3	8.8	46.5	3.3	7.0	10.4
Agg. Domestic Demand	**4.0**	**6.6**	**7.7**	**7.3**	**7.0**	**8.9**
Public	10.9	7.1	-3.3	3.6	7.2	9.3
Private	0.3	5.5	13.9	9.1	7.6	8.1
Exports	5.4	5.1	16.1	7.9	7.4	3.0
Imports	6.2	4.5	19.6	8.9	8.6	5.7
Real GDP	**5.4**	**5.8**	**6.8**	**5.0**	**5.9**	**5.8**

Source: Department of Statistics *f: AIGB forecast*

Table 2: Contribution To Growth – Demand

% Points	2002	2003	2004	2005	2006	2007f
Consumption	**3.1**	**4.7**	**5.4**	**4.8**	**4.0**	**4.8**
Public	1.4	1.1	1.0	0.8	0.7	0.9
Private	1.7	3.6	4.4	4.0	3.4	3.9
Investment (ex-stock)	**0.2**	**1.0**	**0.7**	**1.1**	**1.8**	**2.7**
Public	2.8	-0.1	-4.8	0.7	1.0	1.7
Private	-2.6	1.1	5.5	0.4	0.8	1.0
Stocks	1.8	-1.0	0.9	-1.3	0.1	0.7
Agg. Domestic Demand	**3.3**	**5.3**	**6.2**	**5.9**	**5.8**	**7.5**
Public	4.2	1.0	-2.1	1.5	1.6	2.6
Private	-0.9	4.3	8.3	4.4	4.2	4.9
Exports	6.0	5.7	17.7	9.5	9.1	3.7
Imports	5.7	4.2	18.0	9.1	9.1	6.2
Net Exports	**0.3**	**1.5**	**-0.2**	**0.4**	**0.0**	**-2.5**
Real GDP	**5.4**	**5.8**	**6.8**	**5.0**	**5.9**	**5.8**

Source: Department of Statistics *f: AIGB forecast*

Supply Conditions

With the exception of mining and construction, all sectors of the economy recorded growth in 2006, on the expanding domestic and external demand. The manufacturing and services sectors continued to lead economy, growing at 7.1% and 7.2% respectively, accelerating from 5.3% and 6.7% in 2005. While the stronger performance in the manufacturing sector was supported particularly by the resource-based and E&E industries, the services sector was driven by the stronger activities in the financial services, transportation, storage and communication industries and government services.

The agriculture sector also recorded a faster growth of 5.2% in 2006 compared with 2.6% in 2005. In fact, it was the fastest rate ever recorded since 1992. Growth within the sector was broad-based and driven largely by higher production in palm oil and rubber, amidst firmer prices.

Meanwhile, the mining sector experienced a slight contraction of 0.4% due to lower production of crude oil and natural gas. This was following the shutdown of a number of oil fields for maintenance.

Value added in the construction sector continued to decline for the third consecutive year in 2006. However, it slowed to -0.5% from -1.8% in 2005 as the sector experienced a gradual recovery in the civil engineering as well non-residential works. However, the activity in residential segment returned to a more moderate pace, following several years of strong expansion. During the year, the Government had announced implementation of projects under the Ninth Malaysia Plan (2006-2010) and the relaxation of regulations that will help the non-residential, residential and civil engineering sub-sector to grow faster in the coming years.

Balance of Payments

In 2006, exports of goods rose in nominal terms by 10.3%, decelerating from 11.0% in 2005. This resulted mainly from a slower growth in the exports of electrical and electronic products of 6.1% last year against 9.7% in 2005. However, exports of primary commodities recorded a strengthening, rising by 12.5% in 2006 from 0.6% in 2005. This was mainly on account of firmer palm oil and rubber earnings. While exports of palm oil rose by 13.7% last year after a contraction of 8.7% in 2005, exports of rubber expanded by 42.3% against 11.2%.

