

**AMMERCHANT BANK BERHAD (23742-v)**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**  
**31 March 2006**

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS  
31 MARCH 2006**

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**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the audited financial statements of **AmMerchant Bank Berhad** for the financial year ended 31 March 2006.

**PRINCIPAL ACTIVITIES**

The Bank and its subsidiary companies, as listed in Note 12 to the financial statements, provide a wide range of merchant banking and related financial services which also includes the Islamic banking business, investment advisory and asset, real estate investment and unit trusts management.

There have been no significant changes in the nature of the activities of the Bank and its subsidiary companies during the financial year.

**SIGNIFICANT EVENTS**

1. On 29 September 2005, the Bank, completed the acquisition of the 30% equity interest held by Macquarie Bank Limited ("Macquarie Bank") in AmInvestment Management Sdn Bhd ("AIM") and AmInvestment Services Berhad ("AIS") respectively for a total cash purchase consideration of RM44.79 million.

With the completion of the acquisition, AIM and AIS become wholly-owned subsidiaries of the Bank. Accordingly, the Joint Venture arrangement between the Bank and Macquarie Bank relating to the funds management business was voluntarily terminated on 29 September 2005.

2. On 10 February 2006, the Bank has entered into a conditional sale and purchase agreement with nine (9) minority shareholders of Frasers International Pte Ltd ("FIPL") in respect of the proposed acquisition of 7,576,766 ordinary shares of S\$1.00 each in FIPL not already owned by the Bank, representing 51% of the issued and paid-up share capital of FIPL for an aggregate cash purchase consideration of up to S\$22,000,000 ("Proposed FIPL Acquisition"). On completion of the Proposed FIPL Acquisition, FIPL will become a wholly owned subsidiary of the Bank.

The purchase consideration for the Proposed FIPL Acquisition was arrived at on a willing buyer willing seller basis after taking into consideration the consolidated net tangible assets as at 31 March 2005 and current year consolidated profit of FIPL, and will be satisfied wholly in cash by the Bank from its internally generated funds.

The Proposed FIPL Acquisition is conditional upon the approval, inter alia, of Bank Negara Malaysia, Monetary Authority of Singapore, Singapore Exchange Securities Trading Limited, Singapore Exchange Derivatives Trading Limited and any other relevant authorities.

3. On 27 October 2005, the Bank issued RM200,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds ("Subordinated Tier 2 Bonds") for the purpose of redemption of RM200.0 million nominal amount of unsecured subordinated certificates of deposits. The unsecured subordinated certificates of deposits was redeemed on 1 March 2006. The Subordinated Tier 2 Bonds are issued for a period of ten years maturing on 31 October 2015 and bear interest varying from 4.75% to 7.25% per annum, payable on a semi-annual basis.

During the financial year, the Bank had also purchased and cancelled RM65,000,000 of the Subordinated Tier 2 Bonds.

**FINANCIAL RESULTS**

	<b>Group RM'000</b>	<b>Bank RM'000</b>
Profit before share in results of associated companies	320,947	309,835
Share in results of associated companies	<u>2,387</u>	<u>-</u>
Profit before taxation	323,334	309,835
Taxation	<u>(86,445)</u>	<u>(86,418)</u>
Profit before minority interests	236,889	223,417
Minority shareholders' interests in results of subsidiary companies	<u>(1,330)</u>	<u>-</u>
Net profit attributable to the shareholder of the Bank	235,559	223,417
Unappropriated profit at beginning of year, as restated	<u>707,883</u>	<u>674,174</u>
Profit available for appropriation	943,442	897,591
Interest on ICULS	(7,200)	(7,200)
Transfer to statutory reserve	(29,549)	(29,549)
Proposed preference dividends	(7,200)	(7,200)
Ordinary dividends paid	<u>(75,312)</u>	<u>(75,312)</u>
Unappropriated profit at end of year	<u>824,181</u>	<u>778,330</u>

## **BUSINESS PLAN AND STRATEGY**

As part of the AmInvestment Group Berhad, the Bank's primary short term objective is to transform itself from a merchant bank to an investment bank under the Investment Banking Framework. This would entail the integration of the merchant banking operations with that of the stockbroking operations to create an investment bank. In the meantime, the Bank will also continue to consolidate its leadership positions in the domestic capital markets by leveraging on its operational efficiencies, deep market knowledge and varied product range.

The Bank will continue to introduce more innovative products as a result of the relaxation of capital controls. This is to broaden the Bank's product offerings so as to become a more complete investment bank in the Bank's long term objective in becoming a 'one-stop' investment bank to its clients.

The Bank will also look at opportunities to gradually expand its business activities and market presence in the region. In the longer term, regional presence will be important for competitiveness.

## **OUTLOOK FOR NEXT FINANCIAL YEAR**

Malaysia's economic growth is projected to rise faster but to remain moderate at 6.0% in 2006. Accordingly, the banking business is expected to further expand in 2006 and the asset quality of the banking system is also expected to remain strong. However, a moderating economy coupled with ample liquidity and liberal operating environment in the banking system will further suppress the profitability of the banking industry's traditional lending business.

Inflation has increased on account of rising cost and potentially the pressure could build up further following higher petroleum product prices. While interest rate would not be directly effective to tame cost-pushed inflation, interest rate adjustment is necessary to positively influence the exchange rate, capital flow and liquidity trend. However, the rate and pace of increase and exchange rate adjustment would not be excessive to disadvantage growth.

Going forward, the Group is confident that its capable and experienced management and credible track record will help the Group maintain its leadership position in the market place.

## **ITEMS OF AN UNUSUAL NATURE**

In the opinion of the directors, the results of operations of the Group and of the Bank for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Bank for the succeeding twelve months.

## DIVIDENDS

During the financial year, the Bank declared a final ordinary dividend of 25.0%, less 28% taxation, and a preference dividend of 10.0%, less 28% taxation, in respect of the previous financial year amounting to RM36,000,000 and RM7,200,000 for the ordinary and preference shares, respectively, which amount has been dealt with in the directors' report for that financial year.

In respect of the current financial year, the Bank paid an interim ordinary dividend of 26.0%, less 28% taxation, amounting to RM39,312,000 for the ordinary shares. The directors now recommend the payment of a final ordinary dividend of 37.0%, less 28% taxation, and a preference dividend of 10.0%, less 28% taxation, amounting to RM55,944,000 and RM7,200,000 for the ordinary and preference shares, respectively. The financial statements for the current financial year do not reflect the proposed final ordinary dividend. Such dividend, if approved by the shareholder, will be accounted for in the shareholder's funds as an appropriation of unappropriated profit in the next financial year ending 31 March 2007.

## RESERVES AND ALLOWANCES

The following material transfers to/(from) reserves, and allowances and provisions were made during the financial year :

	<b>Note to the Financial Statements</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Allowances/(Reversal of allowances) :			
Net interest suspended	29	58	58
Loan and financing (recoveries) / loss and (reversal of) / allowances :			
General allowance	33	(5,028)	(4,663)
Specific allowance - net	33	79,549	69,239
Impairment writeback on securities		3,634	623
Impairment writeback on assets acquired in exchange of debts		(660)	(660)
Transfer from profit equalisation reserve		1,919	1,919
Allowance for doubtful sundry receivables - net		(448)	(448)
Provision for commitments		(262)	(262)

## BAD AND DOUBTFUL DEBTS AND FINANCING

Before the income statements and balance sheets of the Group and of the Bank were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and financing and the making of allowances for doubtful debts and financing and have satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off for bad debts and financing or the amount of the allowance for doubtful debts and financing in the Group and the Bank inadequate to any substantial extent.

## **CURRENT ASSETS**

Before the income statements and balance sheets of the Group and of the Bank were made out, the directors took reasonable steps to ascertain that current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Bank, have been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

## **VALUATION METHODS**

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Bank's financial statements misleading or inappropriate.

## **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Group and of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

## **CHANGE OF CIRCUMSTANCES**

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Bank, that would render any amount stated in the financial statements misleading.

## **ISSUE OF SHARES AND DEBENTURES**

On 14 May 2005, the issued and fully paid-up ordinary share capital of the Bank was increased from 200,000,000 ordinary shares of RM1.00 each to 210,000,000 ordinary shares of RM1.00 each by the issue of a non-renounceable rights issue of 10,000,000 new ordinary shares of RM1.00 each at an issue price of RM5.00 per share to the Bank's holding company, AmInvestment Group Berhad, on the basis of 1 new ordinary share of RM1.00 each for every 20 ordinary shares held. The resulting share premium amounting to RM40,000,000 has been credited to the share premium account.

Pursuant to a Trust Deed dated 27 October 2005, the Bank issued RM200,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds ("Subordinated Tier 2 Bonds") for the purpose of redemption of RM200.0 million nominal amount of unsecured subordinated certificates of deposits. The unsecured subordinated certificates of deposits was redeemed on 1 March 2006.

The salient features of the Subordinated Tier 2 Bonds are as follows:

- (a) The Subordinated Tier 2 Bonds bear interest at 4.75% per annum for the first five years and at 5.25% to 7.25% per annum for years 6 to 10. The interest is payable on a semi-annual basis.
- (b) The Subordinated Tier 2 Bonds are redeemable on 31 October 2010 or on each anniversary date thereafter at nominal value together with interest accrued to the date of redemption.
- (c) The Subordinated Tier 2 Bonds are for a period of ten years maturing on 31 October 2015. However, subject to the prior approval of Bank Negara Malaysia, the Bank may redeem the Subordinated Tier 2 Bonds on 31 October 2010 or on each anniversary date thereafter.

During the financial year, the Bank had purchased and cancelled RM65,000,000 of the Subordinated Tier 2 Bonds.

### SHARE OPTIONS

There are no options granted by the Bank to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As at the end of the financial year, there were no unissued shares of the Bank under options.

### INTEREST BEARING IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") 2002/2007

The salient features of the ICULS 2002/2007 issued to the ultimate holding company, AMMB Holdings Berhad ("AHB"), and subsequently transferred to the immediate holding company, AmInvestment Group Berhad ("AIGB"), as part of the equity under the AHB Internal Reorganisation are as follows:

- (a) The ICULS 2002/2007 bear interest at 6.0% per annum payable semi-annually or such other interval as may be determined by AIGB .
- (b) The ICULS 2002/2007 are convertible into new ordinary shares at any time on the basis of one new ordinary share of RM1.00 each for every RM4.00 nominal amount of ICULS held.
- (c) The ICULS 2002/2007 were for an initial period of five calendar years and has been extended for a further period of five years to mature on 15 January 2007.
- (d) All new ordinary shares issued upon conversion of the ICULS 2002/2007 shall rank parri passu with the then existing ordinary shares of the Bank except for any dividend, rights, allotments or other distributions, the entitlement date of which is before the relevant conversion date.

There was no movement in the Bank's ICULS 2002/2007 during the financial year and the balances are as follows:

	<u>Nominal Amount of ICULS</u>			<u>Balance at</u> <u>31.3.2006</u>
	<u>Balance at</u> <u>1.4.2005</u>	<u>Issued</u>	<u>Converted</u>	
ICULS 2002/2007	120,000,000	-	-	120,000,000



## **DIRECTORS**

The directors who served on the Board since the date of the last report are:

Tan Sri Dato' Azman Hashim

Tan Sri Datuk Dr Aris Osman @ Othman (Independent Director)

Tan Sri Datuk Clifford Francis Herbert (Independent Director)

Dato' Izham Mahmud (Independent Director)

Cheah Tek Kuang

Kok Tuck Cheong

Pushparani A/P A Moothathamby

Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba (Independent Director) (Resigned w.e.f. 15/12/2005)

In accordance with Article 87 of the Bank's Articles of Association, Dato' Izham Mahmud retires and, being eligible, offers himself for re-election.

## **DIRECTORS' INTERESTS**

None of the directors as at 31 March 2006 held any shares in the Bank during the financial year. Under the Bank's Articles of Association, the directors are not required to hold shares in the Bank.

The interests in shares and debentures of related companies, of those who were directors at the end of the financial year as recorded in the Register of Directors' Shareholdings kept by the Bank under Section 134 of the Companies Act, 1965, are as follows:

## **DIRECT INTERESTS**

### **In the Bank**

<b>Redeemable Unsecured Subordinated Bonds</b>	<b>Nominal Value of RM1.00 each</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Dato' Izham Mahmud	250,000	-	250,000	-

**DIRECTORS' INTERESTS (CONTD.)****DIRECT INTERESTS**

**In the immediate holding company,  
AmInvestment Group Berhad**

<b>Renounceable Rights</b>	<b>No. of Renounceable Rights of RM1.00 each</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Exercised</b>	<b>Lapse</b>	
Tan Sri Dato' Azman Hashim	118,954,848	118,954,848	-	-
Tan Sri Datuk Dr Aris Osman @ Othman	50,000	50,000	-	-
Tan Sri Datuk Clifford Francis Herbert	50,000	50,000	-	-
Dato' Izham Mahmud	101,070	101,070	-	-
Cheah Tek Kuang	2,620,075	2,620,075	-	-
Kok Tuck Cheong	1,504,584	1,504,500	84	-
Pushparani A/P A Moothathamby	897,001	897,001	-	-

<b>Shares</b>	<b>No. of Ordinary Shares of RM1.00 each</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Tan Sri Dato' Azman Hashim	-	118,954,848	24,400,000	94,554,848
Tan Sri Datuk Dr Aris Osman @ Othman	-	50,000	-	50,000
Tan Sri Datuk Clifford Francis Herbert	-	50,000	-	50,000
Dato' Izham Mahmud	-	101,070	-	101,070
Cheah Tek Kuang	-	2,620,100	1,500,000	1,120,100
Kok Tuck Cheong	-	1,504,500	500,000	1,004,500
Pushparani A/P A Moothathamby	-	897,001	-	897,001

**In the ultimate holding company,  
AMMB Holdings Berhad**

<b>Shares</b>	<b>No. of Ordinary Shares of RM1.00 each</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Tan Sri Dato' Azman Hashim	675,490	-	675,490	-
Dato' Izham Mahmud	4,670	-	-	4,670
Cheah Tek Kuang	23,800	-	-	23,800
Pushparani A/P A Moothathamby	423,149	-	-	423,149

**DIRECTORS' INTERESTS (CONTD.)****DIRECT INTERESTS**

**In the ultimate holding company,  
AMMB Holdings Berhad**

<b>Warrants 1997/2007</b>	<b>No. of Warrants</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Pushparani A/P A Moothathamby	15,506	-	-	15,506

<b>Warrants 2003/2008</b>	<b>No. of Warrants</b>			<b>Balance at 31.3.2006</b>
	<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Cheah Tek Kuang	46,189	-	-	46,189
Pushparani A/P A Moothathamby	13,418	-	-	13,418

**DEEMED INTERESTS**

**In the ultimate holding company,  
AMMB Holdings Berhad**

<b>Shares</b>	<b>Name of Company</b>	<b>No. of Ordinary Shares of RM1.00 each</b>			<b>Balance at 31.3.2006</b>
		<b>Balance at 1.4.2005</b>	<b>Bought</b>	<b>Sold</b>	
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad (formerly known as Arab-Malaysian Corporation Berhad)	658,252,421	13,000,000	-	671,252,421
	AMDB Equipment Trading Sdn Bhd	439,047	-	-	439,047
	Azman Hashim Holdings Sdn Bhd	913,905	-	913,905	-
	Regal Genius Sdn Bhd	29,490,000	-	-	29,490,000

**DIRECTORS' INTERESTS (CONTD.)****DEEMED INTERESTS****In the ultimate holding company,  
AMMB Holdings Berhad**

Warrants 2003/2008	Name of Company	No. of Warrants			Balance at 31.3.2006
		Balance at 1.4.2005	Bought	Sold/ Exercised	
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad AMDB Equipment Trading Sdn Bhd	5,954,097 22,682	- -	- -	5,954,097 22,682
	Regal Genius Sdn Bhd Corporateview Sdn Bhd	2,989,936 31,658,738	- -	- -	2,989,936 31,658,738

**In the immediate holding company,  
AmInvestment Group Berhad**

Renounceable Rights	Name of Company	No. of Renounceable Rights of RM1.00 each			Balance at 31.3.2006
		Balance at 1.4.2005	Exercised	Lapse	
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad AMDB Equipment Trading Sdn Bhd	150,896,688 100,646	150,896,688 100,646	- -	- -
	Azman Hashim Holdings Sdn Bhd Regal Genius Sdn Bhd	209,502 6,760,238	209,502 6,760,238	- -	- -

Shares	Name of Company	No. of Ordinary Shares of RM1.00 each			Balance as at 31.3.2006
		Balance at 1.4.2005	Bought	Sold	
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad AMDB Equipment Trading Sdn Bhd	- -	150,896,688 100,646	- -	150,896,688 100,646
	Azman Hashim Holdings Sdn Bhd Regal Genius Sdn Bhd	- -	209,502 6,760,238	- -	209,502 6,760,238

By virtue of their shareholdings as mentioned above, the above directors are deemed to have an interest in the shares of the Bank and its related companies, to the extent that the ultimate holding company have interest.

## **DIRECTORS' BENEFITS**

Neither at the end of the financial year, nor at any time during that year, no director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm in which the director is a member, or with a company in which the director has a substantial financial interest, except for the related party transactions as shown in Note 34 to the financial statements.

Save for the benefits under the restricted offer for sale by AMMB Holdings Berhad to its shareholders and AmInvestment Group Berhad to eligible employees and directors pursuant to the listing of AmInvestment Group Berhad on the Main Board of the Bursa Malaysia Securities Berhad, neither during nor at the end of the financial year was the Bank a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

## **CORPORATE GOVERNANCE**

### **(i) BOARD RESPONSIBILITY AND OVERSIGHT**

The Board of Directors ("the Board") remains fully committed in ensuring that the principles and best practices in corporate governance are applied consistently in the Group.

The Board supervises the management of the Group's businesses and affairs with the goal of enhancing shareholders' value. In addition to determining the overall strategy of the Group and the supervision of Senior Management of the Group, the Board meets regularly to address key matters in the area of strategy, finance, structure and organisation, and business development (subject to the matters reserved for shareholders' meetings by law). The Board approves the strategic plans and the annual financial plans developed by management of the Group and reviews the performance and effectiveness of the business units in the Group. It establishes guidelines for overall business, risk and control policies, capital allocation and approves major changes in the Group's business activities, including major lending and borrowing transactions. It also approves major business developments such as acquisitions and disposals of businesses or assets, investments or new businesses, mergers, joint ventures and alliances and consider other matters of strategic importance to the Group.

There is a clear division between the roles of Chairman and Chief Executive Officer, and the roles remain separate and distinct.

The Board currently comprises seven (7) directors with wide skills and experience, of which five (5) are Independent Non-Executive Directors. The Directors participate fully in decision making on key issues regarding the Bank and its subsidiaries. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as take into account the long term interests of various stakeholders. The Independent Non-Executive Directors are from varied business backgrounds, and their experiences enable them to exercise independent judgment on the Board as their views carry substantial weight in Board decisions.

Board Meetings are scheduled every month, with additional or special Board meetings convened as and when required. All directors review a monthly board report circulated prior to the board meeting to enable the directors to obtain further explanations where necessary. In order to be briefed adequately, the senior management team is invited to attend Board Meetings to provide the Board with presentations, detailed explanations and clarification on matters that have been tabled. As a full board or in their individual capacity, the directors have access to all information within the Group and the advice and services of the Company Secretaries. Independent professional advice is also available to the Directors, if necessary, at the Group's expense.