Table 3: Real GDP By Sector

% change	2002	2003	2004	2005	2006	2007f
Agriculture	2.9	6.0	4.7	2.6	5.2	2.8
Mining	4.4	6.1	4.1	-1.3	-0.4	-0.2
Manufacturing	4.1	9.2	9.6	5.3	7.1	1.7
Construction	2.3	1.8	-0.9	-1.8	-0.5	4.6
Services	5.8	4.2	6.4	6.7	7.2	10.0
Real GDP	**5.4**	**5.8**	**6.8**	**5.0**	**5.9**	**5.8**

Source: Department of Statistics *f: AIGB forecast*

Table 4: Contribution To Growth – Sector

Percentage Points	2002	2003	2004	2005	2006	2007f
Agriculture	0.2	0.5	0.4	0.2	0.4	0.2
Mining	0.5	0.6	0.4	-0.1	-0.0	-0.0
Manufacturing	1.2	2.7	2.8	1.6	2.1	0.5
Construction	0.1	0.1	0.0	-0.1	-0.0	0.1
Services	3.0	2.1	3.3	3.4	3.7	5.3
Other items	0.4	-0.2	-0.1	-0.0	-0.3	-0.3
Real GDP	5.4	5.8	6.8	5.0	5.9	5.8

Source: Department of Statistics *f: AIGB forecast*

On the other hand, imports experienced a faster increase of 10.8% last year compared with 8.5% in 2005 driven by the three major components, namely consumption, investment and intermediate goods. While imports of consumption goods rose by 13.4% from 5.9% in 2005, intermediate good imports expanded by 8.7% against 7.2 in 2005. However, imports of capital goods increased slower at 7.6% from 9.5%.

Despite the stronger imports, Malaysia had charted a bigger trade surplus of RM108.2 billion in 2006 compared with RM99.8 billion in 2005. Excluding services, Malaysia's merchandise balance therefore had expanded to RM135.0 billion last year from RM125.6 billion in 2005. Subsequently, the surplus in the current account of the balance of payments had shown a bigger surplus of RM93.4 billion or 16.8% of GNP against RM75.7 billion or 15.3% of GNP in 2005 as both the services and income similarly recorded improvements. The larger current account surplus reflects the widening of the resource balance in the economy in 2006.

Given the bigger current account surplus, Malaysia's overall balance of payment surplus had increased by RM25.2 billion in 2006 compared with RM13.5 billion in 2005. This was despite the bigger deficit in the financial account of RM43.5 billion last year, compared with RM37.0 billion in 2005. Consequently, the external reserves of Bank Negara Malaysia (BNM) at end-2006 had risen to RM290.4 billion or US$82.5 billion from RM266.4 billion or US$70.5 billion in 2005.

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

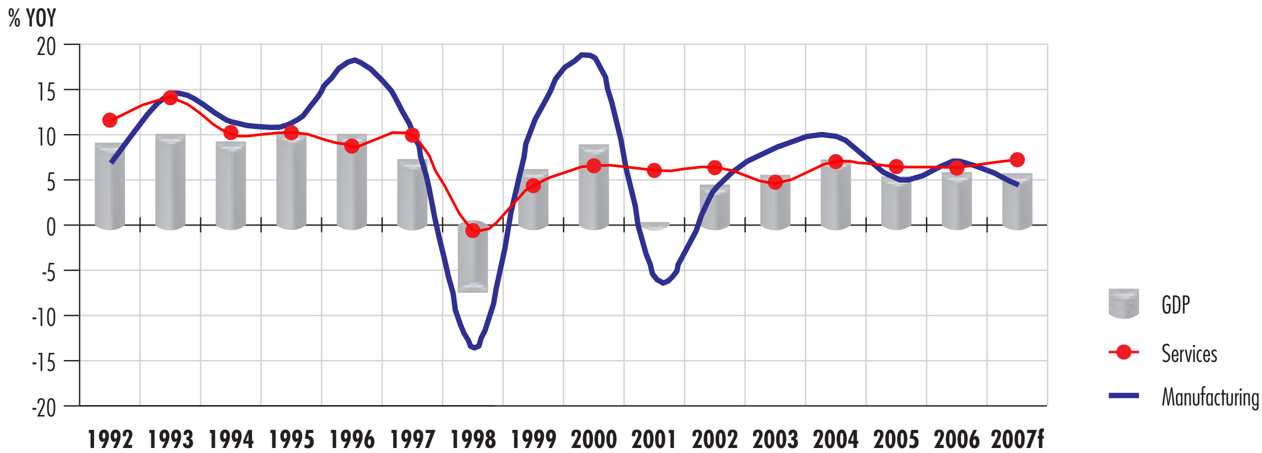


Table 5: Balance of Payments

RM billion	2003	2004	2005	2006	2007f
Current Acc. Balance	50.6	56.5	75.7	93.4	89.4
% of GNP	12.8	12.6	15.3	16.8	15.0
Merchandise Balance	97.8	104.5	125.6	135.0	131.3
Services Balance	-15.3	-8.8	-9.0	-6.9	1.9
Income Balance	-22.5	-24.5	-23.9	-17.4	-21.4
Net Transfer	-9.3	-14.6	-17.0	-16.9	-22.5
Real GDP (% YOY)	**5.8**	**6.8**	**5.0**	**5.9**	**5.8**