## **CORPORATE GOVERNANCE (CONTD.)**

### **(i) BOARD RESPONSIBILITY AND OVERSIGHT(CONTD.)**

The number of meetings of the Board and the number of meetings attended by each Director of the Bank during the financial year is summarised in the the table below.

<b>Directors</b>	<b>Eligible to attend</b>	<b>Attended</b>
Tan Sri Dato' Azman Hashim	13	13
Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba (Resigned on 15.12.2005)	10	10
Tan Sri Datuk Dr Aris Osman @ Othman	13	10
Tan Sri Datuk Clifford Francis Herbert	13	13
Dato' Izham Mahmud	13	13
Cheah Tek Kuang	13	13
Kok Tuck Cheong	13	12
Pushparani A/P A Moothathamby	13	13

In accordance with the Bank's Articles of Association, all Directors who are appointed by the Board are subject to election by shareholders at the following general meeting after their appointment. The Articles also provide that the Directors are subject to re-election by rotation at each Annual General Meeting at least once every three years.

As an integral process of appointing new directors, there is an inhouse orientation programme for the new Board members to familiarise and provide them with an overview of the Group's businesses, the markets in which it operate; responsibilities and duties of the Board as a whole, its corporate and risk management strategies, regulatory constraints and compliance. Besides that, all members of the Board are encouraged to attend seminars, conferences and various training programmes to keep abreast with developments in the financial services industry.

The Group Company Secretary has been empowered by the Board to assist the Board in matters of governance and in complying with statutory duties

### **(ii) RISK MANAGMENT**

Risk management is about managing uncertainties such that deviations from the Group's intended objectives are kept within acceptable levels. Sustainable profitability forms the core objectives of the Group's risk management strategy.

Every risk assumed by the Group carries potential for gains as well as potential to erode shareholders' value. Risk management policy is designed to identify, capture and analyse these risks at an early stage, continuously measure and monitor these risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient returns. Seven types of risk identified are strategic, capital, credit, market, funding, operational and legal risks.

## **CORPORATE GOVERNANCE (CONTD.)**

### **The Risk Governing Bodies**

Managing risks is the responsibility of every unit within the Group. Nevertheless, the Group has set up committees where risk issues are centrally reviewed for management attention and bank wide decisions. They comprise the Board of Directors, the Risk Management Committee of Directors and the Executive Risk Management Committees.

### **Board Overview**

The focus on risk and risk management policies begins at the most senior level of the Bank, i.e the Board of Directors who:

- (a) approves the risk management strategy of the Bank and sets the broad risk tolerance level for the Bank; and
- (b) approves the engagement of new products or activities after taking into account the risk bearing capacity and readiness of the Bank.

The Risk Management Committee of Directors assists the Board in discharging their functions and overseeing the executive body by having a more focused forum on risk issues.

The Committee is independent from management and comprises only non-executive directors. The Committee:

- (a) ensures that risks at all levels are managed effectively and the Board's risk tolerance level is effectively enforced; and
- (b) reviews high-level risk exposures and management decisions to ensure that they are within the overall interests of the Bank.

## **(ii) RISK MANAGEMENT**

### **MANAGEMENT**

The Executive Risk Management Committees carry out the day-to-day management of risks and implements the Board's approved risk management policies. The Committees are chaired by senior level executives and participated by relevant senior executives of both the business and non-business units. The Committees:

- (a) implement the risk strategy and capital allocation decisions of the Board and Risk Management Committee of Directors;
- (b) review risk exposures of the Bank and the environment, and set appropriate risk positioning strategy;
- (c) assess the Bank's ability to accommodate risks under normal and stress scenario;

## **CORPORATE GOVERNANCE (CONTD.)**

- (d) review compliance with limits or constraints set;
- (e) monitor and assess risk-return profile; and
- (f) evaluate and approve recommendations made by the risk management and business units.

At the Group level, the consolidated risks of the Bank are reviewed and discussed at the Group Risk Forum. The Forum is represented by the Bank's chief executive officers, heads of risk management and other key senior executives of the Bank.

The Forum reviews risks at Group level and sets uniform standards in risk measurement and risk tolerance for the Group. The Forum also discusses and makes decisions on common risk issues for adoption across the Group.

### **Risk Management Department**

The Risk Management Department is independent of business units and reports to the Group Managing Director. It also serves to assist the Executive Risk Management Committees in discharging their duties and implementing the directives of the committees.

The major role of the Risk Management Department is to:

- (a) be a central platform for which risks throughout the Bank can be aggregated for overview on a portfolio basis;
- (b) standardise risk measurement methodology to enable comparability;
- (c) act as a central resource for evaluating risks to assist management, business and operating units; and
- (d) recommend means to control or minimise risks on a portfolio basis.

The Risk Management Department is made up of several units to provide a comprehensive coverage of all risks in the Bank. Their functions encompass research and analysis, portfolio risk exposure reporting, compliance monitoring, formulation of policies and risk assessment methodology and formulation of the Bank's risk strategies.

To achieve group harmonisation, risk measurement and evaluation methodologies are standardised across the Group. The resources of the research and development function of the risk management department are mobilised as a central resource for the Group.



**(iii) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES**

The Group Internal Audit Department reports to the Audit and Examination Committee and assists the Board of Directors in maintaining a sound system of internal control. The Audit Charter safeguards the independence of the internal audit function as the Head of Group Internal Audit reports to the Audit and Examination Committee. The Audit and Examination Committee approves the work of the internal audit function and monitors and reviews the conclusion of its work. The Internal Audit Department's annual audit plan is approved by the Audit and Examination Committee. The Internal Audit function covers all units and operations within the Group, with major emphasis being placed on high risk units. The frequency of audit depends on the risk profile of the business or operations unit and high risk units are audited at least once a year.

This audit function covers all major business groups and consists of 5 main categories of work:

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

The audit plan covers reviews of adequacy of risk management, operational controls, compliance with law and regulations, quality of assets, management efficiency and level of customer service amongst others. The audit plans are drawn up based on the inherent business risks and control risks in each operating unit and their financial significance, and these reviews are on a risk-based approach, rather than solely compliance.

The internal auditing function is conducted to ensure consistency in the control environment and the application of policies and procedures. A systematic and disciplined approach is adopted to provide the required assurance to stakeholders, and also to add value and improve the Group's operations by providing an independent and objective review.

**Other Key Elements Of Internal Control**

- (a) The Bank and its subsidiary companies had designed the organization structure with the objective to delineate appropriate authorization levels and proper segregation of duties.
- (b) The roles, responsibilities and expectations between the holding company and the subsidiary companies are clearly defined.
- (c) Various executive, management and operational committees are established by the major subsidiary companies to assist their respective Boards in ensuring the effectiveness of the operations.
- (d) The internal control culture is promoted via the introduction of various forms of initiatives which include, amongst others, emphasis on avoidance of conflict of interest and confidentiality of information, code of ethics and exceptions management procedure.
- (e) The banking subsidiary companies have established policies and procedures for anti-money laundering to facilitate the detection and reporting of money laundering activities.

## **CORPORATE GOVERNANCE (CONTD.)**

- (f) Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are documented and duly approved by the respective Boards. The policies and procedures of banking subsidiary companies are stated in operation manuals, guidelines and directives issued by the subsidiary companies which are updated from time to time.
- (g) Group annual budget is prepared and table for the Board's approval. Actual performance is compared against budget and reviewed by the Board with explanation of major variances.

### **(iv) MANAGEMENT REPORTS**

At the Bank level, monthly consolidated number for the Group are tabled to the Board for deliberation and approval. The Group quarterly consolidated numbers are tabled to the Audit and Examination Committee for review and the Board for approval for the purpose of quarterly reporting to Bank Negara Malaysia as well as quarterly announcement to Bursa Malaysia.

Major subsidiary companies' performance are also circulated and tabled monthly in the Board meetings.

## **INFORMATION ON COMMITTEE OF THE BANK**

The Board delegates certain responsibilities to Board Committees. These committees, which were created to assist the Board in certain areas of deliberation are:

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

The number of meeting of Committees of the Board and the number of meetings attended by each Directors of the Bank during the financial year is summarised in the table below:

<b>Directors</b>	<b>Nomination Committee</b>		<b>Remuneration Committee</b>	
	<b>Eligible to attend</b>	<b>Attended</b>	<b>Eligible to attend</b>	<b>Attended</b>
Tan Sri Dato' Azman Hashim	1	1	3	3
Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba (Resigned on 15.12.2005)	2	2	1	1
Tan Sri Datuk Dr Aris Osman @ Othmar	3	3	3	3
Tan Sri Datuk Clifford Francis Herbert	3	3	-	-
Dato' Izham Mahmud	3	3	3	3
Cheah Tek Kuang	3	3	-	-
Kok Tuck Cheong	-	-	-	-
Pushparani A/P A Moothathamby	-	-	-	-

## CORPORATE GOVERNANCE (CONTD.)

### INFORMATION ON COMMITTEES OF THE BANK

Directors	Audit and Examination Committee		Risk Management Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Tan Sri Dato' Azman Hashim	-	-	-	-
Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba (Resigned on 15.12.2005)	6	6	8	8
Tan Sri Datuk Dr Aris Osman @ Othmar	8	8	11	11
Tan Sri Datuk Clifford Francis Herbert	8	8	11	11
Dato' Izham Mahmud	8	8	-	-
Cheah Tek Kuang	2	2	-	-
Kok Tuck Cheong	-	-	-	-
Pushparani A/P A Moothathamby	-	-	-	-

#### The Nomination Committee

This Committee comprises the Deputy Chairman of the Bank and three other Independent Non-Executive Directors of the Board. It is responsible for regularly reviewing the board structure, size and composition, as well as making recommendations to the Board with regard to any changes that are deemed necessary. It also recommends the appointment of Directors to the Board and Committees of the Board as well as annually reviews the mix of skills and experience and other qualities and competencies that Non-Executive Directors should bring to the Board.

The Board of Directors, on the recommendation of the Nomination Committee had also approved the mechanism for the formal assessment on the effectiveness of the Board as a whole and Committees and the contribution of each Director to the effectiveness of the Board.

There were three (3) Nomination Committee meetings held at the Bank during the financial year ended 31 March 2006.

#### The Remuneration Committee

All members of this Committee are Non-Executive Directors. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, Chief Executive Officers and other senior management members of the staff.

Remuneration is determined at levels which enable the Group to attract and retain the Directors, Chief Executive Officers and Senior Management staff with the relevant experience and expertise needed to assist in managing the Group effectively.

**CORPORATE GOVERNANCE (CONTD.)  
INFORMATION ON COMMITTEE OF THE COMPANY**

**INFORMATION ON COMMITTEES OF THE BANK**

**The Audit And Examination Committee**

The Board has overall responsibility to shareholders for ensuring that the Group is well managed and guided by strategic objectives.

The Board has appointed the Audit and Examination Committee (A & E Committee) to assist in discharging its duties of maintaining a sound system of internal control to safeguard the Group's assets and shareholders' investments.

The principal functions of the Committee are as follows:

- (a) To provide assistance and to review and report to the Board in relation to:
  - (i) fulfilling the statutory and fiduciary responsibilities of the Group and of the Bank; and
  - (ii) monitoring of the accounting and financial reporting practices of the Group and of the Bank;
- (b) To determine that the Group and the Bank 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 Group and of the Bank;
- (c) To serve as an independent and objective party in the review of the financial information of the Group and of the Bank that is presented by Management to the Board and Shareholders;
- (d) To review the quarterly results and year-end financial statements of the Group and of the Bank and to ensure compliance with accounting standards and legal requirements;
- (e) To review and approve the scope of audits, audit plans and audit reports of both the external and internal auditors;
- (f) To evaluate the adequacy and effectiveness of the Management control systems of the Group and of the Bank 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;

## **CORPORATE GOVERNANCE (CONTD.)**

### **INFORMATION ON COMMITTEE OF THE BANK**

#### **The Audit And Examination Committee**

- (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 the 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 deemed necessary, periodic reports to the Board summarizing 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 Bank/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.

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

- (a) Reviewed and approved the Internal Audit Department's annual audit plan, including its resource and training needs;
- (b) Reviewed the Internal Audit Department's methodology in assessing and rating the risk levels of the various auditable areas and ensured that audit emphasis was given on high and critical risk areas;
- (c) Monitored the progress of the Internal Audit Department in completing its audit plan and assessed the performance of the Department;

## **CORPORATE GOVERNANCE (CONTD.)**

### **INFORMATION ON COMMITTEE OF THE BANK**

#### **The Audit And Examination Committee**

- (d) 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/controlling risk areas;
- (e) Reviewed and discussed reports of the Internal Audit Department, including internal investigations, BNM, external auditors and other external parties, considered Management's response and accordingly directed the Management to take the necessary remedial action. The Committee also followed-up on major issues raised in the reports;
- (f) To evaluate the adequacy and effectiveness of the Management control systems of the Group and of the Bank 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) Reviewed related party transactions and the adequacy of the Group's procedures in identifying, monitoring, reporting and reviewing related party transactions;
- (h) Reviewed the quarterly results and financial statements of the Group and the Bank; and
- (i) Reviewed appointment of the external auditors', their audit plan and annual audit fees.

The Managing Directors and the representatives of the external auditors are invited to attend the respective Committee meetings. The Company Secretary is the secretary to the Committee. The minutes of the Committee meetings are tabled at subsequent Board meetings.

#### **Risk Management Committee**

The Risk Management Committee oversees the overall management of all risks impacting the Group. It comprises non-executive Directors and is chaired by an Independent Director to ensure independence from management as it is the Committee that reviews and approves risk management policies and risk tolerance limits.

The Risk Management Committee comprises of the following members and in carrying out their duties the Risk Management Committee met eleven (11) times during the financial year.

## **IMMEDIATE AND ULTIMATE HOLDING COMPANY**

The directors regard AmInvestment Group Berhad and AMMB Holdings Berhad, both of which are incorporated in Malaysia and quoted on the Main Board of the Bursa Malaysia Securities Berhad as the immediate holding company and the ultimate holding company respectively.

## **RATING BY EXTERNAL AGENCY**

The Bank's sound financial health is reflected by the strong domestic credit ratings of AA3/P1 from Rating Agency of Malaysia, and A+/MARC-1 from Malaysian Rating Corporation Berhad. This is complemented by international ratings of BB+(Stable)/B from Standard and Poor's, BB(Stable)/B from Capital Intelligence and BB+(Stable)/B from Fitch Rating Singapore Pte Ltd (formerly known as Fitch IBCA, Duff & Phelps). The Bank's RM460.0 million Redeemable Unsecured Subordinated Bonds and RM200.0 million Subordinated Tier 2 Bonds have both been accorded a long-term rating of A1 by Rating Agency Malaysia Berhad.

## **SHARIAH COMMITTEE**

The Shariah Committee was established under Bank Negara Malaysia "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise and provide guidance to the Board of Directors on all matters pertaining to Shariah principles including product development, marketing and implementation activities. The Shariah advisor also assist in the setting up of business and operational procedures with respect to compliance with Shariah principles.

## **AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors

**TAN SRI DATO' AZMAN HASHIM**

**KOK TUCK CHEONG**

Kuala Lumpur, Malaysia  
30 May 2006

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, **TAN SRI DATO' AZMAN HASHIM** and **KOK TUCK CHEONG**, being two of the directors of **AmMERCHANT BANK BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 26 to 143 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 March 2006 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

**TAN SRI DATO' AZMAN HASHIM**

**KOK TUCK CHEONG**

Kuala Lumpur, Malaysia  
Date: 30 May 2006



**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**STATUTORY DECLARATION  
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, **ARUNASALAM MUTHUSAMY**, being the officer primarily responsible for the financial management of **AmMERCHANT BANK BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 26 to 143 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the  
abovenamed **ARUNASALAM MUTHUSAMY**  
at Kuala Lumpur in the Wilayah Persekutuan  
on 30 May 2006

**ARUNASALAM MUTHUSAMY**

Before me,

**COMMISSIONER FOR OATHS**

Lodged on behalf by :  
Address: 22nd Floor, Bangunan AmBank Group,  
No 55 Jalan Raja Chulan,  
50200 Kuala Lumpur  
Telephone Number : 03-20782633/44/55

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
AmMERCHANT BANK BERHAD  
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 26 to 143. These financial statements are the responsibility of the Bank's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Bank as at 31 March 2006 and of the results and the cash flows of the Group and of the Bank for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

**ERNST & YOUNG**  
AF:0039  
Chartered Accountants

**Lim Saw Keng**  
No.2215/10/07(J)  
Partner

Kuala Lumpur, Malaysia  
30 May 2006

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**BALANCE SHEETS  
AS AT 31 MARCH 2006**

	Note	2006		2005	
		Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>ASSETS</b>					
Cash and short-term funds	4	3,106,184	2,992,725	2,579,909	2,329,913
Securities purchased under resale agreements		529,267	504,464	9,671	-
Deposits and placements with banks and other financial institutions	5	1,223,624	1,223,056	392,923	428,400
Securities held-for-trading	6	7,053,649	7,032,722	3,576,932	3,554,660
Securities available-for-sale	7	831,821	806,218	882,140	585,979
Securities held-to-maturity	8	1,807,667	1,723,419	1,373,083	1,247,177
Loans, advances and financing	9	4,198,168	4,041,939	4,528,871	4,350,433
Other assets	10	259,445	251,184	288,656	276,996
Statutory deposit with Bank Negara Malaysia	11	244,130	244,130	244,294	244,294
Investments in subsidiary companies	12	-	83,103	-	38,617
Investments in associated companies	13	41,100	21,950	39,432	21,950
Property and equipment	14	40,061	37,670	40,565	37,912
Deferred tax asset	37	66,644	66,644	76,736	76,736
Goodwill on consolidation	15	36,442	-	-	-
<b>TOTAL ASSETS</b>		<b>19,438,202</b>	<b>19,029,224</b>	<b>14,033,212</b>	<b>13,193,067</b>

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**BALANCE SHEETS  
AS AT 31 MARCH 2006 (CONTD.)**

	Note	2006		2005	
		Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	16	6,432,177	6,230,392	5,294,436	4,705,300
Deposits and placements of banks and other financial institutions	17	7,516,897	7,682,121	4,591,416	4,713,020
Obligations on securities sold under repurchase agreements	18	2,590,281	2,590,281	1,463,910	1,463,910
Acceptances payable	19	3,103	3,103	3,186	3,186
Other liabilities	20	223,864	203,880	92,563	76,444
Recourse obligation on loans sold to Cagamas Berhad	21	89,694	89,694	132,798	132,798
Term loans	22	276,233	-	285,000	-
Subordinated certificates of deposits	23	-	-	198,768	198,768
Redeemable unsecured subordinated bonds	24	595,000	595,000	460,000	460,000
Total liabilities		<u>17,727,249</u>	<u>17,394,471</u>	<u>12,522,077</u>	<u>11,753,426</u>
Share capital	25	310,000	310,000	300,000	300,000
Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 2002/2007	26	120,000	120,000	120,000	120,000
Reserves	27	1,280,953	1,204,753	1,085,052	1,019,641
Shareholder's equity		<u>1,710,953</u>	<u>1,634,753</u>	<u>1,505,052</u>	<u>1,439,641</u>
Minority interests	28	-	-	6,083	-
Total equity		<u>1,710,953</u>	<u>1,634,753</u>	<u>1,511,135</u>	<u>1,439,641</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>19,438,202</u>	<u>19,029,224</u>	<u>14,033,212</u>	<u>13,193,067</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	43	<u>25,493,220</u>	<u>25,444,861</u>	<u>14,821,270</u>	<u>14,807,056</u>

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**BALANCE SHEETS  
AS AT 31 MARCH 2006 (CONTD.)**

	Note	2006		2005	
		Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>NET TANGIBLE ASSETS PER SHARE (RM)</b>	46	8.11	7.78	7.49	7.20
<b>NET TANGIBLE ASSETS PER SHARE, AFTER DEDUCTING THE NOMINAL AMOUNTS OF ICULS 2002/2007 AND PREFERENCE SHARE CAPITAL (RM)</b>	46	7.07	6.74	6.39	6.10

The accompanying notes form an integral part of the financial statements.