Source: Department of Statistics, *f:AIGB forecast*

PROSPECTS IN 2007

The International Monetary Fund (IMF) has forecasted the world economy to grow at 5.2% in 2007, slower compared with 5.5% in 2006. While growth in the US economy would decelerate to 2.0% this year from 3.3% in 2006, the EU is projected to grow at 2.6%, similar to that in 2006. Meanwhile, Japan is expected to achieve a moderate growth of 2.6%. In the case of China, growth is expected to accelerate to 11.2% this year from 10.7% in 2006, which will be the fifth year of double-digit growth.

Despite the global economy appearing to be more balanced now than anticipated earlier, it remains weighted on the downside. Specifically, a major downside risk to the global economy this year is a deeper US economic downturn, if the effects of its housing sector difficulties spill over into consumption and investment spending. Other risks include rising oil prices, resurgence of inflation and increased protectionist domestic business policies.

Economic slowdown in major economies can have immediate impact across countries, especially through trade, investment and financial channels, arising from global economic integration. In this regard, Malaysia is also likely to see a slowdown in its export performance this year. In particular, slower exports of manufactures, which constitute about 80% of total exports, would depress the performance of manufacturing sector as well as the whole economy.

Admittedly, the impact of slower growth in major economies, especially the US, had already been felt during the first quarter of this year. In this period, real GDP growth moderated to 5.3% from 5.7% in the final quarter of 2006 as a result of slowing exports. Against 5.2% in the final three months of 2006, exports of goods and services increased marginally at 1.9% in the first quarter of this year. Consequently, the manufacturing sector only registered an increase of 1.7% for the quarter ended March this year from 4.0% in the fourth quarter of 2006. In the first quarter of 2006, the manufacturing sector had performed remarkably stronger with a growth of 8.8% that supported a faster overall GDP growth of 6.0%.

However, domestic demand showed a strengthening during the first quarter of this year led by firmer private and public consumption spending. It is expected domestic demand will continue to lead the economy for the rest of this year. To some extent, domestic spending would be supported by the accommodative fiscal and monetary policies. Meanwhile, the conduct of monetary policy would be facilitated by lower inflation, amidst stable fuel and food prices. In the first quarter of 2007, the consumer price index had recorded a slower increase of 2.6% against 3.0% in the fourth quarter of 2006.

Overall, real GDP growth for the whole of 2007 could be sustained at above 5.5%. However, it is projected to moderate to 5.8% from 5.9% in 2006 arising from a slower external performance.

Demand Conditions

Aggregate domestic demand is projected to chart a stronger growth of 8.9% this year (2006: 7.0%), following firmer investment and consumption spending by both the private and public sector. Lower corporate tax of 27%, further improvement in the public delivery system and the introduction of private finance initiatives (PFIs) to support implementation of projects under 9MP will help spur private investment this year, which is expected to grow by 10.4% from 7.0% last year.

Meanwhile, public sector investment is expected to register a double-digit growth of 11.4% this year, the fastest since 2002 (11.2%), following higher allocation of development expenditure under the 9MP.

Increased disposable income, amidst high commodity prices, increased employment, low interest rate and easing inflationary pressures in turn would help to strengthen growth in private consumption to 7.9% this year from 7.1% in 2006. Increased tourist arrivals in response to the Visit Malaysia Year programmes would also help accelerate private consumption spending in 2007. Meanwhile, the Government's decision to raise civil servant salaries by 7.5% to 35.0%, as well as cost of living allowance that would raise the emolument expenditure by about RM 4.0 billion this year, and RM 8.0 billion in 2008, would help boost public sector consumption this year and next. Against a growth of 5.0% in 2006, public consumption is expected to expand faster at 7.4% this year.

Subsequently, private spending contribution to the overall real GDP growth this year will rise to 4.9 pps from 4.2 pps last year, while public spending contribution will further increase to 2.6 pps compared with 1.6 pps in 2006.

On the external front, real exports of goods and services could be expected to slow down this year, with a projected growth of 3.0% from 7.4% in 2006 mainly in response to a slower external demand, particularly for the E&E goods. However, exports of primary commodities are likely to be sustained following continuing high prices, especially for crude oil, palm oil and rubber. In the first five months of this year, Malaysia's Tapis crude oil price averaged US$68.14 per barrel compared with US$70.12 in the same period of last year. The prices of palm oil and rubber in turn had increased to RM2,113 a tonne and 720.8 sen per kilogram against RM1,423.5 and 710.4 sen respectively in the same period of 2006.

Supply Conditions

On the supply side, the services sector is expected to lead growth in 2007. The Visit Malaysia 2007 programs would benefit the services sector, particularly general commerce and hotel, following increased consumption from larger tourist arrivals this year. The financial services sector is also expected to register a stronger growth partly as a result of entries of new players in Islamic finance and investment banks. The active stock market condition similarly would add demand for financial, retail trade, hotels and transportation services. The implementation of various programs under the 9MP will also help generate positive effects on many industries under the services sector.

In response to a slower external demand, the manufacturing sector is expected to record a modest growth of 1.7% this year from 7.1% in 2006. In particular, the E&E sector would experience a subdued performance this year on account of US economic slowdown. However, the resource-based industries may continue to see steady growth this year on account of sustained domestic demand.

The construction sector, which recorded negative growths during the 2004-2006 period, on the other hand could register a recovery with a projected growth of 4.6% this year following increased activity in the non-residential and residential, oil and gas and civil engineering sectors. The speedier implementation and accelerated progress of projects under 9MP would also help strengthen the growth of the overall construction sector.

Meanwhile, the agriculture sector is forecast to grow at 2.8% in 2007, moderating from 5.2% in 2006, mainly as a result of slower increases in palm oil and rubber production. The mining sector is projected to register a slight contraction of 0.2% compared with -0.4% in 2006. This is on account of higher output of crude oil and natural gas.

External Balance and Monetary Policy

Malaysia's external balance position is likely to remain strong in 2007. The current account surplus is projected to remain large at RM89.4 billion or 15.0% of GNP, but narrowing from RM93.4 billion or 16.8% last year. The smaller surplus in the current account reflects the narrowing of resource or savings-investment balance in the economy. The surplus in the merchandise balance (RM131.3 billion) will be more than adequate to offset the enlarged deficit in the income account (RM21.4 billion) and transfer account (RM22.5 billion).

The financial account position is projected to show a smaller deficit of RM36.0 billion this year compared with RM43.5 billion in 2006. This would be supported by higher inflow of foreign direct investment as well as portfolio capital. However, the outflow of corporate investment and other investment are also projected to remain large this year.

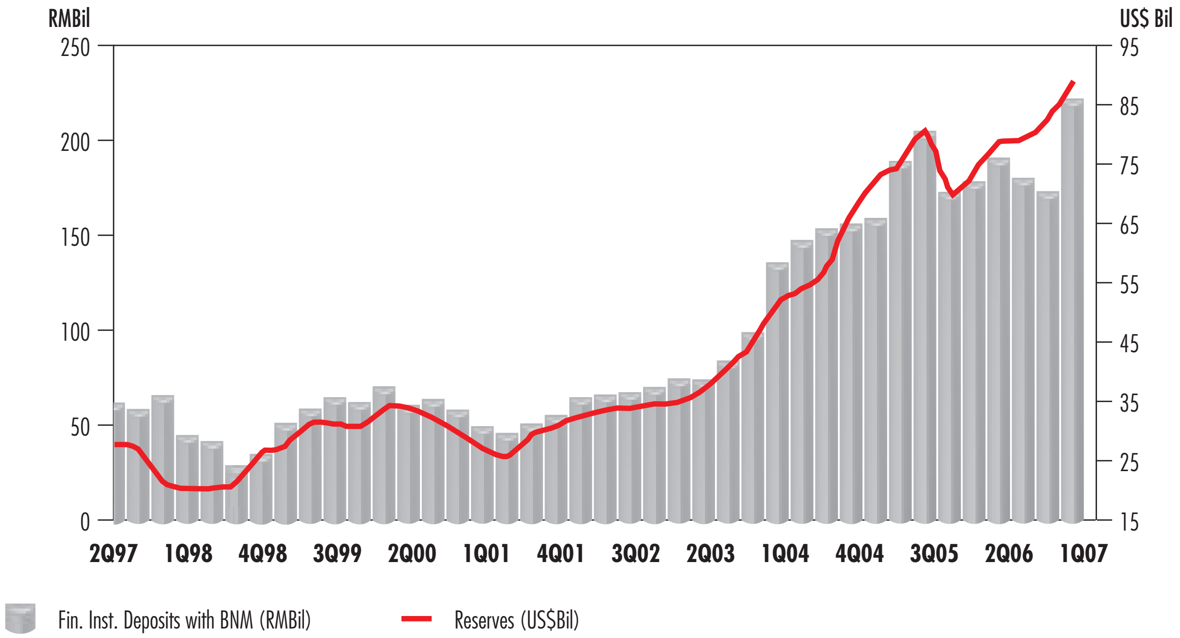
On account of a large surplus in the current account and a smaller financial deficit, the overall balance is projected to record a larger surplus of RM48.9 billion this year as opposed to RM25.2 billion in 2006. Consequently, the external reserves will rise to RM340 billion or US$103 billion by the end of 2007. As at end-June, Malaysia's external reserves had risen to RM339.8 billion or US$98.4 billion from RM290.4 billion or US$82.5 billion at the end of December 2006.