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**INCOME STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

	Note	2006		2005	
		Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Operating revenue		984,227	925,711	833,591	804,253
Interest income	29	597,152	578,424	564,349	536,343
Interest expense	30	(463,210)	(447,695)	(410,401)	(394,563)
Net interest income		133,942	130,729	153,948	141,780
Income from Islamic banking business	51(xxiv)	76,008	75,229	47,552	47,552
Other operating income	31	311,067	272,058	221,690	220,358
Net income		521,017	478,016	423,190	409,690
Other operating expenses	32	(143,819)	(118,815)	(132,833)	(110,978)
Operating profit		377,198	359,201	290,357	298,712
Allowance for losses on loans and financing	33	(60,434)	(50,538)	(48,286)	(47,022)
Impairment writeback/(loss) on:					
Securities		3,634	623	(10,549)	(7,800)
Assets acquired in exchange of debts		(660)	(660)	-	-
Transfer from/(to) profit equalisation reserve		1,919	1,919	(2,195)	(2,195)
Allowance for doubtful sundry receivables - net		(448)	(448)	(1,778)	(1,778)
Provision for commitments		(262)	(262)	(63)	(63)
Profit before share in results of associated companies		320,947	309,835	227,486	239,854
Share in results of associated companies		2,387	-	16,314	-
Profit before taxation		323,334	309,835	243,800	239,854
Taxation:	36	(86,445)	(86,418)	(68,163)	(62,596)
Bank and subsidiaries		(86,348)	(86,418)	(63,547)	(62,596)
Associates		(97)	-	(4,616)	-
Profit before minority interests		236,889	223,417	175,637	177,258
Minority shareholders' interests in results of subsidiary companies		(1,330)	-	(2,292)	-
Net profit attributable to the shareholder of the Bank		235,559	223,417	173,345	177,258
Earnings per share (sen)	39				
Basic		105.9	100.1	79.5	81.4
Fully diluted		69.5	65.9	52.5	53.7

The accompanying notes form an integral part of the financial statements.

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2006**

Group	Note	Non-distributable					Distributable		Total RM'000	
		Share capital RM'000	ICULS RM'000	Capital reserve RM'000	Share premium RM'000	Statutory reserve RM'000	Available- for-sale reserve RM'000	Exchange fluctuation reserve RM'000		Unapp- ropriated profits RM'000
<b>At 1 April 2004</b>										
As previously stated		300,000	120,000	2,815	60,284	300,000	-	29,618	709,107	1,521,824
Prior year adjustments	50	-	-	-	-	-	(16,360)	-	1,831	(14,529)
At 1 April 2004 (restated)		300,000	120,000	2,815	60,284	300,000	(16,360)	29,618	710,938	1,507,295
Net unrealised loss on revaluation of securities available-for-sale		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	812	-	-	812
Profit for the year		-	-	-	-	-	-	-	173,345	173,345
Interest on ICULS		-	-	-	-	-	-	-	(7,200)	(7,200)
Proposed preference dividends	38	-	-	-	-	-	-	-	(7,200)	(7,200)
Ordinary dividends paid	38	-	-	-	-	-	-	-	(162,000)	(162,000)
<b>At 31 March 2005</b>		<b>300,000</b>	<b>120,000</b>	<b>2,815</b>	<b>60,284</b>	<b>300,000</b>	<b>(15,548)</b>	<b>29,618</b>	<b>707,883</b>	<b>1,505,052</b>
<b>At 1 April 2005</b>										
As previously stated		300,000	120,000	2,815	60,284	300,000	-	29,618	704,090	1,516,807
Prior year adjustments	50	-	-	-	-	-	(15,548)	-	3,793	(11,755)
At 1 April 2005 (restated)		300,000	120,000	2,815	60,284	300,000	(15,548)	29,618	707,883	1,505,052
Issued during the period		10,000	-	-	40,000	-	-	-	-	50,000
Net unrealised gain on revaluation of securities available-for-sale		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	12,493	-	-	12,493
Profit for the year		-	-	-	-	-	-	-	235,559	235,559
Interest on ICULS		-	-	-	-	-	-	-	(7,200)	(7,200)
Transfer from income statements		-	-	-	-	29,549	-	-	(29,549)	-
Proposed preference dividends	38	-	-	-	-	-	-	-	(7,200)	(7,200)
Ordinary dividends paid	38	-	-	-	-	-	-	-	(75,312)	(75,312)
Translation adjustments		-	-	-	-	-	-	(2,439)	-	(2,439)
<b>At 31 March 2006</b>		<b>310,000</b>	<b>120,000</b>	<b>2,815</b>	<b>100,284</b>	<b>329,549</b>	<b>(3,055)</b>	<b>27,179</b>	<b>824,181</b>	<b>1,710,953</b>



**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**STATEMENT OF CHANGES IN EQUITY (CONTD.)  
FOR THE YEAR ENDED 31 MARCH 2006**

Bank	Note	Share capital RM'000	ICULS RM'000	Non-distributable			Distributable	Total RM'000
				Share premium RM'000	Statutory reserve RM'000	Available- for-sale reserve RM'000	Unapp- ropriated profits RM'000	
<b>At 1 April 2004</b>								
As previously stated		300,000	120,000	60,284	300,000	-	671,485	1,451,769
Prior year adjustments	50	-	-	-	-	(16,740)	1,831	(14,909)
At 1 April 2004 (restated)		300,000	120,000	60,284	300,000	(16,740)	673,316	1,436,860
Net unrealised loss on revaluation of securities available-for-sale		-	-	-	-	1,923	-	1,923
Profit for the year		-	-	-	-	-	177,258	177,258
Interest on ICULS		-	-	-	-	-	(7,200)	(7,200)
Proposed preference dividends	38	-	-	-	-	-	(7,200)	(7,200)
Ordinary dividends paid	38	-	-	-	-	-	(162,000)	(162,000)
<b>At 31 March 2005</b>		<b>300,000</b>	<b>120,000</b>	<b>60,284</b>	<b>300,000</b>	<b>(14,817)</b>	<b>674,174</b>	<b>1,439,641</b>
<b>At 1 April 2005</b>								
As previously stated		300,000	120,000	60,284	300,000	-	671,666	1,451,950
Prior year adjustments	50	-	-	-	-	(14,817)	2,508	(12,309)
At 1 April 2005 (restated)		300,000	120,000	60,284	300,000	(14,817)	674,174	1,439,641
Profit for the year		-	-	-	-	-	223,417	223,417
Issued during the period		10,000	-	40,000	-	-	-	50,000
Net unrealised gain on revaluation of securities available-for-sale		-	-	-	-	11,407	-	11,407
Interest on ICULS		-	-	-	-	-	(7,200)	(7,200)
Proposed preference dividends	38	-	-	-	-	-	(7,200)	(7,200)
Ordinary dividends paid	38	-	-	-	-	-	(75,312)	(75,312)
Transfer from income statements		-	-	-	29,549	-	(29,549)	-
<b>At 31 March 2006</b>		<b>310,000</b>	<b>120,000</b>	<b>100,284</b>	<b>329,549</b>	<b>(3,410)</b>	<b>778,330</b>	<b>1,634,753</b>

The accompanying notes form an integral part of the financial statements.

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	323,334	309,835	243,800	239,854
Add/(Less) adjustments for:				
Allowance for losses on loans and financing, net of recoveries	60,434	50,538	48,286	47,022
Depreciation of property and equipment	7,136	6,455	11,990	11,209
Goodwill on consolidation	935	-	-	-
Amortisation of premium on acquisition	621	-	1,274	-
Impairment loss on assets acquired in exchange of debts	660	660	-	-
Allowance for doubtful sundry receivables - net	448	448	1,778	1,778
Sundry bad debts written off - net	344	344	280	280
Provision for commitments	262	262	63	63
Net interest suspended	58	58	2,731	2,731
Property and equipment written off	6	6	1	1
Net gain from sale of securities held-for-trading	(94,000)	(94,294)	(69,831)	(70,095)
Gross dividend income from investments	(36,349)	(51,988)	(41,846)	(51,925)
Net gain on redemption of securities held-to-maturity	(27,592)	(27,587)	(9,011)	(30,511)
(Gain)/Loss on revaluation of securities held-for-trading	(23,185)	(23,592)	6,092	5,686
Amortisation of premiums less accretion of discounts	(12,738)	(12,599)	17,464	24,232
Unrealised foreign exchange gain	(7,051)	(4,561)		
Gain on revaluation of derivatives	(6,171)	(5,092)	(6,625)	(6,625)
Impairment (gain)/loss on securities	(3,634)	(623)	10,549	7,800
Share in results of associated companies	(2,387)	-	(16,314)	-
Transfer to/(from) profit equalisation reserve	(1,919)	(1,919)	2,195	2,195
Gain on disposal of property and equipment	(416)	(416)	(151)	(150)
Gain on disposal of subsidiary company	(291)	-	-	-
Net gain from sale of securities available-for-sale	(92)	(741)	-	-
Gain on disposal of investment in an associated company	-	-	-	(21,876)
Operating profit before working capital changes carried forward	178,413	145,194	202,725	161,669

AmMerchant Bank Berhad

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006 (CONTD.)**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)</b>				
Operating profit before working capital changes brought forward	178,413	145,194	202,725	161,669
(Increase)/Decrease in operating assets:				
Securities purchased under resale agreement	(519,596)	(504,464)	(7,383)	-
Deposits and placements with banks and other financial institutions	(830,701)	(794,656)	(143,196)	200,100
Securities held-for-trading	(3,353,362)	(3,355,084)	(358,225)	(354,284)
Loans, advances and financing	270,211	257,898	718,910	726,111
Other assets	45,963	38,598	65,966	61,187
Statutory deposit with Bank Negara Malaysia	164	164	80,110	80,110
(Decrease)/Increase in operating liabilities:				
Deposits from customers	1,137,741	1,525,092	(635,422)	(677,165)
Deposits and placements of banks and other financial institutions	2,925,481	2,969,101	(892,836)	(933,985)
Obligations on securities sold under repurchase agreements	1,126,371	1,126,371	(20,641)	(6,134)
Acceptances payable	(83)	(83)	(3,959)	(3,959)
Recourse obligation on loans sold to Cagamas Berhad	(43,104)	(43,104)	(20,306)	(20,306)
Other liabilities	131,347	129,799	(33,263)	(41,025)
Cash (used in)/generated from operations	1,068,845	1,494,826	(1,047,520)	(807,681)
Taxation paid	(76,150)	(70,250)	(46,066)	(44,074)
Net cash (used in)/generated from operating activities	992,695	1,424,576	(1,093,586)	(851,755)

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006 (CONTD.)**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividends received from other investments	26,171	34,515	30,130	34,470
Dividends received from subsidiary companies	-	2,916	-	2,916
Proceeds from disposal of property and equipment	500	500	287	285
Proceeds from disposal of a subsidiary company	302	304	-	-
Proceeds from disposal/(purchase) of securities - net	(328,375)	(644,184)	1,121,204	1,271,310
Acquisition of additional shares in unit trust and asset management subsidiary companies	(44,790)	(44,790)	-	-
Purchase of property and equipment	(6,748)	(6,313)	(4,750)	(3,447)
Proceeds from disposal of an associated company	-	-	82,518	82,518
Dividends received from associated companies	-	-	4,433	-
Capital repayment by an associated company	-	-	780	780
Net cash generated from/(used in) investing activities	<u>(352,940)</u>	<u>(657,052)</u>	<u>1,234,602</u>	<u>1,388,832</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from Redeemable Unsecured Subordinated Bonds	135,000	135,000	-	-
Proceeds from issue of shares in the Bank	50,000	50,000	-	-
Repayment of subordinated certificate of deposit	(200,000)	(200,000)	-	-
Dividends paid by the Bank to its shareholder	(75,312)	(75,312)	(162,000)	(162,000)
Repayment of subordinated term loans	(8,768)	-	(19,000)	(190,000)
ICULS interest paid	(7,200)	(7,200)	(7,200)	(7,200)
Preference dividends paid	(7,200)	(7,200)	(7,200)	(7,200)
Dividends paid to minority interests	-	-	(864)	-
Net cash used in financing activities	<u>(113,480)</u>	<u>(104,712)</u>	<u>(196,264)</u>	<u>(366,400)</u>

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006 (CONTD.)**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Net increase/(decrease) in cash and cash equivalents	526,275	662,812	(55,248)	170,677
Cash and cash equivalents at beginning of year	2,579,909	2,329,913	2,635,157	2,159,236
Cash and cash equivalents at end of year (Note 1)	3,106,184	2,992,725	2,579,909	2,329,913

**Note 1 : Disposal of MVMi**

The fair value of assets and liabilities disposed arising on the disposal of direct management of venture capital subsidiary company, Malaysian Venture Management Incorporated Sdn Bhd during the financial year ended 31 March 2006 were as follows:

Net assets disposed	2006	
	Group RM'000	Bank RM'000
Cash and short-term funds	2	-
Other assets	24	-
Investment in subsidiary companies	-	304
Fixed assets	1	-
Other liabilities	(14)	-
Net assets disposed as at date of disposal	13	304
Gain on disposal	291	-
Net value on disposal	304	304
Less : Cash and short-term funds	(2)	-
Cash flow on disposal, net of cash disposed	302	304

**Note 2 : Cash and cash equivalents**

For the purpose of the cash flow statements, cash and cash equivalents consist of cash and short-term funds net of bank overdraft. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Cash and short term funds	3,106,184	2,992,725	2,579,909	2,329,913

The accompanying notes form an integral part of the financial statements.

*AmMerchant Bank Berhad*

**AmMERCHANT BANK BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006**

**1. PRINCIPAL ACTIVITIES**

The Bank and its subsidiary companies, as listed in Note 12, provide a wide range of merchant banking and related financial services which also includes the Islamic banking business, investment advisory and asset, real estate investment and unit trusts management.

There have been no significant changes in the nature of the activities of the Bank and its subsidiary companies during the financial year.

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Bank is located at 22nd Floor, Bangunan AmBank Group, 55 Jalan Raja Chulan, 50200 Kuala Lumpur.

The financial statements of the Group and of the Bank have been approved and authorised for issue by the Board of Directors on 26 April 2006.

**2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated and in accordance with the provisions of the Companies Act, 1965, the Banking and Financial Institutions Act, 1989, Bank Negara Malaysia ("BNM") Guidelines and the applicable approved accounting standards of the Malaysian Accounting Standards Board. The financial statements incorporate those activities relating to Islamic banking business which have been undertaken by the Bank. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the Shariah Principles.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies are consistent with those adopted in the previous audited annual financial statements except for the adoption of the Revised Guidelines on Financial Reporting for Licensed Institutions (Revised BNM/GP8) issued by BNM on 5 October 2004, which became effective for the current financial year. The adoption of the Revised BNM/GP8 resulted in the adoption of the following new accounting policies:

- (i) the recognition and measurement of the holdings of the investment and dealing securities portfolio of the Group as securities held-for-trading, securities held-to-maturity and securities available-for-sale;
- (ii) the recognition and measurement of derivative financial instruments and the adoption of hedge accounting; and
- (iii) where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing shall be reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, the interest accrued on the non-performing loans shall be recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

Comparative figures have been adjusted or extended to conform with the requirements of the Revised BNM/GP8 that have been applied retrospectively for one year. The effects of these changes are disclosed in Note 50 to the financial statements.

However, BNM has granted indulgence to the Group and the Bank from complying with the requirements on the impairment of loans under the Revised BNM/GP8. The Group and the Bank are deemed to be in compliance with the requirement on impairment of loans under the Revised BNM/GP8 provided that the specific and general allowances for loans, advances and financing are computed based on BNM's guidelines on the "Classification of Non-Performing Loans and Provisions for Substandard, Bad and Doubtful Debts" ("BNM/GP3").

### **Basis Of Consolidation**

Financial statements of subsidiary companies are consolidated using the acquisition method of accounting and the Group's financial statements include the financial statements of the Bank and all its subsidiary companies listed in Note 12 made up to the end of the financial year.

Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of during the financial year are included in the Group financial statements from the effective date of acquisition or to the effective date of disposal, as applicable. All significant intercompany transactions and balances have been eliminated on consolidation.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with exchange differences which were not previously recognised in the consolidated income statement.

### **Investments In Subsidiary Companies**

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Investments in subsidiary companies, which are eliminated on consolidation, are stated in the Bank's financial statements at cost and are written down when the directors consider that there is an impairment loss that is other than temporary on the value of such investments in the Bank's financial statements. The impairment loss is charged to the income statement.

On disposal of such investments, the difference between the net disposal proceeds and their carrying amount is charged or credited to the income statement.

Minority interests in the Group represent that part of the net results of operations, or of net assets, of subsidiary companies attributable to shares and debentures owned, directly or indirectly other than by the Company or subsidiary companies.

### **Investments In Associated Companies**

An associated company is a company in which the Group has a long term equity interest of between 20% and 50% and where the Group has representation on the Board and is in a position to exercise significant influence in its management.

Investments in associated companies are stated at cost and are written down when the directors consider that there is an impairment loss that is other than temporary on the value of such investments in the Bank's financial statements. The impairment loss is charged to the income statement. In the consolidated financial statements, the results of associated companies are accounted for under the equity method whereby the Group's share of post-acquisition profits less losses of associated companies is included in the consolidated income statement. The Group's interest in associated companies is stated at cost plus adjustments to reflect changes in the Group's share of the net assets of the associated companies in the consolidated balance sheet.

On disposal of such investments, the difference between the net disposal proceeds and their carrying amount is charged or credited to the income statement.

### **Goodwill/Premium On Consolidation**

Goodwill on consolidation represents the excess of the purchase consideration over the share of the fair values of the identifiable net assets of a subsidiary company at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. Goodwill is generally amortised evenly over an estimated useful life of twenty to fifty years. The policy for the recognition and measurement of impairment losses is in accordance with the policy on impairment of assets.

Premium on consolidation on the acquisition of associated companies is included within the carrying amount of the associated companies and represents the excess of the purchase consideration over the Group's interest in the fair values of the identifiable net assets of associated companies at the date of acquisition. The premium on consolidation on the acquisition of associated companies is amortised over an estimated useful life of twenty five years.

When an indication of impairment exists, the carrying amount of goodwill and premium is assessed and written down immediately to its recoverable amount.

### **Repurchase Agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with commitments to resell at future dates. The commitments to resell the securities are reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank had sold from its portfolio, with commitments to repurchase at future dates for funding purposes. The carrying values of the securities underlying these repurchase agreements remain in the respective asset accounts at amortised cost or fair value depending on their classification while the obligations to repurchase such securities at agreed prices on a specified future dates are accounted for as a liability on the balance sheet.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the borrowed securities is recorded as securities sold but not yet repurchased as disclosed in other liabilities. Unrealised gains and losses from revaluation are recognised in the income statement.



## **Securities**

The holdings of the securities portfolio of the Group are recognised based on the following categories and valuation methods. Management determines the classification of securities at initial recognition.

(i) Securities held-for-trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short term price movements or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement.

(ii) Securities held-to-maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from the derecognition of securities held-to-maturity are recognised in the income statement.