The higher external reserves would trigger a further expansion in domestic liquidity. Thus, excess liquidity would increase. As at end of June this year, excess liquidity in the financial system, as measured by the deposits of financial institutions with Bank Negara Malaysia (BNM) had increased to RM229.1 billion from RM207.5 billion at the end of 2006.

On the monetary policy front, the stance is expected to remain accommodative this year to support growth, amidst the global economic slowdown. The conduct of monetary policy will be facilitated by a lower inflation. As measured by the consumer price index (CPI), the rate of inflation had eased to 2.0% in the first six months of this year from 3.9% in the same period of 2006. In the month of June, the rate had slowed to 1.4%. In this regard, it would be possible for the whole of 2007 to register an average inflation rate of under 2.0% from 3.6% in 2006, on account of stable fuel and food prices.

On account of a lower inflation, the interest condition has been normalized. In this respect, BNM can be expected to keep the overnight policy rate (OPR) unchanged at 3.5% for the rest of this year. Furthermore, the interest rate differential between Malaysia and the US remains large at 175 basis points. The interest rates in the UK, EU, and several economies in the region are also higher compared with Malaysia and are widening following additional tightening measures in those economies. However, if growth falters arising from a weaker than expected global economic growth, BNM may reduce interest rate to help stimulate domestic demand.

Chart 3: External Reserves & Financial Institutions Deposits With BNM



Meanwhile, the Ringgit is expected to continue appreciating for the rest of this year against the US Dollar and other major currencies. The liberalisation of foreign exchange rules and the lifting of capital gains tax on real estate purchases and the expectations of Ringgit internationalisation will continue to attract capital flow into the local financial markets, thus strengthening the demand for the local currency.

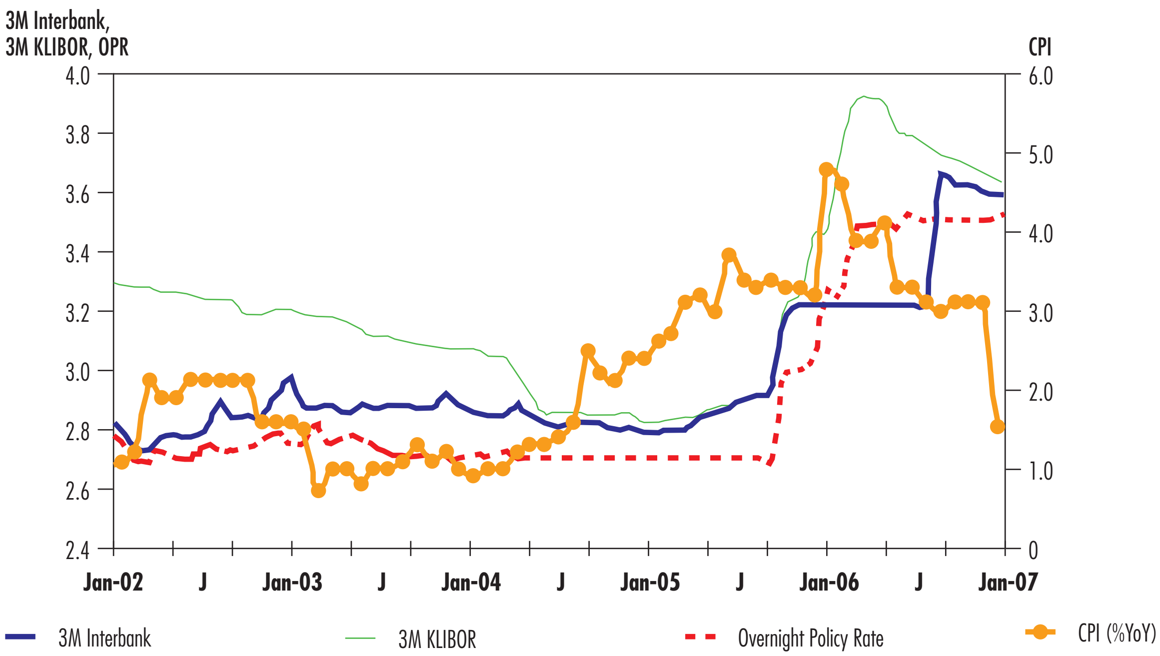
In the first five months of this year, the Ringgit had advanced by 4.2% to an average of 3.4009. The Ringgit had hit a high of 3.387 against the greenback on May 22, the highest since the lifting of the fixed rate at RM3.80 in July 2005. The Ringgit potentially can appreciate to the 3.30 level by the end of this year, amidst continued weakness in the US Dollar and strong capital inflows. The strengthening of the Ringgit has benefited imports, but also lowered export earnings. However, the country's export competitiveness should have been retained as the other regional currencies have similarly recorded an uptrend.

Conclusion

The Malaysian economy had recorded a faster growth in 2006. Amidst concerns of a slower global economy, the domestic economy is projected to decelerate this year, but growth would remain at above 5.5% on account of a firmer domestic demand. As inflationary pressures subside, the economy would regain a balanced growth in 2007. The lower inflation also helps normalise interest condition as well facilitates the conduct of accommodative monetary policy. There are also positive developments expected on the balance of payments as well currency fronts that would help strengthen the overall macroeconomic condition of Malaysia.

A slower than expected global economic growth, following a deeper downturn in the US economy, represents a major downside risk to the Malaysian economy. However, a faster than expected recovery in external demand during the second half would promote a faster overall growth in domestic economy in 2007. It would also help brighten the prospects in the year 2008.

Chart 4 : Interest Rates & Inflation



Group Financial Highlights

	YEAR ENDED 31 MARCH				HALF-YEAR ENDED 30 SEPTEMBER			
	RM Million		Growth Rate +/(-)%		RM Million		Growth Rate +/(-)%	
	2007	2006 ##	2007	2006	2006 ##	2005 ##	2006	2005
Operating revenue	**6,025.6**	4,871.3	**23.7**	11.4	2,811.5	2,402.1	17.0	11.6
Profit before tax and allowance for losses on loans and financing	**1,537.2**	1,532.5	**0.3**	20.3	744.6	752.9	(1.1)	33.5
Allowance for losses on loans and financing	**1,514.1**	774.7	**95.4**	0.5	317.1	322.0	(1.5)	22.7
Profit before tax and after share in result of associated companies^^	**23.1**	757.8	**(96.9)**	50.5	427.5	430.9	(0.8)	42.9
(Loss)/Profit after tax and minority interests	**(203.8)**	399.9	**(>100.0)**	88.8	217.6	231.6	(6.0)	67.3
Total assets	**78,622.7**	72,378.7	**8.6**	16.4	70,329.4	67,010.0	5.0	10.9
Loans, advances and financing (net)	**47,610.8**	44,860.5	**6.1**	11.9	46,114.3	44,062.0	4.7	12.8
Deposits and borrowings	**67,948.3**	62,704.6	**8.4**	15.4	60,267.8	57,665.1	4.5	9.7
Commitment and contingencies	**48,568.1**	37,310.4	**30.2**	55.8	46,538.1	29,749.4	56.4	40.5
Shareholders' equity	**4,875.1**	5,147.1	**(5.3)**	5.1	5,287.0	4,959.9	6.6	18.3
Pre-tax return on average shareholders' equity (%)^	**(3.8)**	11.9	**(>100.0)**	66.7	13.2**	14.4**	(7.8)	30.3
Pre-tax return on average total assets (%)	**0.1**	1.1	**(97.3)**	37.3	1.2**	1.3**	(10.2)	33.8
Basic (loss)/earnings per share								
- gross (sen)	**(8.8)**	28.1	**(>100.0)**	64.9	32.4**	33.2**	(2.4)	35.7
- net (sen)	**(9.6)**	18.8	**(>100.0)**	66.9	20.4**	21.7**	(6.0)	46.2
Fully diluted (loss)/earnings per share								
- gross(sen)	**(8.8)**	27.8	**(>100.0)**	65.1	32.1**	32.9**	(2.4)	39.5
- net (sen)	**(9.6)**	18.5	**(>100.0)**	67.1	20.3**	21.5**	(6.0)	50.2
Gross dividend per share	**5.0**	4.9*	**2.0**	25.0	-	-	-	-
Net assets per share (RM)	**2.29**	2.42	**(5.3)**	5.1	2.48	2.33	6.6	3.6
Overheads to total income (%)	**33.8**	37.1	**(8.9)**	(1.5)	34.8	36.8	(5.6)	(4.8)
Number of employees	**9,603**	9,280	**3.5**	3.4	9,443	9,074	4.1	0.9
Assets per employee (RM Million)	**8.2**	7.8	**5.0**	12.5	7.4	7.4	0.9	9.9
Pre-tax profit per employee (RM'000)	**2.4**	81.7	**(97.1)**	45.6	90.5**	95.0**	(4.7)	41.5