(iii) Securities available-for-sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at amortised costs (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed off or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

## **Allowance For Doubtful Debts And Financing**

Based on management's evaluation of the portfolio of loans, advances and financing, specific allowances for doubtful debts and financing are made when the collectibility of receivables becomes uncertain. In evaluating collectibility, management considers several factors such as the borrower's financial position, cash flow projections, management, quality of collateral or guarantee supporting the receivables as well as prevailing and anticipated economic conditions.

A general allowance based on set percentages of the net increase in receivables is also made. These percentages are reviewed annually in the light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowance, if necessary.

An uncollectible loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of management, there is no prospect of recovery.

The policy on allowances for non-performing loans of the Group is in conformity with the minimum requirements of BNM's "Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" ("BNM/GP3").

### **Trade And Other Receivables**

Trade and other receivables are stated at book value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

### **Foreclosed Properties**

Foreclosed properties are those acquired in full or partial satisfaction of debts and are stated at cost less allowance for diminution in value, if any, of such properties.

### **Amounts Recoverable From Pengurusan Danaharta Nasional Berhad ("Danaharta")**

This relates to the loans sold to Danaharta where the total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Bank's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as 'Amounts recoverable from Danaharta' within the 'Other Assets' component of the balance sheet. Allowances against these amounts are made to reflect the Directors' assessment on the realisable value of the final consideration as at the balance sheet date.

### **Property And Equipment And Depreciation**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with the policy on impairment of assets.

Freehold land is not depreciated. Leasehold land is amortised over the shorter of the lease period or fifty years. Depreciation of other property and equipment is calculated using the straight-line method at rates based on the estimated useful lives of the various assets.

The annual depreciation rates for the various classes of property and equipment are as follows:

Freehold building	2%
Leasehold buildings	2% or over the term of short term lease
Motor vehicles	20%
Leasehold improvements	20%
Computer hardware and software	20% - 33 1/3%
Office equipment, furniture and fittings	10% - 33 1/3%

Gain or loss arising from disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statement.

### **Assets Purchased Under Lease**

Assets purchased under finance leases which in substance transfer the risks and benefits of ownership of the assets to the Group are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine, otherwise the Group's incremental borrowing rate is used.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statement as incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

As at 31 March 2006, the Group and the Bank do not have any assets purchased under lease.

### **Impairment Of Assets**

The carrying values of assets other than financial assets (other than investments in subsidiary and associated companies, securities available for sale and securities held-to-maturity) and deferred tax assets are reviewed for impairment when there is an indication that the asset might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows, if applicable. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit.

An impairment loss is charged to the income statements immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statements immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statements, a reversal of that impairment loss is recognised as income in the income statement.

### **Acceptances Payable**

Acceptances payable represent the Bank own acceptances rediscounted and outstanding in the market.

### **Liabilities**

Deposits from customers are stated at placement values. Deposits and placement of banks and other financial institutions are stated at placement values.

Trade and other payables are stated at cost which is the fair value of the consideration to be paid in the future for services received.

### **Profit Equalisation Reserve ("PER")**

PER is a mechanism to reduce the fluctuation in the profit rates payable to depositors under the Islamic banking business. It is provided based on the Framework of the Rate of Return issued by BNM. The account of PER is appropriated from and written back to the total Islamic banking gross income. PER is reflected under "other liabilities" of the Group and of the Bank.

### **Provisions**

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of a past event and a reliable estimate can be made of the amount.

### **Redeemable Unsecured Subordinated bonds**

These are long term debts with remaining maturity of more than one year. The issue proceeds are recognised at cost and used to grant an unsecured term loan to its related licensed commercial bank for capital refinancing purpose. The interest incurred is recognised on a straight-line accrual basis.

### **Interest Bearing Irredeemable Convertible Unsecured Loan Stocks (ICULS)**

The ICULS are regarded as equity instruments and the full issuance proceeds reflected as equity. The interest is accrued on a straight-line basis and recognised in equity.

### **Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in the equity statement in the year in which they are declared.

The transaction costs of an equity are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### **Financial Instruments**

Financial instruments are recognised in the balance sheet when the group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liabilities, is reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

### **Forward Exchange Contracts**

Unmatured forward exchange contracts are valued at forward rates prevailing at balance sheet date, applicable to their respective dates of maturity, and the resultant gains and losses are recognised in the income statement.

### **Derivative Financial Instruments And Hedge Accounting**

Derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivative instrument is recognised in the income statements unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(i) Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instruments is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

(ii) Cash flow hedge

Gains and losses on the hedging instruments, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are then released to the income statement in the periods when the hedged item affects the income statement.

### **Sell And Buy Back Agreements**

These are obligations of the Group to perform its commitment to buy back specified Islamic securities at maturity. Gains and losses are recognised upon sale and shown as trading gain or loss from securities.

### **Operating Revenue**

Operating revenue of the Group and of the Bank comprises net interest income, income from Islamic banking business and other operating income.

### **Interest And Financing Income And Expense Recognition**

Interest income is recognised in the income statement for all interest bearing assets on an accrual basis. Interest income includes the amortisation of premium or accretion of discount. Interest and financing income on securities are recognised on an effective yield basis.

The Group and the Bank follow the financing method of accounting for income from leasing activities. Under the financing method, the excess of aggregate rentals over the cost (reduced by estimated residual value at the end of the lease) of the leased property is taken as income over the term of the lease in decreasing amounts proportionate to the declining balance of the unrecovered sum using the 'sum-of-digits' method.

Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing is reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, the interest accrued on the non-performing loans is recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

An account is classified as non-performing where repayment is in arrears for more than three months and after maturity dates for trade bills, bankers' acceptances and trust receipts.

The Group's policy on recognition of interest income on loans and advances is in conformity with BNM's "Guideline on Classification of Non-Performing Loans and Provision for Bad and Doubtful Debts" ("BNM/GP3") and Revised BNM/GP8.

Interest expense and attributable income on deposits and borrowings (pertaining to activities relating to Islamic banking business) of the Group and of the Bank are accrued on a straight-line basis.

#### **Fee And Other Income Recognition**

Loan arrangement, management and participation fees and acceptance, commissions and underwriting commissions, are recognised as income upon execution of contracts.

Fees from advisory and corporate finance activities are recognised as income on completion of each stage of the engagement.

Asset, property and unit trusts management, agency and commitment fees are recognised as income based on time apportionment.

Revenue from sale of trust units is recognised upon allotment of units, net of cost of units sold. Profits and losses on disposal of investments, are taken to the income statements. On disposal of investments, the difference between the net disposal proceeds and their carrying amounts are taken to the income statements.

Guarantee fees are recognised as income upon issuance and, where the guarantee periods are longer than one year, over the duration of the guarantee period.

Equipment and property rental are recognised on an accrual basis.

Dividends from securities are recognised when received. Dividends from subsidiary and associated companies are recognised when the shareholder's right to receive payment is established.

Rental income is recognised on an accrual basis when it falls due.

## **Employee Benefits**

### (i) Short-term Employee Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

### (ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred. Once the contribution has been paid, the Group has no further payment obligations.

## **Income Taxes**

Tax on profit or loss for the financial year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based on the taxable profits.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Temporary differences are not recognised for goodwill or negative goodwill or from the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

### **Foreign Exchange**

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange prevailing at transaction dates or, if covered by foreign exchange contracts, at contracted rates. Where settlement has not taken place at balance sheet date, translation into Ringgit Malaysia is at the approximate exchange rates prevailing at that date or at contracted rates. All foreign exchange gains or losses are taken up in the income statement.

For the purpose of consolidation, assets and liabilities of subsidiary and associated companies expressed in foreign currencies are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date while income statement is translated into Ringgit Malaysia at the average exchange rate for the year. Gains or losses arising on translation into Ringgit Malaysia are taken up in the exchange fluctuation reserve. Translation losses in excess of amounts in the exchange fluctuation reserve, if any, are taken up in the income statement.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used for translation are as follows:

	<b>31.3.2006</b>	<b>31.3.2005</b>
Singapore Dollar (SGD)	2.28	2.30
United States Dollar (USD)	3.68	3.80

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### **Cash Flow Statements**

The Group and the Bank adopt the indirect method in the preparation of the cash flow statements.

### **Cash And Cash Equivalents**

For the purpose of the cash flow statements, cash and cash equivalents consist of cash and short-term funds net of bank overdrafts.



**4. CASH AND SHORT-TERM FUNDS**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Cash and bank balances	11,108	7,447	38,885	24,604
Money at call and deposits maturing within one month:				
Licensed bank:				
Subsidiary	-	15,889	-	-
Related	609,794	601,473	47,672	205,409
Others	669,382	552,016	1,055,952	662,500
Other licensed finance companies	-	-	5,000	5,000
Bank Negara Malaysia	1,815,900	1,815,900	1,432,400	1,432,400
	<u>3,106,184</u>	<u>2,992,725</u>	<u>2,579,909</u>	<u>2,329,913</u>

Included in the above are interbank lendings of RM3,092,322,000 (RM2,541,024,000 as at 31 March 2005) and RM2,985,278,000 (RM2,305,309,000 as at 31 March 2005) for the Group and the Bank, respectively.

**5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Licensed banks:				
Subsidiary	-	-	-	38,000
Related	860,561	859,993	2,523	-
Others	289,401	289,401	-	-
Licensed merchant banks	-	-	25,000	25,000
Bank Negara Malaysia	-	-	129,800	129,800
Other financial institutions	73,662	73,662	235,600	235,600
	<u>1,223,624</u>	<u>1,223,056</u>	<u>392,923</u>	<u>428,400</u>

The deposits and placements with banks and other financial institutions mature within one year.

Included in the above are interbank lendings of RM1,223,056,000 (RM390,400,000 as at 31 March 2005) and RM1,223,056,000 (RM428,400,000 as at 31 March 2005) for the Group and the Bank, respectively.

**6. SECURITIES HELD-FOR-TRADING**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>At Fair Value</b>				
<b>Money Market Securities</b>				
Treasury Bills	34,282	34,282	-	-
Islamic Treasury Bills	146	146	-	-
Malaysian Government Securities	1,306,817	1,306,817	448,830	448,830
Malaysian Government Investment Certificates	27,088	27,088	8,303	8,303
Cagamas bonds	100,021	100,021	90,361	90,361
Khazanah bonds	912	912	152,276	152,276
Cagamas Mudharabah bearer bonds	264,207	264,207	-	-
Negotiable instruments of deposits	2,684,425	2,684,425	1,646,214	1,646,214
Negotiable Islamic Debt Certificates	23,804	23,804	48,295	48,295
Bank Negara Malaysia Bills	5,143	5,143	-	-
Islamic Bank Negara Malaysia Bills	2,491	2,491	56,323	56,323
Sukuk Bank Negara Malaysia	95,798	95,798	-	-
	<u>4,545,134</u>	<u>4,545,134</u>	<u>2,450,602</u>	<u>2,450,602</u>
<b>Securities Quoted In Malaysia</b>				
Shares	101,313	101,313	69,193	69,193
Trust units	136,728	136,728	1,849	1,849
Corporate bonds	20,927	-	22,272	-
Loan stocks	-	-	1,613	1,613
	<u>258,968</u>	<u>238,041</u>	<u>94,927</u>	<u>72,655</u>
<b>Unquoted Private Debt Securities Of Companies Incorporated In Malaysia</b>				
Islamic corporate bonds	1,305,975	1,305,975	613,174	613,174
Corporate notes	38,420	38,420	72,910	72,910
Corporate bonds	709,263	709,263	239,883	239,883
Islamic corporate notes	117,809	117,809	-	-
	<u>2,171,467</u>	<u>2,171,467</u>	<u>925,967</u>	<u>925,967</u>
<b>Unquoted Guaranteed Private Debt Securities Of Companies Incorporated In Malaysia</b>				
Corporate bonds	67,701	67,701	68,564	68,564
Islamic corporate notes	10,379	10,379	36,872	36,872
	<u>78,080</u>	<u>78,080</u>	<u>105,436</u>	<u>105,436</u>
Total securities held-for-trading	<u>7,053,649</u>	<u>7,032,722</u>	<u>3,576,932</u>	<u>3,554,660</u>

Certain money market securities held have been sold under repurchase agreements for funding purposes. The carrying values of the securities underlying these repurchase agreements remain in the respective asset accounts while the obligations to repurchase such securities at an agreed price on a specified future date are accounted for as a liability as shown in Note 18.

**7. SECURITIES AVAILABLE-FOR-SALE**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>At Fair Value</b>				
<b>Money Market Securities</b>				
Malaysian Government Securities	-	-	269,996	-
<b>Quoted Securities In Malaysia</b>				
Corporate bonds	18,576	-	18,052	-
<b>Unquoted Private Debt Securities Of Companies Incorporated In Malaysia</b>				
Corporate bonds	134,250	134,250	69,869	69,869
Islamic corporate notes	18,729	18,729	-	-
Islamic corporate bonds	217,183	217,183	-	-
	<u>370,162</u>	<u>370,162</u>	<u>69,869</u>	<u>69,869</u>
<b>Debt Equity Converted Securities</b>				
Quoted in Malaysia				
Shares - with options	19,822	19,822	19,822	19,822
Shares	4,882	4,103	1,703	875
Loan stocks - collateralised	1,064	1,064	-	-
Unquoted securities outside Malaysia				
Shares	6,248	-	7,285	-
	<u>32,016</u>	<u>24,989</u>	<u>28,810</u>	<u>20,697</u>
<b>Unquoted Guaranteed Private Debt Securities Of Companies Incorporated in Malaysia</b>				
Corporate bonds	411,067	411,067	495,413	495,413
Total securities available-for-sale	<u>831,821</u>	<u>806,218</u>	<u>882,140</u>	<u>585,979</u>

The money market securities mature within one year.

**8. SECURITIES HELD-TO-MATURITY**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>At Amortised Cost</b>				
<b>Money Market Securities</b>				
Treasury Bills	-	-	28,804	-
<b>Quoted Securities</b>				
In Malaysia				
Shares	2	-	2	-
Corporate bonds	55,247	-	57,000	-
Outside Malaysia				
Corporate bonds	-	-	19,000	-
	<u>55,249</u>	<u>-</u>	<u>76,002</u>	<u>-</u>
<b>Debt Equity Converted Securities</b>				
Quoted in Malaysia				
Loan stocks - collateralised	971	-	971	-
Loan stocks	470,380	470,379	194,005	194,005
Unquoted securities of companies incorporated :				
In Malaysia				
Shares	1,679	-	1,679	-
Corporate bonds	461,939	423,146	533,649	486,673
	<u>934,969</u>	<u>893,525</u>	<u>730,304</u>	<u>680,678</u>
<b>Unquoted Private Debt Securities Of Companies Incorporated:</b>				
In Malaysia				
Corporate bonds and notes denominated in USD	68,674	68,674	86,813	86,813
Islamic corporate bonds	196,703	196,703	-	-
Outside Malaysia				
Corporate bonds and notes denominated in USD	110,493	110,493	114,000	114,000
	<u>375,870</u>	<u>375,870</u>	<u>200,813</u>	<u>200,813</u>
<b>Unquoted Guaranteed Private Debt Securities Of Companies Incorporated In Malaysia</b>				
Corporate bonds	82,729	82,729	-	-
<b>Investment In Related Licensed Commercial Bank</b>				
Unsecured subordinated term loan: Licensed commercial bank	460,000	460,000	460,000	460,000

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>Unquoted Securities Of Companies Incorporated:</b>				
In Malaysia				
Shares	60,588	60,588	60,589	60,589
Corporate bonds	100	100	100	100
Outside Malaysia				
Shares	8,693	8,693	11,957	11,957
	<u>69,381</u>	<u>69,381</u>	<u>72,646</u>	<u>72,646</u>
Total	1,978,198	1,881,505	1,568,569	1,414,137
Accumulated impairment losses	(170,531)	(158,086)	(195,486)	(166,960)
Total securities held-to-maturity	<u>1,807,667</u>	<u>1,723,419</u>	<u>1,373,083</u>	<u>1,247,177</u>
<b>Market/Indicative Value :</b>				
<b>Money Market Securities</b>				
Treasury bills	-	-	28,785	-
<b>Quoted Securities:</b>				
In Malaysia:				
Shares	2	-	2	-
Corporate bonds	56,077	-	57,599	-
Outside Malaysia:				
Corporate bonds	-	-	4,560	-
<b>Debt Equity Converted Securities</b>				
Quoted in Malaysia:				
Loan stocks - collateralised	971	-	954	-
Loan stocks	455,282	455,282	107,571	107,571
<b>Unquoted Guaranteed Private Debt Securities Of Companies Incorporated In Malaysia</b>				
Corporate bonds	82,692	82,692	-	-

The money market securities mature within one year.

The investment in related licensed commercial bank is in respect of a RM460 million (RM460 million in 2005) 10-year unsecured subordinated term loan (“subloan”) to AmIslamic Bank Berhad (formerly known as AMBB Capital Berhad and AmBank Berhad) (“AmBank”) to refinance its RM460 million exchangeable subordinated capital loan granted by Danamodal Nasional Berhad. In order to provide the refinancing arrangements to AmBank, the Bank has issued RM460 million redeemable unsecured subordinated bonds (“SubBonds”) as explained in Note 24. The subloan bears interest at 0.375% above the Bank’s cost of SubBonds.

During the financial year the subloan was assumed by AmBank (M) Berhad (formerly known as AmFinance Berhad) by way of vesting of AmBank’s assets and liabilities (save for non-transferable assets) pursuant to a High Court Vesting Order made under Section 50 of the Banking and Financial Institutions Act, 1989.

## 9. LOANS, ADVANCES AND FINANCING

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Loans and financing:				
Customers	4,417,198	4,245,930	4,695,138	4,510,204
Related companies	56,052	56,052	30,000	30,000
Staff	21,724	20,764	27,137	26,421
Claims on customers under acceptance credits	3,103	3,103	3,407	3,407
Gross loans, advances and financing	<u>4,498,077</u>	<u>4,325,849</u>	<u>4,755,682</u>	<u>4,570,032</u>
Less:				
Allowance for bad and doubtful debts and financing:				
General	63,925	61,553	69,091	66,278
Specific	235,984	222,357	157,720	153,321
	<u>299,909</u>	<u>283,910</u>	<u>226,811</u>	<u>219,599</u>
Net loans, advances and financing	<u>4,198,168</u>	<u>4,041,939</u>	<u>4,528,871</u>	<u>4,350,433</u>

Claims on customers under acceptance credits represent the Bank's own acceptances created and discounted. Own acceptances discounted and held in hand by the Group and the Bank as at 31 March 2006 amounted to RM Nil (RM221,000 as at 31 March 2005).

The maturity structure of loans, advances and financing is as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Maturing within one year	1,716,992	1,675,785	2,954,333	2,913,518
One year to three years	1,334,408	1,274,319	581,848	564,190
Three to five years	959,472	903,977	437,934	340,116
Over five years	487,205	471,768	781,567	752,208
	<u>4,498,077</u>	<u>4,325,849</u>	<u>4,755,682</u>	<u>4,570,032</u>

Loans, advances and financing analysed by their economic purposes are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Construction	1,005,028	978,656	1,116,209	1,089,007
Purchase of securities	809,574	809,574	703,865	703,865
Manufacturing	543,567	504,233	414,888	367,566
Investment holdings	375,863	340,268	782,084	782,084
Finance, insurance and business services	65,398	61,398	148,867	113,896
Agriculture	287,963	278,865	318,178	304,675
General commerce	525,166	522,528	463,679	459,041
Real estate	270,128	270,128	225,941	225,941
Transport, storage and communication	361,118	323,310	199,211	156,034
Electricity, gas and water	105,373	105,373	259,772	259,772
Purchase of landed property :				
(a) Residential	19,366	18,528	60,729	21,841
(b) Non-residential	62,786	56,619	22,433	54,562
Mining and quarrying	89	89	610	610
Others	66,658	56,280	39,216	31,138
	<u>4,498,077</u>	<u>4,325,849</u>	<u>4,755,682</u>	<u>4,570,032</u>

Net loans, advances and financing of the Group includes loans relating to the offshore banking company amounting to USD42,293,000 (USD46,846,000 as at 31 March 2005) and are translated into Ringgit Malaysia at the exchange rate of RM3.68 (RM3.80 as at 31 March 2005).

Loans, advances and financing analysed by type of customers are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Domestic :				
Other non-bank financial institutions:				
Stockbroking companies	-	-	12,437	-
Others	30,019	30,019	38,073	50,510
Business enterprises:				
Small medium enterprises	172,695	172,695	579,056	579,056
Others	3,994,094	3,897,858	3,850,220	3,768,323
Government and statutory bodies	83,693	46,856	38,004	-
Individuals	89,698	88,738	89,636	88,926
Foreign entities	127,878	89,683	148,256	83,217
	<u>4,498,077</u>	<u>4,325,849</u>	<u>4,755,682</u>	<u>4,570,032</u>

Loans, advances and financing analysed by interest rate sensitivity are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Variable rate				
Cost-plus	3,695,542	3,616,377	3,190,981	3,113,418
Other variable rates	269,058	181,172	405,755	300,579
Fixed rate				
Housing loans	21,171	20,758	23,909	23,317
Hire purchase receivables	88	-	3,177	3,059
Other fixed rates	512,218	507,542	1,131,860	1,129,659
	<u>4,498,077</u>	<u>4,325,849</u>	<u>4,755,682</u>	<u>4,570,032</u>

AmMerchant Bank Berhad

Movements in non-performing loans and financing including interest and income receivables are as follows:-

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Gross				
Balance at beginning of year	839,225	805,858	1,087,507	984,310
Non-performing during the year	172,302	172,302	270,282	258,642
Reclassification to performing loans and financing	(386,729)	(386,729)	(350,424)	(341,197)
Recoveries	(92,643)	(92,643)	(65,220)	(12,300)
Amount written off	(96)	(96)	(24,602)	(15,919)
Exchange fluctuation adjustment	(1,790)	(953)	-	-
Debt equity conversion	-	-	(78,318)	(67,678)
Balance at end of year	530,269	497,739	839,225	805,858
Specific allowance	(235,984)	(222,357)	(157,720)	(153,321)
Non-performing loans and financing - net	294,285	275,382	681,505	652,537
Ratios of non-performing loans and financing to total loans, advances and financing - net	6.90%	6.71%	14.82%	14.77%

Non-performing loans, advances and financing analysed by their economic purposes are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Manufacturing	142,106	142,106	156,385	156,385
Construction	139,434	113,069	122,732	95,530
Purchase of securities	64,298	64,298	56,924	56,924
General commerce	57,818	57,818	114,373	114,373
Investment holdings	48,504	48,504	87,623	87,623
Real estate	41,840	41,840	124,417	124,417
Agriculture	15,854	15,854	14,324	14,324
Purchase of non-residential landed property	11,901	5,735	12,242	6,075
Finance, insurance and business services	3,333	3,333	88,789	88,789
Transport, storage and communication	-	-	54,936	54,936
Mining and quarrying	-	-	144	144
Others	5,181	5,182	6,336	6,338
	530,269	497,739	839,225	805,858



Movements in allowances for bad and doubtful debts and financing and interest/income-in-suspense accounts are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>General allowance</b>				
Balance at beginning of year	69,091	66,278	80,404	77,788
Reversal of allowance during the year (Note 33)	(5,028)	(4,663)	(11,313)	(11,510)
Exchange fluctuation adjustment	(138)	(62)	-	-
Balance at end of year	<u>63,925</u>	<u>61,553</u>	<u>69,091</u>	<u>66,278</u>
% of total loans, advances and financing less specific allowances and interest/income-in-suspense	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>
<b>Specific allowance</b>				
Balance at beginning of year	<u>157,720</u>	<u>153,321</u>	<u>378,375</u>	<u>362,969</u>
Allowance during the year	<u>105,270</u>	<u>91,504</u>	<u>106,361</u>	<u>104,495</u>
Amount written back in respect of recoveries and reversals	<u>(25,721)</u>	<u>(22,265)</u>	<u>(5,925)</u>	<u>(5,135)</u>
Net charge to income statements (Note 33)	79,549	69,239	100,436	99,360
Amount written off	(1,179)	(203)	(321,628)	(309,008)
Exchange fluctuation adjustments	(106)	-	-	-
Reclassification from sundry receivables	-	-	4,192	-
Debt equity conversion	-	-	(3,655)	-
Balance at end of year	<u>235,984</u>	<u>222,357</u>	<u>157,720</u>	<u>153,321</u>

**10. OTHER ASSETS**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Other receivables, deposits and prepayments, net of allowance for doubtful debts for the Group of RM10,763,000 (RM15,866,000 as at 31 March 2005) and the Bank of RM10,774,000 (RM10,677,000 as at 31 March 2005)	77,784	59,386	69,920	63,311
Interest/Dividends receivable	77,064	85,834	42,495	35,243
Amount due from Originators	89,694	89,694	132,798	132,798
Amount due from brokers	2,048	2,048	10,496	10,496
Amount due from:				
Ultimate holding company	272	272	194	194
Subsidiary companies	-	147	-	2,074
Related companies	2,961	4,181	17,274	17,401
Assets acquired in exchange of debts, net of impairment loss	9,622	9,622	15,479	15,479
	<u>259,445</u>	<u>251,184</u>	<u>288,656</u>	<u>276,996</u>

Amount due from Originators represent loans, hire purchase and leasing receivables acquired from the Originators for onward sale to Cagamas Berhad as mentioned in Note 21.

Amounts due from subsidiary companies and other related companies are unsecured, interest-free and represent expenses paid on behalf and interests receivable.

**11 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA**

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amounts of which are determined at set percentages of total eligible liabilities.

**12. INVESTMENTS IN SUBSIDIARY COMPANIES**

The subsidiary companies, all unquoted and incorporated in Malaysia, are:

	<b>Principal Activities</b>	<b>Issued and Paid-up Ordinary Capital</b>		<b>Effective Equity Interest</b>	
		<b>2006 RM'000</b>	<b>2005 RM'000</b>	<b>2006 %</b>	<b>2005 %</b>
<b>Subsidiary Companies</b>					
AmInvestment Services Berhad	Management of unit trusts	5,539	5,539	100	70
AmInvestment Management Sdn Bhd	Asset management	2,000	2,000	100	70
AMMB Consultant Sdn Bhd	Investment consultant	500	500	100	100
AMMB Nominees (Tempatan) Sdn Bhd	Nominee services	10	10	100	100
AMMB Nominees (Asing) Sdn Bhd	Nominee services	10	10	100	100
AmProperty Trust Management Bhd	Management of property trusts	500	500	100	100
AMMB Properties Sdn Bhd	Dormant	-**	-**	100	100
AM Nominees (Tempatan) Sdn Bhd	Nominee services	-**	-**	100	100
AM Nominees (Asing) Sdn Bhd	Nominee services	-**	-**	100	100
Malaysian Ventures Management Incorporated Sdn Bhd	Management of venture capital	-	500	-	59
		<b>US\$'000</b>	<b>US\$'000</b>		
AMMB Labuan (L) Ltd	Dormant	200	200	100	100
AmInternational (L) Ltd	Offshore banking	10,000	10,000	100	100

\*\* Subsidiary companies with an issued and paid up ordinary capital of RM2

During the financial year:

- On 29 September 2005, the Bank, completed the acquisition of the 30% equity interest held by Macquarie Bank Limited ("Macquarie Bank") in AmInvestment Management Sdn Bhd ("AIM") and AmInvestment Services Berhad ("AIS") respectively for a total cash purchase consideration of RM44.79 million.

With the completion of the acquisition, AIM and AIS become wholly-owned subsidiaries of the Bank. Accordingly, the Joint Venture arrangement between the Bank and Macquarie Bank relating to the funds management business was voluntarily terminated on 29 September 2005.

- On 28 December 2005, the Bank has disposed 59.0% of the equity interest in Malaysian Ventures Management Incorporated Sdn Bhd ("MVMI") to AmInvestment Group Berhad for a total consideration of RM303,829.

**13. INVESTMENTS IN ASSOCIATED COMPANIES**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Unquoted shares, at cost	21,949	21,950	21,949	21,950
Share in net post acquisition profits	15,472	-	13,182	-
Exchange fluctuation adjustment	6,167	-	6,167	-
	<u>43,588</u>	<u>21,950</u>	<u>41,298</u>	<u>21,950</u>
Less: Accumulated amortisation of premium	(2,488)	-	(1,866)	-
	<u>41,100</u>	<u>21,950</u>	<u>39,432</u>	<u>21,950</u>

As at 31 March 2006, the carrying values of the investments in associated companies are represented by:

	Group	
	2006 RM'000	2005 RM'000
Group's share of aggregate net tangible assets	31,724	29,434
Group's share of aggregate intangible assets	2,541	2,541
Premium on acquisitions, net of amortisation of RM2,488,000 (RM1,866,000 as at 31 March 2005)	6,835	7,457
	<u>41,100</u>	<u>39,432</u>

The associated companies, all unquoted, are as follows:

	Principal Activities	Issued and Paid-up Ordinary Capital		Equity Interest	
		2006 RM'000	2005 RM'000	2006 %	2005 %
<b>Incorporated in Malaysia</b>					
Malaysian Ventures Sdn Bhd*	Venture capital	17	17	27.41	27.41
Malaysian Ventures (Two) Sdn Bhd *	Venture capital	19	19	34.67	34.67
AmTrustee Berhad	Trustee services	500	500	20.00	20.00

	Principal Activities	Issued and Paid-up Ordinary Capital		Equity Interest	
		2006	2005	2006	2005
		S\$'000	S\$'000	%	%
<b>Incorporated in Singapore</b>					
Frasers International Pte. Ltd. ("FIPL")#	Investment holding	14,856	14,856	49.00	49.00
Fraser Securities Pte. Ltd. ("FSPL")# (wholly-owned by FIPL)	Stockbroking and futures broker	32,528	32,528	49.00	49.00
Fraser Financial Planners Pte. Ltd.# (wholly-owned by FIPL)	Financial planning advisory	1,000	1,000	49.00	49.00
Fraser Financial Advisory Pte. Ltd.# (wholly-owned by FIPL)	Insurance brokers	200	200	49.00	49.00
Fraser-AMMB Research Pte. Ltd.# (wholly-owned by FIPL)	Research services	500	500	49.00	49.00
Frasers Nominees (Private) Limited# (wholly-owned by FIPL)	Nominee services	1	1	49.00	49.00

\* Associated companies under members' voluntary liquidation

# Associated companies not audited by Ernst & Young

On 10 February 2006, the Bank has entered into a conditional sale and purchase agreement with the nine (9) minority shareholders of Frasers International Pte Ltd ("FIPL") in respect of the proposed acquisition of 7,576,766 ordinary shares of S\$1.00 each in FIPL not already owned by the Bank, representing 51% of the issued and paid-up share capital of FIPL for an aggregate cash purchase consideration of up to S\$22,000,000 ("Proposed FIPL Acquisition"). On completion of the Proposed FIPL Acquisition, FIPL will become a wholly owned subsidiary of the Bank.

The purchase consideration for the Proposed FIPL Acquisition was arrived at on a willing buyer willing seller basis after taking into consideration the consolidated net tangible assets as at 31 March 2005 and current year consolidated profit of FIPL, and will be satisfied wholly in cash by the Bank from its internally generated funds.

The Proposed FIPL Acquisition is conditional upon the approval, inter alia, of Bank Negara Malaysia, Monetary Authority of Singapore, Singapore Exchange Securities Trading Limited, Singapore Exchange Derivatives Trading Limited and any other relevant authorities.

**14. PROPERTY AND EQUIPMENT**

<b>Group</b>	<b>Freehold land and building RM'000</b>	<b>Long term leasehold land and buildings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Leasehold improvements RM'000</b>	<b>Computer hardware and software RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Total RM'000</b>
<b>COST</b>							
At beginning of year	280	20,620	3,414	14,036	77,083	19,759	135,192
Additions	-	-	1,474	2,710	2,018	546	6,748
Disposals	-	-	(1,429)	-	-	(80)	(1,509)
Write offs	-	-	-	-	(12,751)	-	(12,751)
Reclassification/Transfer	-	-	-	-	(10)	-	(10)
Exchange adjustment	-	(14)	(8)	-	(18)	(49)	(89)
At end of year	<u>280</u>	<u>20,606</u>	<u>3,451</u>	<u>16,746</u>	<u>66,322</u>	<u>20,176</u>	<u>127,581</u>
<b>ACCUMULATED DEPRECIATION</b>							
At beginning of year	79	1,257	2,963	7,495	68,855	13,978	94,627
Additions	6	412	362	2,035	3,069	1,252	7,136
Disposals	-	-	(1,352)	-	-	(71)	(1,423)
Write offs	-	-	-	-	(12,745)	-	(12,745)
Exchange adjustment	-	(3)	(9)	-	(18)	(45)	(75)
At end of year	<u>85</u>	<u>1,666</u>	<u>1,964</u>	<u>9,530</u>	<u>59,161</u>	<u>15,114</u>	<u>87,520</u>
<b>NET BOOK VALUE</b>							
As at 31 March 2006	<u>195</u>	<u>18,940</u>	<u>1,487</u>	<u>7,216</u>	<u>7,161</u>	<u>5,062</u>	<u>40,061</u>
As at 31 March 2005	<u>201</u>	<u>19,363</u>	<u>451</u>	<u>6,541</u>	<u>8,228</u>	<u>5,781</u>	<u>40,565</u>
Depreciation charge for the year ended 31 March 2005	<u>6</u>	<u>413</u>	<u>420</u>	<u>1,478</u>	<u>8,483</u>	<u>1,190</u>	<u>11,990</u>
<b>BALANCES AS AT 31 MARCH 2004</b>							
Cost	280	20,620	3,947	19,229	76,311	18,772	139,159
Accumulated depreciation	<u>73</u>	<u>844</u>	<u>3,156</u>	<u>6,017</u>	<u>62,079</u>	<u>12,822</u>	<u>84,991</u>

<b>Bank</b>	<b>Freehold land and building RM'000</b>	<b>Long leasehold land and buildings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Leasehold improvements RM'000</b>	<b>Computer hardware and software RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Total RM'000</b>
<b>COST</b>							
At beginning of year	280	20,133	2,665	14,028	70,136	15,856	123,098
Additions	-	-	1,474	2,710	1,661	468	6,313
Disposals	-	-	(1,273)	-	-	(19)	(1,292)
Write offs	-	-	-	-	(12,750)	-	(12,750)
Reclassification/Transfer	-	-	-	-	(10)	-	(10)
At end of year	<u>280</u>	<u>20,133</u>	<u>2,866</u>	<u>16,738</u>	<u>59,037</u>	<u>16,305</u>	<u>115,359</u>
<b>ACCUMULATED DEPRECIATION</b>							
At beginning of year	79	1,171	2,371	7,487	63,175	10,903	85,186
Additions	6	402	325	2,035	2,633	1,054	6,455
Disposals	-	-	(1,196)	-	-	(12)	(1,208)
Write offs	-	-	-	-	(12,744)	-	(12,744)
At end of year	<u>85</u>	<u>1,573</u>	<u>1,500</u>	<u>9,522</u>	<u>53,064</u>	<u>11,945</u>	<u>77,689</u>
<b>NET BOOK VALUE</b>							
As at 31 March 2006	<u>195</u>	<u>18,560</u>	<u>1,366</u>	<u>7,216</u>	<u>5,973</u>	<u>4,360</u>	<u>37,670</u>
As at 31 March 2005	<u>201</u>	<u>18,962</u>	<u>294</u>	<u>6,541</u>	<u>6,961</u>	<u>4,953</u>	<u>37,912</u>
Depreciation charge for the year ended 31 March 2005	<u>6</u>	<u>403</u>	<u>358</u>	<u>1,478</u>	<u>7,979</u>	<u>985</u>	<u>11,209</u>
<b>BALANCES AS AT 31 MARCH 2004</b>							
Cost	280	20,133	3,206	19,221	69,973	15,390	128,203
Accumulated depreciation	<u>73</u>	<u>768</u>	<u>2,469</u>	<u>6,009</u>	<u>56,903</u>	<u>9,945</u>	<u>76,167</u>

The three pieces of long-term leasehold land, two of which are located in the Federal Territory of Labuan and one located in the Federal Territory of Kuala Lumpur, are for lease periods of 99 years with unexpired lease periods of 52, 84 and 85 years, respectively.

Details of fully depreciated property and equipment which are still in use are:

	<b>Motor vehicles RM'000</b>	<b>Leasehold improvements RM'000</b>	<b>Computer hardware and software RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Total RM'000</b>
<b>2006</b>					
<b>Group</b>					
Cost	835	4,323	52,628	8,959	66,745
<b>Bank</b>					
Cost	457	4,314	47,026	6,515	58,312
<b>2005</b>					
<b>Group</b>					
Cost	1,497	3,971	61,560	8,841	75,869
<b>Bank</b>					
Cost	1,139	3,962	56,851	6,314	68,266

Included under motor vehicles of the Group are assets acquired under hire-purchase arrangements with net book value amounting to RM1.

## 15. GOODWILL ON CONSOLIDATION

The movements in goodwill on consolidation are as follows:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At beginning of year	-	-
Arising from acquisition of additional 30.0% equity interest in unit trust and asset management subsidiary companies	37,377	-
Balance at end of year	37,377	-
<b>Accumulated amortisation</b>		
At beginning of year	-	-
Amortisation for the year	935	-
Balance at end of year	935	-
Net book value	36,442	-



**16. DEPOSITS FROM CUSTOMERS**

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Term/Investment deposits from customers	5,510,235	5,308,450	4,911,612	4,322,476
Negotiable instruments of deposit	921,942	921,942	382,824	382,824
	<u>6,432,177</u>	<u>6,230,392</u>	<u>5,294,436</u>	<u>4,705,300</u>

The maturity structure of deposits is as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Due within six months	6,247,352	6,045,567	5,161,661	4,572,525
Six months to one year	175,981	175,981	132,275	132,275
One year to three years	3,844	3,844	200	200
Three to five years	5,000	5,000	300	300
	<u>6,432,177</u>	<u>6,230,392</u>	<u>5,294,436</u>	<u>4,705,300</u>

The deposits are sourced from the following types of customers:

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Business enterprises	4,330,012	4,128,981	4,153,137	3,564,809
Individuals	6,677	5,300	4,714	3,906
Government	1,469,518	1,469,518	626,842	626,842
Others	625,970	626,593	509,743	509,743
	<u>6,432,177</u>	<u>6,230,392</u>	<u>5,294,436</u>	<u>4,705,300</u>

**17. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Licensed banks:				
Subsidiary	-	210,584	-	159,604
Related	2,475,800	2,475,800	39,105	39,105
Others	1,689,849	1,644,489	836,461	798,461
Licensed merchant banks	-	-	90,265	90,265
Other licensed finance companies	-	-	528,702	528,702
Bank Negara Malaysia	2,801	2,801	-	-
Other financial institutions	3,348,447	3,348,447	3,096,883	3,096,883
	<u>7,516,897</u>	<u>7,682,121</u>	<u>4,591,416</u>	<u>4,713,020</u>

Included under deposits and placements of banks and other financial institutions of the Group and of the Bank are the following:

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Negotiable instruments of deposits	4,394,100	4,394,100	3,247,362	3,247,362
Interbank borrowings	<u>1,672,830</u>	<u>1,838,054</u>	<u>273,140</u>	<u>394,744</u>

As at the end of the financial year, the net interbank borrowings and lending position of the Group and the Bank are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Interbank lending (Notes 4 and 5)	4,315,378	4,208,334	2,931,424	2,733,709
Interbank borrowings	<u>(1,672,830)</u>	<u>(1,838,054)</u>	<u>(273,140)</u>	<u>(394,744)</u>
Net interbank lending	<u>2,642,548</u>	<u>2,370,280</u>	<u>2,658,284</u>	<u>2,338,965</u>

**18. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Obligations on securities sold under repurchase agreements to:				
Customers	2,434,286	2,434,286	1,314,724	1,314,724
Ultimate holding company	78,050	78,050	31,950	31,950
Immediate holding company	5,240	5,240	-	-
Related companies	72,705	72,705	117,236	117,236
	<u>2,590,281</u>	<u>2,590,281</u>	<u>1,463,910</u>	<u>1,463,910</u>

**19. ACCEPTANCES PAYABLE**

Acceptances payable represent the Bank's own acceptances rediscounted and outstanding in the market.