Refer to page 131 for the explanation of legend.

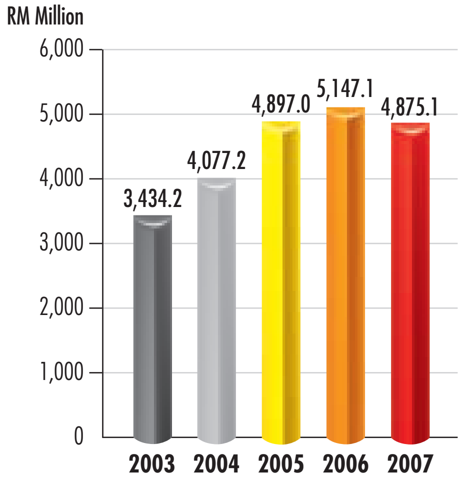
Five-Year Group Financial Review

	FINANCIAL YEAR ENDED 31 MARCH 2007	2006 ##	2005@##	2004 ##	2003 ##
1 REVENUE (RM MILLION)					
i Operating revenue	**6,025.6**	4,871.3	4,374.4	4,218.1	4,046.4
ii Profit before tax and allowance for losses on loans and financing	**1,537.2**	1,532.5	1,273.9	1,225.4	1,318.0
iii Allowance for losses on loans and financing	**1,514.1**	774.7	770.5	865.6	887.3
iv Profit before tax and after share in results of associated companies^^	**23.1**	757.8	503.4	359.8	430.7
v (Loss)/Profit after tax and minority interests	**(203.8)**	399.9	211.8	222.9	276.3
2 BALANCE SHEET (RM MILLION)					
Assets					
i Total assets	**78,622.7**	72,378.7	62,197.9	60,577.3	58,776.1
ii Loans, advances and financing (net)	**47,610.8**	44,860.5	40,099.6	38,466.7	37,994.0
Liabilities and Shareholders' Equity					
i Deposits and borrowings	**67,948.3**	62,704.6	54,360.1	53,010.9	52,637.2
ii Paid-up share capital	**2,130.6**	2,130.5	2,130.5	1,858.8	1,502.6 #
iii Shareholders' equity	**4,875.1**	5,147.1	4,897.0	4,077.2	3,434.2
Commitment and Contingencies	**48,568.1**	37,310.4	23,944.9	18,708.7	15,941.2
3 PER SHARE (SEN)					
i Basic gross (loss)/earnings	**(8.8)**	28.1	17.1	11.8	19.9 #
ii Basic net (loss)/earnings	**(9.6)**	18.8	11.2	13.9	18.4 #
iii Fully diluted gross (loss)/earnings	**(8.8)**	27.8	16.8	11.1	19.9 #
iv Fully diluted net (loss)/earnings	**(9.6)**	18.5	11.1	13.1	18.4 #
v Net assets	**228.8**	241.6	229.8	219.3	228.6 #
vi Gross dividend	**5.0**	4.9	4.0	4.0	3.3 #
4 FINANCIAL RATIOS (%)					
i Pre-tax return on average shareholders' equity^	**(3.8)**	11.9	7.2	5.0	9.9
ii Pre-tax return on average total assets	**0.1**	1.1	0.8	0.6	0.8
iii Loans,advances and financing to deposits and borrowings	**70.1**	71.5	73.8	72.6	72.2
iv Overheads to total income	**33.8**	37.1	36.5	37.2	35.9
5 SHARE PRICE (RM)					
i High	**3.76**	2.91	3.92	4.22	4.16 #
ii Low	**2.35**	2.21	2.81	1.84	2.09 #
iii As at 31 March	**3.76**	2.83	2.83	4.00	2.16 #