**20. OTHER LIABILITIES**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Trade payables	5,904	-	9,918	-
Other payables and accruals	118,289	104,546	72,290	66,832
Provision for commitments	324	324	63	63
Amount due to :				
Ultimate holding company	-	-	1	-
Subsidiary company	-	59	-	31
Related companies	-	-	95	85
Associated companies	-	-	149	-
Taxation payable	103	-	420	-
Zakat payable	38	38	38	38
Profit equalisation reserve	276	276	2,195	2,195
Securities sold not yet re-purchased	91,437	91,437	-	-
Proposed preference dividend	7,200	7,200	7,200	7,200
Deferred tax liabilities (Note 37)	293	-	194	-
	<u>223,864</u>	<u>203,880</u>	<u>92,563</u>	<u>76,444</u>

**21. RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD**

Recourse obligation on loans sold to Cagamas Berhad represents the proceeds received from loans, hire purchase and leasing receivables acquired from the Originators (excluding Islamic financing) as disclosed in Note 10 and sold directly and indirectly to Cagamas Berhad with recourse. Under this back to back arrangement with the Originators, the Bank acts as the intermediary financial institution and undertakes to administer the receivables on behalf of Cagamas Berhad, and to buy back any receivables which are regarded as defective based on prudential criteria with recourse against the Originators.

Included under other payables and accruals of the Group and of the Bank are the following:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Interest payable	56,812	56,461	42,403	41,201

Amount due to holding company represents expenses paid on behalf.

Amount due to subsidiary company, related companies and associated companies represent interest payable on deposit placements.

The movements in profit equalisation reserve are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Balance at beginning of year	2,195	2,195	-	-
Provision during the year	3,046	3,046	6,042	6,042
Amount written back	(4,965)	(4,965)	(3,847)	(3,847)
	(1,919)	(1,919)	2,195	2,195
Balance at end of year	276	276	2,195	2,195

## 22. TERM LOANS

The short term loan facility of the offshore banking subsidiary company in Labuan is secured by a corporate guarantee by the Bank with a tenure of 364 days (2005: 364 days) from 31 March 2006. The short term loan facility bears interest at 0.175% per annum above LIBOR (2005: 0.20% per annum above LIBOR)

## 23. SUBORDINATED CERTIFICATES OF DEPOSITS

	Group	
	2006 RM'000	2005 RM'000
<b>Nominal value</b>		
Balance at beginning of year	200,000	200,000
Redemption	(200,000)	-
Balance at end of year	-	200,000
<b>Unamortised discount</b>		
Balance at beginning of year	1,232	2,582
Accretion during the year	(1,232)	(1,350)
Balance at the end of year	-	1,232
<b>Net book value</b>	-	198,768

The Subordinated Certificates of Deposits issued by the bank represents RM200,000,000 nominal amount of unsecured Negotiable Subordinated Certificates of Deposit ("NSCD") issued at a discount of RM6,750,600 for a total consideration of RM193,249,400. The accretion of discount of RM6,750,600 has been applied evenly over 5 years. The NSCD has a coupon rate of 8.00 % per annum for the first five years and was redeemed on 1 March 2006.

**24. REDEEMABLE UNSECURED SUBORDINATED BONDS**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance at beginning of year	460,000	460,000
Issue during the year	200,000	-
Purchased and cancelled during the year	(65,000)	-
Balance at end of year	595,000	460,000

- (a) Pursuant to a Trust Deed dated 23 September 2003, the Bank issued RM460,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds (“SubBonds”). The proceed were used to grant a RM460,000,000 10-year unsecured subordinated term loan to AmBank (M) Berhad (Note 8), its related licensed commercial bank for the purpose of refinancing its RM460,000,000 exchangeable subordinated capital loan from Danamodal Nasional Berhad.
- (a) The SubBonds bear interest at 6.5% per annum for the first five years and at 7.0% to 9.0% per annum or 3% above the yield of 5-year Malaysian Government Securities, whichever is higher for years 6 to 10. The interest is payable on a semi-annual basis.
- (b) The SubBonds are redeemable on 30 September 2008 or on each anniversary date thereafter at nominal value together with interest accrued to the date of redemption.
- (c) The SubBonds are for a period of ten years maturing on 30 September 2013. However, subject to the prior approval of Bank Negara Malaysia, the Bank may redeem the SubBonds on 30 September 2008 or on each anniversary date thereafter.
- (b) Pursuant to a Trust Deed dated 27 October 2005, the bank issued RM200,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds (“Subordinated Tier 2 Bonds”) for the purpose of redemption of RM200,000,000 nominal amount of unsecured subordinated certificates of deposits.

The salient features of the Subordinated Tier 2 Bonds are as follows:

- (a) The Subordinated Tier 2 Bonds bear interest at 4.75% per annum for the first five years and at 5.25% to 7.25% per annum between years 6 to 10. The interest is payable on a semi-annual basis.
- (b) The Subordinated Tier 2 Bonds are redeemable on 31 October 2010 or on each anniversary date thereafter at nominal value together with interest accrued to the date of redemption.
- (c) The Subordinated Tier 2 Bonds are for a period of ten years maturing on 31 October 2015. However, subject to the prior approval of Bank Negara Malaysia, the merchant banking subsidiary company may redeem the Subordinated Tier 2 Bonds on 31 October 2010 or on each anniversary date thereafter.

During the financial year, the bank had purchased and cancelled RM65,000,000 of the Subordinated Tier 2 Bonds.

**25 SHARE CAPITAL**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised:		
Shares of RM1.00 each		
Balance at beginning and end of year	2,000,000	2,000,000
Issued and fully paid:		
Ordinary shares of RM1.00 each	210,000	200,000
Non-cumulative convertible preference shares of RM1.00 each	100,000	100,000
Balance at the end of the year	310,000	300,000

On 14 May 2005, the issued and fully paid-up ordinary share capital of the Bank was increased from 200,000,000 ordinary shares of RM1.00 each to 210,000,000 ordinary shares of RM1.00 each by the issue of a non-renounceable rights issue of 10,000,000 new ordinary shares of RM1.00 each at an issue price of RM5.00 per share to the Bank's holding company, AmInvestment Group Berhad, on the basis of 1 new ordinary share of RM1.00 each for every 20 ordinary shares held. The resulting share premium amounting to RM40,000,000 has been credited to the share premium account.

Salient features of the Preference Shares are as follows:

- (a) The Preference Shares shall rank in preference to the ordinary shares in issue.
- (b) An annual gross dividend of 10% is payable on the shares.
- (c) The Bank shall at no time be obliged to redeem or purchase the Preference Shares or any part thereof.
- (d) Subject to approvals of the relevant authorities and holder of the Preference Shares, the Preference Shares are convertible into new ordinary shares of RM1.00 each on the basis of one new ordinary share of RM1.00 each for every Preference Share held.

**26. INTEREST BEARING IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") 2002/2007**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance at beginning and end of year	120,000	120,000

The salient features of the ICULS 2002/2007 issued to the holding company, AMMB Holdings Berhad ("AHB"), and subsequently transferred to the immediate holding company, AmInvestment Group Berhad ("AIGB") as part of the equity under AHB Internal Reorganisation are as follows:

- (a) The ICULS 2002/2007 bear interest at 6.0% per annum payable semi-annually or such other interval as may be determined by AIGB .
- (b) The ICULS 2002/2007 are convertible into new ordinary shares at any time on the basis of one new ordinary share of RM1.00 each for every RM4.00 nominal amount of ICULS 2002/7 held.
- (c) The ICULS 2002/2007 were for an initial period of five years and has been extended for a further period of five years to mature on 15 January 2007.
- (d) All new ordinary shares issued upon conversion of the ICULS 2002/2007 shall rank pari passu with the then existing ordinary shares of the Bank except for any dividend, rights, allotments or other distributions, the entitlement date of which is before the relevant conversion date.

**27. RESERVES**

Reserves as at 31 March are analysed as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Non-distributable reserves:				
Capital reserve	2,815	-	2,815	-
Share premium	100,284	100,284	60,284	60,284
Statutory reserve	329,549	329,549	300,000	300,000
Exchange fluctuation reserve	27,179	-	29,618	-
Available-for-sale reserve	(3,055)	(3,410)	(15,548)	(14,817)
Total non-distributable reserves	<u>456,772</u>	<u>426,423</u>	<u>377,169</u>	<u>345,467</u>
Distributable reserves:				
Unappropriated profit	824,181	778,330	707,883	674,174
Total distributable reserves	<u>824,181</u>	<u>778,330</u>	<u>707,883</u>	<u>674,174</u>
Total reserves	<u>1,280,953</u>	<u>1,204,753</u>	<u>1,085,052</u>	<u>1,019,641</u>

Movements in reserves are shown in the statements of changes in equity.

Capital reserve is in respect of dilution and accretion in net attributable assets of the Group arising from capitalisation of subsidiary companies' bonus issues.

Share premium is used to record premium arising from new shares issued in the Bank.

The statutory reserve of the Bank is maintained in compliance with the provisions of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

Available-for-sale reserve is in respect of unrealised fair value gains and losses on securities available-for-sale.

Exchange fluctuation reserve arises on translation of foreign subsidiaries and associated company, as described in the accounting policies.

Distributable reserves are those available for distribution by way of dividends.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividend out of all its distributable reserves as at 31 March 2006.

**28. MINORITY INTERESTS**

Minority interests in the Group represent that part of the net results of operations, or net assets, of subsidiary companies attributable to shares owned other than by the Bank.

The movements in minority interests in subsidiary companies are as follows:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance at beginning of year	6,083	4,655
Disposal of shares in unit trust and asset management subsidiary companies	(7,413)	-
Share in net results of subsidiary companies	1,330	2,292
Dividends received	-	(864)
Balance at end of year	<u>-</u>	<u>6,083</u>

**29. INTEREST INCOME**

	<b>2006</b>		<b>2005</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Short-term funds and deposits				
with financial institutions	87,796	83,746	61,133	66,592
Securities held-for-trading	158,799	157,603	177,549	177,454
Securities available-for-sale	29,675	25,131	9,634	8,594
Securities held-to-maturity	51,408	51,321	55,680	47,430
Loans and advances				
- Interest income other than recoveries from NPL	201,027	192,343	190,898	185,581
- Recoveries from NPLs	49,347	49,347	73,643	61,810
Others	6,420	6,392	16,007	15,844
Gross interest income	<u>584,472</u>	<u>565,883</u>	<u>584,544</u>	<u>563,305</u>
Amortisation of premiums				
less accretion of discounts	12,738	12,599	(17,464)	(24,231)
Interest suspended	(58)	(58)	(2,731)	(2,731)
Total after net interest suspension	<u>597,152</u>	<u>578,424</u>	<u>564,349</u>	<u>536,343</u>

**30. INTEREST EXPENSE**

	<b>2006</b>		<b>2005</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers	260,810	249,016	251,207	229,902
Deposit of banks and other financial institutions	63,675	68,702	33,839	44,827
Securities sold under repurchase agreements	49,790	49,790	36,058	36,050
Subordinated deposits and term loans	23,814	15,873	26,275	22,541
Redeemable unsecured subordinated bonds	32,880	32,880	29,900	29,900
Securities sold not yet re-purchased	308	308	-	-
Others	31,933	31,126	33,122	31,343
	<u>463,210</u>	<u>447,695</u>	<u>410,401</u>	<u>394,563</u>



**31. OTHER OPERATING INCOME**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Fee income:				
Fees on loans and advances	30,482	22,213	10,723	9,747
Corporate advisory fees	18,699	17,822	24,900	24,368
Guarantee fees	14,580	7,693	11,312	9,902
Underwriting commissions	4,656	4,656	6,202	6,202
Portfolio management fees	7,641	-	9,829	-
Unit trust management fees	29,118	-	20,009	-
Property trust management fees	1,983	-	1,965	-
Other fee income	6,848	9,962	14,005	15,725
	<u>114,007</u>	<u>62,346</u>	<u>98,945</u>	<u>65,944</u>
Investment and trading income:				
Net gain from sale of securities held-for-trading	94,000	94,294	69,831	70,095
Net gain from sale of securities available-for-sale	92	741	-	-
Net gain on redemption of securities held-to-maturity	27,592	27,587	9,011	30,511
Gross dividend income from:				
Unquoted subsidiary companies	-	15,639	-	8,762
Unquoted associated companies	-	-	-	1,317
Securities held-for-trading	5,920	5,920	3,264	3,264
Securities available-for-sale	8,313	8,313	836	836
Securities held-to-maturity	22,116	22,116	37,746	37,746
Gain on revaluation of derivatives	6,171	5,092	6,625	6,625
Gain/(Loss) on revaluation of securities held-for-trading	23,185	23,593	(6,092)	(5,686)
Gain on disposal of subsidiary company	291	-	-	-
	<u>187,680</u>	<u>203,295</u>	<u>121,221</u>	<u>153,470</u>
Other income:				
Realised foreign exchange gain/(loss)	-	-	64	(1)
Unrealised foreign exchange gain	7,051	4,561	-	-
Gain on disposal of property and equipment - net	416	416	151	150
Rental income	1,489	1,440	795	795
Other non-operating income	424	-	514	-
	<u>9,380</u>	<u>6,417</u>	<u>1,524</u>	<u>944</u>
	<u>311,067</u>	<u>272,058</u>	<u>221,690</u>	<u>220,358</u>

**32. OTHER OPERATING EXPENSE**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Personnel/Staff costs				
- Salaries, allowances and bonuses	67,874	56,687	58,704	48,730
- Others	24,451	21,196	26,162	23,422
Establishment costs				
- Depreciation of property and equipment (Note 14)	7,136	6,455	11,990	11,209
- Computerisation costs	8,575	7,455	3,142	1,976
- Rental	4,103	2,598	3,586	2,105
- Others	2,252	1,616	4,584	3,992
Marketing and communication expenses				
- Sales commission	1,695	1,606	1,323	1,316
- Advertising	4,595	3,236	2,166	1,948
- Travel and entertainment	2,241	1,999	1,676	1,553
- Others	4,250	3,063	4,838	3,960
Administration and general expenses				
- Goodwill on consolidation	935	-	-	-
- Amortisation of premium on acquisition	621	-	1,274	-
- Professional fees	5,025	4,248	5,246	4,549
- Others	10,066	8,656	8,142	6,218
	<u>143,819</u>	<u>118,815</u>	<u>132,833</u>	<u>110,978</u>

Included in the above expenditure are the following statutory disclosures:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Directors' remuneration (Note 35)	4,907	4,895	3,809	3,790
Hire of motor vehicles and office equipment	998	571	1,082	728
Auditors' remuneration:				
Statutory audit	229	160	184	130
Special audit/Limited review	72	64	112	91
Property and equipment written off	6	6	1	1
Sundry bad debts written off - net	343	343	280	280

The total number of employees of the Group and of the Bank (including executive directors) as at 31 March 2006 was 970 (1,071 as at 31 March 2005) and 771 (868 as at 31 March 2005), respectively.

Personnel/staff costs include salaries, bonuses, contributions to employees provident fund and all other staff related expenses. Contributions to employees provident fund of the Group and of the Bank amounted to RM11,604,325 (RM12,312,086 for the year ended 31 March 2005) and RM11,307,152 (RM10,756,469 for the year ended 31 March 2005), respectively.

**33. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING**

	<b>2006</b>		<b>2005</b>	
	<b>Group RM'000</b>	<b>Bank RM'000</b>	<b>Group RM'000</b>	<b>Bank RM'000</b>
Allowance/(Reversal of allowance) for bad and doubtful debts and financing:				
General allowance	(5,028)	(4,663)	(11,313)	(11,510)
Specific allowance - net	79,549	69,239	100,436	99,360
Bad debts and financing				
Written off	5,295	5,295	252	252
Recovered	(18,501)	(18,452)	(30,112)	(30,103)
Recoveries of allowance for value impairment on amount recoverable from Danaharta	(881)	(881)	(10,977)	(10,977)
	<u>60,434</u>	<u>50,538</u>	<u>48,286</u>	<u>47,022</u>

**34. RELATED PARTY TRANSACTIONS**

The immediate holding and ultimate holding company of the Bank are AmInvestment Group Berhad respectively and AMMB Holdings Berhad respectively, both of which are incorporated in Malaysia and quoted on the Main Board of the Bursa Malaysia Securities Berhad.

(a) Transactions and outstanding balances with ultimate and immediate holding companies and related companies.

The significant transactions and outstanding balances of the Bank with its ultimate and immediate holding companies and related companies are as follows:

	2006			2005		
	Ultimate Holding Company RM'000	Holding Company RM'000	Related Companies RM'000	Ultimate Holding Company RM'000	Holding Company RM'000	Related Companies RM'000
<u>Income</u>						
Interest on deposits and placements	-	-	28,112	-	-	20,183
Interest on loans	-	-	646	-	-	11,730
Recovery of management and other expenses	-	-	22,315	-	-	28,510
Rental income	-	-	66	-	-	102
Unsecured subordinated term loan	-	-	31,625	-	-	31,625
Fee income	-	-	-	-	634	-
	-	-	82,764	-	634	92,150
<u>Expenditure</u>						
Interest on deposits and placements	2,060	16	28,482	1,186	-	19,068
Interest on negotiable instrument of deposit	3,372	-	103	-	-	-
Interest on repo	1,802	419	3,110	663	-	860
Rental expenses	-	-	-	-	-	268
Interest on ICULS issued	-	7,200	-	6,766	434	-
	7,234	7,635	31,695	8,615	434	20,196
<u>Assets</u>						
Loans and advances	-	-	56,052	-	-	30,000
Subordinated term loan	-	-	460,000	-	-	460,000
Other assets	272	-	16,241	194	-	21,009
	272	-	532,293	194	-	511,009
<u>Liabilities/Equity</u>						
Deposits and placements	29,158	-	675	21,582	-	749,971
Securities sold on repurchase agreements	78,050	5,240	72,705	31,950	-	117,236
Negotiable instrument of deposits	150,197	-	1,329,298	150,233	-	-
ICULS 2002/2007	-	120,000	-	-	120,000	-
	257,405	125,240	1,402,678	203,765	120,000	867,207

The above transactions have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

## (b) Directors related transactions

The significant non-banking transactions of the Group with companies in which Tan Sri Dato' Azman Hashim is deemed to have a substantial interest, are as follows:

<b>Company</b>	<b>Types of transactions</b>	<b>2006 RM'000</b>	<b>2005 RM'000</b>
<u>Expense</u>			
AmFirst Property Trust	Rental of premises	9,256	8,863
Bluestar Infotech (M) Sdn Bhd	Computer maintenance	-	14
MCM Consulting Sdn Bhd	Computer maintenance	167	306
MCM Systems Sdn Bhd	Computer maintenance	97	199
AON Insurance Broker (M) Sdn Bhd	Insurance broker services	967	1,700
Harpers Travel (M) Sdn Bhd	Travelling expenses	747	818
Restaurant Sri Melayu Sdn Bhd	Provision of food and beverages	210	100
AMDB Realty Sdn Bhd	Rental of premises	80	97
Gubahan Impian	Provision of flowers	8	10
<u>Capital expenditure</u>			
Melawangi Sdn Bhd	Purchase of two (2) units of office lots at AMCORP Trade Centre	-	3,624
MCM Consulting Sdn Bhd	Purchase of computer hardware, software and related consultancy services	293	95
MCM Systems Sdn Bhd	Purchase of computer hardware, software and related consultancy services	399	653
AmProperty Holdings Sdn Bhd	Purchase of fourteen (14) office lots	-	18,620

The significant non-banking transaction of the Group with a company in which Mr. Cheah Tek Kuang is deemed to have a substantial interest, is as follows:

<b>Company</b>	<b>Types of transactions</b>	<b>2006 RM'000</b>	<b>2005 RM'000</b>
<u>Expense</u>			
Financial Park (L) Sdn Bhd	Rental of premises	188	214

The above transactions have been entered into in the normal course of business and have been established on terms and conditions that are no less favourable than those arranged with independent third parties.

As at 31 March 2006 and 2005, there are no outstanding balances arising from Directors' related transactions.

## (c) Renounceable Rights to subscribe to shares of AIGB

	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Number of shares</b>		
Tan Sri Dato' Azman Hashim	-	118,954,848
Tan Sri Datuk Dr Aris Osman @ Othman	-	50,000
Tan Sri Datuk Clifford Francis Herbert	-	50,000
Dato' Izham Mahmud	-	101,070
Cheah Tek Kuang	-	2,620,075
Kok Tuck Cheong	-	1,504,584
PusHParani A/P A Moothathamby	-	897,001

**35. DIRECTORS' REMUNERATION**

Forms of remuneration in aggregate for all the Bank's directors charged to the income statement for the financial year are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Executive directors</b>				
Salary and other remuneration	1,202	1,202	1,492	1,485
Bonuses	845	845	1,133	1,133
Gratuity payment	-	-	479	479
Benefits-in-kind	102	102	150	150
	<u>2,149</u>	<u>2,149</u>	<u>3,254</u>	<u>3,247</u>
<b>Non-executive directors</b>				
Fees	162	150	131	119
Salary and other remuneration	1,613	1,613	420	420
Bonuses	837	837	-	-
Benefits-in-kind	146	146	4	4
	<u>2,758</u>	<u>2,746</u>	<u>555</u>	<u>543</u>
<b>Total directors' remuneration</b>	<u>4,907</u>	<u>4,895</u>	<u>3,809</u>	<u>3,790</u>
<b>Total directors' remuneration excluding benefits-in-kind</b>	<u>4,659</u>	<u>4,647</u>	<u>3,655</u>	<u>3,636</u>

\* Directors' fees for directors who are executives of companies of the Group are paid to their respective companies.

The remuneration attributable to the current managing director of the Bank, including estimated cash value of benefits-in-kind during the year amounted to RM1,175,059.

The remuneration attributable to the former managing director of the Bank who has been redesignated to a non-executive director during the financial year, including estimated cash value of benefits-in-kind during the year amounted to RM2,168,417 (RM1,523,504 for the year ended 31 March 2005).

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
<b>Group</b>				
<b>Executive directors</b>				
RM100,001 - RM150,000	-	-	1	1
RM950,001 – RM1,000,000	1	1	1	1
RM1,150,001 – RM1,200,000	1	1	1	1
<b>Non-executive directors</b>				
Below RM50,000	-	-	1	1
RM50,001 – RM100,000	4	4	3	3
RM250,001 – RM300,000	1	1	1	1
RM2,150,001 – RM2,200,000	1	1	-	-

**36. TAXATION**

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Estimated current tax payable	75,740	75,800	60,680	59,698
Share in taxation of associated companies incorporated in Malaysia	97	-	4,616	-
Transfer from deferred tax assets (Note 37 (a))	10,092	10,092	(29,846)	(29,846)
Transfer to deferred tax liabilities (Note 37 (b))	99	-	34	-
	<u>86,028</u>	<u>85,892</u>	<u>35,484</u>	<u>29,852</u>
Under provision of current taxation in respect of prior years	417	526	32,679	32,744
<b>Total</b>	<u>86,445</u>	<u>86,418</u>	<u>68,163</u>	<u>62,596</u>

As at the end of the current financial year, the Group has tax exempt income totalling RM5,960,716 (RM2,021,000 as at 31 March 2005) respectively pertaining to subsidiary companies.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank is as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Profit before taxation	<u>323,334</u>	<u>309,835</u>	<u>243,800</u>	<u>239,854</u>
Taxation at Malaysian statutory tax rate of 28% (2005 : 28%)	90,534	86,754	68,264	67,159
Effect of different tax rates in Labuan and certain subsidiaries	(2,150)	1,533	(2,052)	48
Interest expense on ICULS included in statement of changes in equity which is deductible for tax purposes	(2,016)	(2,016)	(2,016)	(2,016)
Income not subject to tax	1,702	(994)	(2,322)	(8,201)
Expenses not deductible for tax purposes	(1,625)	1,141	6,289	5,606
<b>Tax expense for the year</b>	<u>86,445</u>	<u>86,418</u>	<u>68,163</u>	<u>62,596</u>

**37. DEFERRED TAXATION**

## (a) Deferred tax assets

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Balance at beginning of year				
As previously reported	(78,548)	(78,548)	(22,176)	(22,176)
Prior year adjustments	1,812	1,812	1,715	1,715
As restated	(76,736)	(76,736)	(20,461)	(20,461)
Net transfer (from)/to income statement (Note 36)	10,092	10,092	(29,846)	(29,846)
Reclassification from other assets	-	-	(26,429)	(26,429)
Balance at end of year	(66,644)	(66,644)	(76,736)	(76,736)

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Temporary differences between depreciation and tax allowances on property and equipment	2,891	2,891	3,416	3,416
Gain/(Loss) on revaluation of securities held-for-trading	6,486	6,486	(2,448)	(2,448)
Impairment loss on securities	(38,858)	(38,858)	(38,478)	(38,478)
Allowance for value impairment on amount recoverable from Danaharta	(19,467)	(19,467)	(19,713)	(19,713)
General allowance for loans, advances and financing	(16,600)	(16,600)	(18,264)	(18,264)
Impairment loss on assets acquired in exchange of debts	(820)	(820)	(2,446)	(2,446)
Profit equalisation reserve	(77)	(77)	(615)	(615)
Other temporary differences	(199)	(199)	1,812	1,812
	(66,644)	(66,644)	(76,736)	(76,736)



## (b) Deferred tax liabilities

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Balance at beginning of year	194	-	160	-
Net transfer from income statements (Note 36)	99	-	34	-
Balance at end of year	<u>293</u>	<u>-</u>	<u>194</u>	<u>-</u>

Deferred tax liabilities of the Group is in respect of temporary differences between tax capital allowances and book depreciation of property and equipment.

**38. DIVIDENDS**

	<b>Bank RM'000</b>
<b>2006</b>	
First and final ordinary dividend paid – 25.0%, less 28% taxation, on 200,000,000 ordinary shares of RM1.00 each in respect of financial year ended 31 March 2005	36,000
Interim ordinary dividend paid - 26.0%, less 28% taxation, on 210,000,000 ordinary shares of RM1.00 each in respect of financial year ended 31 March 2006	39,312
Preference dividend proposed - 10.0%, less 28% taxation, on 100,000,000 preference shares of RM1.00 each in respect of financial year ended 31 March 2006	<u>7,200</u>
	<u>82,512</u>
<b>2005</b>	
First and final ordinary dividend paid – 25.0%, less 28% taxation, on 200,000,000 ordinary shares of RM1.00 each in respect of financial year ended 31 March 2004	36,000
Interim ordinary dividend paid - 87.5%, less 28% taxation, on 200,000,000 ordinary shares of RM1.00 each in respect of financial year ended 31 March 2005	126,000
Preference dividend proposed - 10.0%, less 28% taxation, on 100,000,000 preference shares of RM1.00 each in respect of financial year ended 31 March 2005	<u>7,200</u>
	<u>169,200</u>

A proposed final ordinary dividend in respect of the financial year ended 31 March 2006 of 37.0%, less 28% taxation based on the issued and paid-up ordinary share capital of 210,000,000 of RM1.00 each amounting to a total dividend of RM55,944,000 have been proposed by the Directors for shareholder approval at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in shareholder's funds as an appropriation of retained earnings in the next financial year ending 31 March 2007.

**39. EARNINGS PER SHARE**

## (a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholder of the Bank less interest on ICULS and preference dividends by the weighted average number of ordinary shares in issue during the financial year.

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Net profit attributable to shareholder of the Bank after deducting interest on ICULS and preference dividends	221,159	209,017	158,945	162,858
Number of ordinary shares issued at the beginning of period	200,000	200,000	200,000	200,000
Effect of ordinary shares issued	8,822	8,822	-	-
Weighted average number of ordinary shares in issue ('000)	208,822	208,822	200,000	200,000
Basic earnings per share (sen)	105.9	100.1	79.5	81.4

## (b) Fully diluted earnings per share

Fully diluted earnings per share is calculated by dividing the adjusted profit after taxation and minority interests for the financial year by the adjusted weighted average number of ordinary shares in issue and issuable during the financial year.

The Bank has two categories of dilutive potential ordinary shares:

(i) Preference share capital

(ii) Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 2002/2007

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Net profit attributable to shareholder of the Bank after deducting interest on ICULS and preference dividends	221,159	209,017	158,945	162,858
Adjusted for:				
Interest on ICULS,	7,200	7,200	7,200	7,200
Preference dividend	7,200	7,200	7,200	7,200
Adjusted profit after taxation and minority interests	235,559	223,417	173,345	177,258
Weighted average number of ordinary shares in issue ('000)	208,822	208,822	200,000	200,000
Effect of ordinary shares issued pursuant to conversion :				
Preference shares ('000)	100,000	100,000	100,000	100,000
ICULS ('000)	30,000	30,000	30,000	30,000
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	338,822	338,822	330,000	330,000
Fully diluted earnings per share (sen)	69.5	65.9	52.5	53.7

The adjusted weighted average number of ordinary shares in issue and issuable has been arrived at based on the assumption that all the ICULS and Preference Shares issued and outstanding are converted to ordinary shares at beginning of the year.

**40. FIDUCIARY DUTY IN RESPECT OF INVESTMENT PORTFOLIO MANAGEMENT SERVICES**

Investment portfolio funds managed on behalf of customers as at 31 March 2006 by the Group and the Bank amounted to RM10,269,483,000 (RM7,066,876,000 as at 31 March 2005) and RM50,623,000 (RM140,969,000 as at 31 March 2005), respectively.

**41. CAPITAL COMMITMENTS**

As at 31 March 2006, the capital commitments of the Group and of the Bank are as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Authorised and contracted but not provided for:				
Uncalled portion of total subscription price in the share capital of AmTrustee Berhad	100	100	100	100
Purchase of office equipment, information technology equipment and solutions	337	337	3,933	3,933
Purchase of land and buildings	300	300	-	-
Purchase of other investments	415	415	1,893	1,893
Purchase of motor vehicle	-	-	1,044	1,044
	<u>1,152</u>	<u>1,152</u>	<u>6,970</u>	<u>6,970</u>
Authorised but not contracted for:				
Purchase of office equipment, information technology equipment and solutions	192	192	5	5
Purchase of other investments	20,000	20,000	20,000	20,000
	<u>21,344</u>	<u>21,344</u>	<u>26,975</u>	<u>26,975</u>

**42. LEASE COMMITMENTS**

The Group and the Bank have lease commitments in respect of rental of premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases is as follows:

	Group RM'000	Bank RM'000
Year ending 31 March		
2007	5,581	5,393
2008	5,021	4,833
2009 and thereafter	1,778	1,747
	<u>12,380</u>	<u>11,973</u>

The lease commitments represent minimum rentals not adjusted for operating expenses which the Group and the Bank are obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.

**43. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group and Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's asset.

As at 31 March 2006, the commitments and contingencies outstanding are as follows:

Group	2006			2005		
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000
<b>Derivative Financial Instruments</b>						
Interest rate related contracts:						
Interest rate futures	580,000	-	-	550,000	-	-
Interest rate swaps:						
Related companies	3,732,189	56,141	11,228	1,700,000	34,063	6,813
Others	11,951,139	256,104	52,484	5,868,115	118,218	26,931
Foreign exchange related contracts:						
Forward exchange contracts	3,241,064	66,695	13,339	1,543,738	17,490	3,498
Cross currency swaps	375,676	32,666	6,533	463,600	32,512	6,502
Malaysian Government securities futures	10,000	-	-	27,900	-	-
	<u>19,890,068</u>	<u>411,606</u>	<u>83,584</u>	<u>10,153,353</u>	<u>202,283</u>	<u>43,744</u>
<b>Commitments</b>						
Irrevocable commitments to extend credit maturing :						
within one year	642,181	-	-	747,783	-	-
more than one year	187,253	93,627	93,135	229,203	114,602	114,286
Sell and buy back agreements	2,174,849	2,174,849	915,378	1,797,884	1,797,884	965,427
Forward purchase commitments	331,127	331,127	153,377	113,040	113,040	20,285
	<u>3,335,410</u>	<u>2,599,603</u>	<u>1,161,890</u>	<u>2,887,910</u>	<u>2,025,526</u>	<u>1,099,998</u>
<b>Contingent Liabilities</b>						
Guarantees given on behalf of customers	844,067	844,067	727,713	969,181	969,181	826,348
Underwriting liabilities	992,437	496,218	471,819	315,434	157,717	137,317
Certain transaction-related contingent items	431,238	215,619	181,111	495,392	247,696	216,302
	<u>2,267,742</u>	<u>1,555,904</u>	<u>1,380,643</u>	<u>1,780,007</u>	<u>1,374,594</u>	<u>1,179,967</u>
	<u>25,493,220</u>	<u>4,567,113</u>	<u>2,626,117</u>	<u>14,821,270</u>	<u>3,602,403</u>	<u>2,323,709</u>

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Bank	2006			2005		
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000
<b>Derivative Financial Instruments</b>						
Interest rate related contracts:						
Interest rate futures	580,000	-	-	550,000	-	-
Interest rate swaps:						
Related companies	3,732,189	56,141	11,228	1,702,092	34,160	6,832
Others	11,951,139	256,104	52,484	5,868,115	118,216	26,931
Foreign exchange related contracts:						
Forward exchange contracts	3,241,064	66,695	13,339	1,543,738	17,490	3,498
Cross currency swaps	375,676	32,666	6,533	463,600	32,512	6,502
Malaysian Government securities futures	10,000	-	-	27,900	-	-
	<u>19,890,068</u>	<u>411,606</u>	<u>83,584</u>	<u>10,155,445</u>	<u>202,378</u>	<u>43,763</u>
<b>Commitments</b>						
Irrevocable commitments to extend credit maturing:						
within one year	642,181	-	-	747,783	-	-
more than one year	141,959	70,980	70,488	202,255	101,128	100,812
Sell and buy back agreements	2,174,849	2,174,849	915,378	1,797,884	1,797,884	965,427
Forward purchase commitments	331,127	331,127	153,377	113,040	113,040	20,285
	<u>3,290,116</u>	<u>2,576,956</u>	<u>1,139,243</u>	<u>2,860,962</u>	<u>2,012,052</u>	<u>1,086,524</u>
<b>Contingent Liabilities</b>						
Guarantees given on behalf of customers	841,002	841,002	724,648	979,823	979,823	835,548
Underwriting liabilities	992,437	496,218	471,819	315,434	157,717	137,317
Certain transaction-related contingent items	431,238	215,619	181,111	495,392	247,696	217,744
	<u>2,264,677</u>	<u>1,552,839</u>	<u>1,377,578</u>	<u>1,790,649</u>	<u>1,385,236</u>	<u>1,190,609</u>
	<u>25,444,861</u>	<u>4,541,401</u>	<u>2,600,405</u>	<u>14,807,056</u>	<u>3,599,666</u>	<u>2,320,896</u>

The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

As required, the Bank has given a continuing guarantee to Bank Negara Malaysia on behalf of its offshore banking subsidiary in Labuan, AmInternational (L) Ltd., to meet all its liabilities and financial obligations and requirements

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The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

- (a) As required, the Bank has given a continuing guarantee to Bank Negara Malaysia on behalf of its offshore banking subsidiary in Labuan, AmInternational, to meet all its liabilities and financial obligations and requirements.
- (b) A suit dated 12 December 2005 was filed by Meridian Asset Management Sdn Bhd ("Meridian") against Trustee associated company, AmTrustee Berhad ('AmTrustee') in respect of a claim amounting to RM27.6 million for alleged loss and damage together with interests and costs arising from AmTrustee's provision of custodian services to Meridian.

Malaysian Assurance Alliance Bhd ('MAA') has claimed its portion of the abovementioned alleged loss, being general damages and special damages of RM19,640,178.83, together with interest and costs.

AmTrustee was served on 24 March 2006 with a Writ and Statement of Claim dated 25 January 2006 by solicitors acting for MAA. MAA had appointed Meridian as an external fund manager for certain of its insurance funds, and part of these funds were deposited by Meridian with AmTrustee.

Neither material financial loss nor operational impact on the Group is expected as a result of the writ and statement of claim.

Based on legal advice, AmTrustee believes it has a good defence in respect of the claim.

#### **44. RISK MANAGEMENT POLICY**

Risk management is about managing uncertainties such that deviations from the Group's intended objectives are kept within acceptable levels. Sustainable profitability forms the core objectives of the Group's risk management strategy.

Every risk assumed by the Group carries with it potential for gains as well as potential to erode shareholders' value. The Group's risk management policy is to identify, capture and analyse these risks at an early stage, continuously measure and monitor these risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient returns.

The management approach towards the significant risks of the Group are enumerated below.

##### **MARKET RISK MANAGEMENT**

Market risk is the risk of loss from changes in the value of portfolios and financial instruments caused by movements in market variables, such as interest rates, foreign exchange rates and equity prices. Exposures to market risk arises mainly from trading activities as well as holdings of other instruments where general changes in market rates or prices can affect the reported earnings.

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 Group to reduce its position without incurring potential loss that is beyond the sustainability of the Group.

The market risk of the Group's trading and non-trading portfolio is managed separately using value-at-risk approach to compute the market risk exposure of non-trading portfolio and trading portfolio. Value-at-risk is a statistical measure that estimates the potential changes in portfolio value that may occur brought about by daily changes in market rates over a specified holding period at a specified confidence level under normal market conditions. For the Group's trading portfolio, the Group's value-at-risk measurement takes a more sophisticated form by taking into account the correlation effects of various instruments in the portfolio.

The Group controls the market risk exposure of its trading and non-trading activities primarily through a series of threshold limits. Stop loss, value-at-risk and position sensitivity limits are the primary means of control governing the trading activities of the Group while value at risk limits governs the non-trading positions.