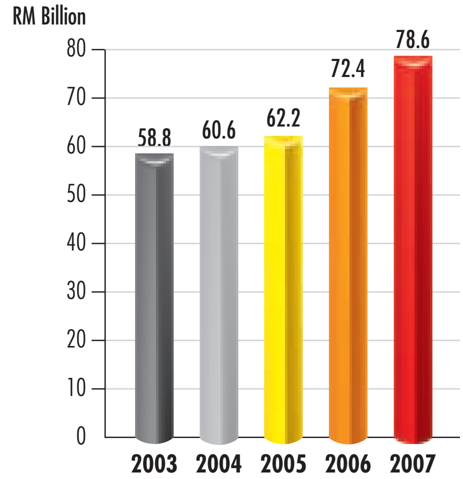
** Annualised.
^ Adjusted for minority interests.
# Adjusted for bonus issue.
* After restatement for the change in statutory tax rate from 28.0% to 27.0%.
@ After adjusting for the adoption of the revised guidelines on Financial Reporting for Licensed Insitutions (BNM/GP8) issued by Bank Negara Malaysia ("BNM") which has been adjusted retrospectively for one financial year only as permitted under the revised BNM/GP8.
^^ The share in taxation of associated companies were reclassified from tax expense to the share in results of associated companies as a result of the adoption of revised FRS101 : Presentation of Financial Statements.
After adjusting for the adoption of the BNM circular dated 16 October 2006 on the Accounting Treatment of Handling Fees for Hire Purchase Loans.

Five-Year Group Financial Review

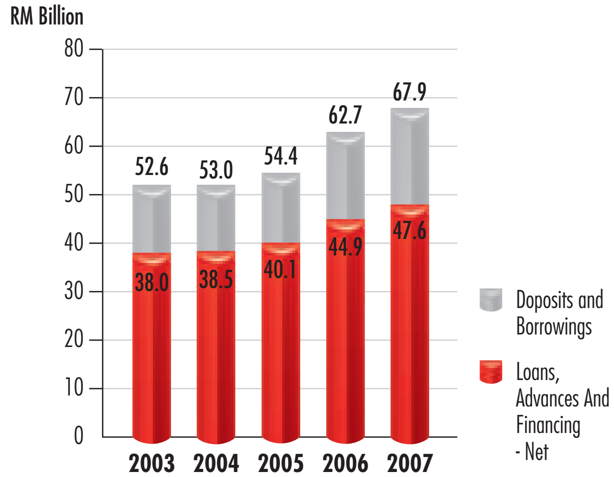
Shareholders' Equity



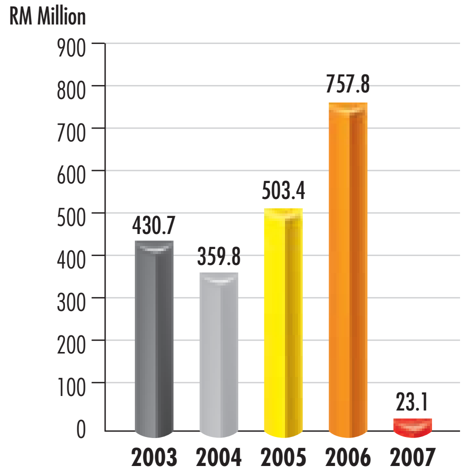
Total Assets



Loans, Advances And Financing - Net/ Deposits And Borrowings



Profit Before Tax



FINANCIAL CALENDAR

2006
9 August 15th Annual General Meeting and 18th Extraordinary General Meeting
11 August Announcement of unaudited consolidated results for the financial first quarter ended 30 June 2006
18 August Date of entitlement to first and final dividend of 5% less tax
28 August Notice of 19th Extraordinary General Meeting
5 September Payment of first and final dividend of 5% less tax for the financial year ended 31 March 2006
13 September 19th Extraordinary General Meeting
14 November Announcement of unaudited consolidated results for the financial half year ended 30 September 2006

2007
13 February Announcement of unaudited consolidated results for the financial third quarter ended 31 December 2006
9 March Notice of expiry of warrants 1997/2007
3 April Notice of 20th Extraordinary General Meeting
26 April 20th Extraordinary General Meeting
13 May Expiry of warrants 1997/2007
18 May Announcement of audited consolidated results and first and final dividend for the financial year ended 31 March 2007
8 August Announcement of unaudited consolidated results for the financial first quarter ended 30 June 2007
4 September Notice of 16th Annual General Meeting, 21st Extraordinary General Meeting and payment of final dividend of 5.0 % less tax
26 September 16th Annual General Meeting, 21st Extraordinary General Meeting