To complement value-at-risk measurement, the Group also institutes a set of scenario analysis under various potential market conditions such as shifts in currency rates, general equity prices and interest rate movements to assess the changes in portfolio value.

The following table shows the interest rate sensitivity gap, by time bands, on which interest rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

Group 2006	-----Non-trading book ----->						Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>										
Cash and short-term funds	2,651,126	-	-	-	-	-	455,058	-	3,106,184	6.32
Securities purchased under resale agreements	498,343	30,924	-	-	-	-	-	-	529,267	3.16
Deposits and placements with banks and other financial institutions	-	567	-	399,895	73,662	749,500	-	-	1,223,624	3.50
Securities held-for-trading	-	-	-	-	-	-	-	7,053,649	7,053,649	3.87
Securities available-for-sale	-	-	67,258	-	294,829	438,782	30,952	-	831,821	5.04
Securities held-to-maturity	-	55,247	1,997	83,708	857,511	327,417	481,787	-	1,807,667	5.52
Loans, advances and financing:										
- performing	1,659,523	1,662,848	129,994	112,509	309,604	23,325	70,005	-	3,967,808	6.30
- non-performing *	-	-	-	-	-	-	230,360	-	230,360	-
Amount due from Originators	816	-	1,967	19,564	67,347	-	-	-	89,694	4.25
Other non-interest sensitive balances	-	-	-	-	-	-	598,128	-	598,128	-
<b>TOTAL ASSETS</b>	<b>4,809,808</b>	<b>1,749,586</b>	<b>201,216</b>	<b>615,676</b>	<b>1,602,953</b>	<b>1,539,024</b>	<b>1,866,290</b>	<b>7,053,649</b>	<b>19,438,202</b>	
<b>LIABILITIES</b>										
Deposits from customers	3,838,547	1,912,142	263,589	161,518	8,844	-	247,537	-	6,432,177	3.18
Deposits and placements of banks and other financial institutions	2,768,877	1,255,054	468,154	387,818	1,026,803	1,335,916	274,275	-	7,516,897	3.95
Obligations on securities sold under repurchase agreements	2,498,936	91,072	273	-	-	-	-	-	2,590,281	3.13
Acceptances payable	964	1,336	803	-	-	-	-	-	3,103	4.81
Recourse obligation on loans sold to Cagamas Berhad	816	-	1,967	19,564	67,347	-	-	-	89,694	4.25
Term loans	-	276,233	-	-	-	-	-	-	276,233	5.15
Redeemable unsecured subordinated bonds	-	-	-	-	-	595,000	-	-	595,000	6.10



Group 2006	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Other non-interest sensitive balances	-	-	-	-	-	-	223,864	-	223,864	-	
Total Liabilities	9,108,140	3,535,837	734,786	568,900	1,102,994	1,930,916	745,676	-	17,727,249		
<b>EQUITY</b>											
Share capital	-	-	-	-	-	-	310,000	-	310,000	-	
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	120,000	-	-	-	-	120,000	6.00	
Reserves	-	-	-	-	-	-	1,280,953	-	1,280,953	-	
Total Equity	-	-	-	120,000	-	-	1,590,953	-	1,710,953		
<b>TOTAL LIABILITIES AND EQUITY</b>	9,108,140	3,535,837	734,786	688,900	1,102,994	1,930,916	2,336,629	-	19,438,202		
On-balance sheet interest sensitivity gap	(4,298,332)	(1,786,251)	(533,570)	(73,224)	499,959	(391,892)	(470,339)	7,053,649	-		
Off-balance sheet interest sensitivity gap	(1,142,119)	(332,577)	245,061	(686,414)	(13,326)	1,935,098	-	-	5,723		
<b>Total interest sensitivity gap</b>	(5,440,451)	(2,118,828)	(288,509)	(759,638)	486,633	1,543,206	(470,339)	7,053,649	5,723		
<b>Cumulative interest rate sensitivity gap</b>	(5,440,451)	(7,559,279)	(7,847,788)	(8,607,426)	(8,120,793)	(6,577,587)	(7,047,926)	5,723			

Group 2005	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
<b>ASSETS</b>											
Cash and short-term funds	1,959,224	-	-	-	-	-	620,685	-	2,579,909	3.05	
Securities purchased under resale agreements	9,671	-	-	-	-	-	-	-	9,671	2.87	
Deposits and placements with banks and other financial institutions	-	321,823	38,000	-	-	-	33,100	-	392,923	2.87	
Securities held-for-trading	-	-	-	-	-	-	166,024	3,410,908	3,576,932	3.63	
Securities available-for-sale	-	-	18,999	-	581,644	252,687	28,810	-	882,140	3.65	
Securities held-to-maturity	-	-	85,803	118,467	430,592	266,431	471,790	-	1,373,083	8.63	
Loans, advances and financing:											
- performing	2,270,516	301,276	102,739	439,854	199,868	102,389	499,815	-	3,916,457	6.20	
- non-performing *							612,414	-	612,414	-	
Amount due from Originators	-	3,361	-	7,684	121,753	-	-	-	132,798	4.29	
Other non-interest sensitive balances	-	-	-	-	-	-	556,885	-	556,885	-	
<b>TOTAL ASSETS</b>	<b>4,239,411</b>	<b>626,460</b>	<b>245,541</b>	<b>566,005</b>	<b>1,333,857</b>	<b>621,507</b>	<b>2,989,523</b>	<b>3,410,908</b>	<b>14,033,212</b>		
<b>LIABILITIES</b>											
Deposits from customers	2,908,706	1,489,221	477,496	106,632	500	-	311,881	-	5,294,436	2.90	
Deposits and placements of banks and other financial institutions	1,204,973	660,229	698,548	362,784	709,999	599,260	355,623	-	4,591,416	3.39	
Obligations on securities sold under repurchase agreements	1,460,482	3,327	101	-	-	-	-	-	1,463,910	2.59	
Acceptances payable	996	1,456	734	-	-	-	-	-	3,186	4.91	
Recourse obligation on loans sold to Cagamas Berhad	-	3,361	-	7,684	121,753	-	-	-	132,798	4.29	
Term loans	-	-	285,000	-	-	-	-	-	285,000	2.98	
Subordinated certificates of deposits	-	-	-	198,768	-	-	-	-	198,768	8.85	
Redeemable unsecured subordinated bonds	-	-	-	-	460,000	-	-	-	460,000	6.50	

Group 2005	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Other non-interest sensitive balances	-	-	-	-	-	-	92,563		92,563	-	
Total Liabilities	5,575,157	2,157,594	1,461,879	675,868	1,292,252	599,260	760,067	-	12,522,077		
<b>EQUITY</b>											
Share capital	-	-	-	-	-	-	300,000	-	300,000	-	
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	-	120,000	-	-	-	120,000	6.00	
Reserves	-	-	-	-	-	-	1,085,052	-	1,085,052	-	
Shareholder's equity	-	-	-	-	120,000	-	1,385,052	-	1,505,052		
Minority interests	-	-	-	-	-	-	6,083	-	6,083	-	
Total Equity	-	-	-	-	120,000	-	1,391,135	-	1,511,135		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,575,157</b>	<b>2,157,594</b>	<b>1,461,879</b>	<b>675,868</b>	<b>1,412,252</b>	<b>599,260</b>	<b>2,151,202</b>	<b>-</b>	<b>14,033,212</b>		
On-balance sheet interest sensitivity gap	(1,335,746)	(1,531,134)	(1,216,338)	(109,863)	(78,395)	22,247	838,321	3,410,908	-		
Off-balance sheet interest sensitivity gap	(722,886)	(1,090,609)	(104,559)	875,362	776,189	266,503	-	-	-		
<b>Total interest sensitivity gap</b>	<b>(2,058,632)</b>	<b>(2,621,743)</b>	<b>(1,320,897)</b>	<b>765,499</b>	<b>697,794</b>	<b>288,750</b>	<b>838,321</b>	<b>3,410,908</b>	<b>-</b>		
<b>Cumulative interest rate sensitivity gap</b>	<b>(2,058,632)</b>	<b>(4,680,375)</b>	<b>(6,001,272)</b>	<b>(5,235,773)</b>	<b>(4,537,979)</b>	<b>(4,249,229)</b>	<b>(3,410,908)</b>	<b>-</b>			

\* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

Bank 2006	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
<b>ASSETS</b>											
Cash and short-term funds	2,540,678	-	-	-	-	-	452,047	-	2,992,725	6.43	
Securities purchased under resale agreements	473,540	30,924	-	-	-	-	-	-	504,464	3.16	
Deposits and placements with banks and other financial institutions	-	-	-	399,895	73,661	749,500	-	-	1,223,056	3.33	
Securities held-for-trading	-	-	-	-	-	-	-	7,032,722	7,032,722	3.87	
Securities available-for-sale	-	-	48,683	-	294,829	438,781	23,925	-	806,218	5.03	
Securities held-to-maturity	-	-	1,997	83,708	828,509	327,418	481,787	-	1,723,419	5.52	
Loans, advances and financing:											
- performing	1,578,542	1,646,943	93,155	112,485	309,270	22,743	64,972	-	3,828,110	6.31	
- non-performing *	-	-	-	-	-	-	213,829	-	213,829	-	
Amount due from Originators	816	-	1,967	19,564	67,347	-	-	-	89,694	4.25	
Other non-interest sensitive balances	-	-	-	-	-	-	614,987	-	614,987	-	
<b>TOTAL ASSETS</b>	<b>4,593,576</b>	<b>1,677,867</b>	<b>145,802</b>	<b>615,652</b>	<b>1,573,616</b>	<b>1,538,442</b>	<b>1,851,547</b>	<b>7,032,722</b>	<b>19,029,224</b>		
<b>LIABILITIES</b>											
Deposits from customers	3,638,739	1,912,142	263,400	161,518	7,056	-	247,537	-	6,230,392	3.13	
Deposits and placements of banks and other financial institutions	2,821,821	1,365,547	468,154	387,818	1,028,589	1,335,917	274,275	-	7,682,121	3.94	
Obligations on securities sold under repurchase agreements	2,498,936	91,072	273	-	-	-	-	-	2,590,281	3.13	
Acceptances payable	964	1,336	803	-	-	-	-	-	3,103	4.81	
Recourse obligation on loans sold to Cagamas Berhad	816	-	1,967	19,564	67,347	-	-	-	89,694	4.25	
Redeemable unsecured subordinated bonds	-	-	-	-	-	595,000	-	-	595,000	6.10	

Bank 2006	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Other non-interest sensitive balances	-	-	-	-	-	-	203,880	-	203,880	-	
Total Liabilities	8,961,276	3,370,097	734,597	568,900	1,102,992	1,930,917	725,692	-	17,394,471		
<b>EQUITY</b>											
Share capital	-	-	-	-	-	-	310,000	-	310,000	-	
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	120,000	-	-	-	-	120,000	6.00	
Reserves	-	-	-	-	-	-	1,204,753	-	1,204,753	-	
Total Equity	-	-	-	120,000	-	-	1,514,753	-	1,634,753		
<b>TOTAL LIABILITIES AND EQUITY</b>	8,961,276	3,370,097	734,597	688,900	1,102,992	1,930,917	2,240,445	-	19,029,224		
On-balance sheet interest sensitivity gap	(4,367,700)	(1,692,230)	(588,795)	(73,248)	470,624	(392,475)	(388,898)	7,032,722	-		
Off-balance sheet interest sensitivity gap	(1,142,119)	(332,577)	245,061	(686,414)	(13,326)	1,935,098	-	-	5,723		
<b>Total interest sensitivity gap</b>	(5,509,819)	(2,024,807)	(343,734)	(759,662)	457,298	1,542,623	(388,898)	7,032,722	5,723		
<b>Cumulative interest rate sensitivity gap</b>	(5,509,819)	(7,534,626)	(7,878,360)	(8,638,022)	(8,180,724)	(6,638,101)	(7,026,999)	5,723			

Bank 2005	-----Non-trading book ----->						Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>										
Cash and short-term funds	1,723,509	-	-	-	-	-	606,404	-	2,329,913	3.15
Deposits and placements with banks and other financial institutions	-	319,300	38,000	-	-	38,000	33,100	-	428,400	3.15
Securities held-for-trading	-	-	-	-	-	-	166,024	3,388,636	3,554,660	3.62
Securities available-for-sale	-	-	-	-	312,595	252,687	20,697	-	585,979	3.89
Securities held-to-maturity	-	-	-	117,496	392,635	257,361	479,685	-	1,247,177	9.10
Loans, advances and financing:										
- performing	2,218,216	272,837	31,599	439,836	199,727	102,144	499,815	-	3,764,174	6.40
- non-performing *	-	-	-	-	-	-	586,259	-	586,259	-
Amount due from Originators	-	3,361	-	7,684	121,753	-	-	-	132,798	4.27
Other non-interest sensitive balances	-	-	-	-	-	-	563,707	-	563,707	-
<b>TOTAL ASSETS</b>	<b>3,941,725</b>	<b>595,498</b>	<b>69,599</b>	<b>565,016</b>	<b>1,026,710</b>	<b>650,192</b>	<b>2,955,691</b>	<b>3,388,636</b>	<b>13,193,067</b>	
<b>LIABILITIES</b>										
Deposits from customers	2,320,758	1,488,070	477,459	106,632	500	-	311,881	-	4,705,300	2.83
Deposits and placements of banks and other financial institutions	1,306,471	670,316	708,566	362,784	709,999	599,261	355,623	-	4,713,020	3.32
Obligations on securities sold under repurchase agreements	1,460,482	3,327	101	-	-	-	-	-	1,463,910	2.67
Recourse obligation on loans sold to Cagamas Berhad	996	1,456	734	-	-	-	-	-	3,186	4.94
Amount due to Cagamas Berhad	-	3,361	-	7,684	121,753	-	-	-	132,798	4.27
Term loans	-	-	-	-	-	-	-	-	-	2.29
Subordinated certificates of deposits	-	-	-	198,768	-	-	-	-	198,768	8.00
Redeemable unsecured subordinated bonds	-	-	-	-	460,000	-	-	-	460,000	6.50

Bank 2005	<-----Non-trading book ----->							Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Other non-interest sensitive balances	-	-	-	-	-	-	76,444	-	76,444	-	
Total Liabilities	5,088,707	2,166,530	1,186,860	675,868	1,292,252	599,261	743,948	-	11,753,426		
<b>EQUITY</b>											
Share capital	-	-	-	-	-	-	300,000	-	300,000	-	
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	-	120,000	-	-	-	120,000	6.00	
Reserves	-	-	-	-	-	-	1,019,641	-	1,019,641	-	
Total Equity	-	-	-	-	120,000	-	1,319,641	-	1,439,641		
<b>TOTAL LIABILITIES AND EQUITY</b>	5,088,707	2,166,530	1,186,860	675,868	1,412,252	599,261	2,063,589	-	13,193,067		
On-balance sheet interest sensitivity gap	(1,146,982)	(1,571,032)	(1,117,261)	(110,852)	(385,542)	50,931	892,102	3,388,636	-		
Off-balance sheet interest sensitivity gap	(722,886)	(1,090,609)	(104,559)	875,362	776,189	266,503	-	-	-		
<b>Total interest sensitivity gap</b>	(1,869,868)	(2,661,641)	(1,221,820)	764,510	390,647	317,434	892,102	3,388,636	-		
<b>Cumulative interest rate sensitivity gap</b>	(1,869,868)	(4,531,509)	(5,753,329)	(4,988,819)	(4,598,172)	(4,280,738)	(3,388,636)	-			

\* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

## **LIQUIDITY RISK**

Liquidity risk is the risk that the organization will not be able to fund its day-to-day operations at a reasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

The primary objective of liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments as it becomes due.

The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base, and maturity period.

The ongoing liquidity risk management at the Group is based on the following key strategies:

- Management of cash-flow; an assessment of potential cash flow mismatches that may arise over a period of one-year ahead and the maintenance of adequate cash and liquefiable assets over and above the standard requirements of Bank Negara Malaysia.
- Scenario analysis; a simulation on liquidity demands of new business, changes in portfolio as well as stress scenarios based on historical experience of large withdrawals.
- Diversification and stabilisation of liabilities through management of funding sources, diversification of customer depositor base and inter-bank exposures.

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the Group.



<b>Group 2006</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>ASSETS</b>								
Cash and short-term funds	3,098,634	-	-	-	-	-	7,550	3,106,184
Securities purchased under resale agreements	498,343	30,924	-	-	-	-	-	529,267
Deposits and placements with banks and other financial institutions	-	253,138	896,823	73,663	-	-	-	1,223,624
Securities held-for-trading	661,000	1,328,124	712,379	217,416	2,980,007	1,047,009	107,714	7,053,649
Securities available-for-sale	-	-	48,683	-	313,405	438,781	30,952	831,821
Securities held-to-maturity	-	-	1,997	48,613	642,551	1,092,717	21,789	1,807,667
Loans, advances and financing	1,146,726	1,605,085	159,686	161,913	846,397	23,963	254,398	4,198,168
Amount due from Originators	816	-	1,967	19,564	67,347	-	-	89,694
Other assets	20,492	6,340	13,615	2,544	26,903	16,926	82,931	169,751
Deferred tax assets	-	-	-	-	-	-	66,644	66,644
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	244,130	244,130
Goodwill on consolidation	-	-	-	-	-	-	36,442	36,442
Investments in associated companies	-	-	-	-	-	-	41,100	41,100
Property and equipment	-	-	-	-	-	-	40,061	40,061
<b>TOTAL ASSETS</b>	<b>5,426,011</b>	<b>3,223,611</b>	<b>1,835,150</b>	<b>523,713</b>	<b>4,876,610</b>	<b>2,619,396</b>	<b>933,711</b>	<b>19,438,202</b>
<b>LIABILITIES</b>								
Deposits from customers	3,951,390	2,004,265	291,697	175,981	8,844	-	-	6,432,177
Deposits and placements of banks and other financial institutions	2,839,044	1,445,764	476,513	392,857	1,026,803	1,335,916	-	7,516,897
Obligations on securities sold under repurchase agreements	2,498,936	91,072	273	-	-	-	-	2,590,281
Acceptances payable	964	1,336	803	-	-	-	-	3,103
Recourse obligation on loans sold to Cagamas Berhad	816	-	1,967	19,564	67,347	-	-	89,694
Other liabilities	30,238	14,223	5,245	2,196	8,338	98,428	65,196	223,864
Term loans	-	-	-	276,233	-	-	-	276,233

<b>Group 2006</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
Redeemable unsecured subordinated bonds	-	-	-	-	-	595,000	-	595,000
<b>Total Liabilities</b>	<b>9,321,388</b>	<b>3,556,660</b>	<b>776,498</b>	<b>866,831</b>	<b>1,111,332</b>	<b>2,029,344</b>	<b>65,196</b>	<b>17,727,249</b>
<b>EQUITY</b>								
Share capital	-	-	-	-	-	-	310,000	310,000
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	120,000	-	-	-	120,000
Reserves	-	-	-	-	-	-	1,280,953	1,280,953
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,000</b>	<b>-</b>	<b>-</b>	<b>1,590,953</b>	<b>1,710,953</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9,321,388</b>	<b>3,556,660</b>	<b>776,498</b>	<b>986,831</b>	<b>1,111,332</b>	<b>2,029,344</b>	<b>1,656,149</b>	<b>19,438,202</b>
<b>Net maturity mismatch</b>	<b>(3,895,377)</b>	<b>(333,049)</b>	<b>1,058,652</b>	<b>(463,118)</b>	<b>3,765,278</b>	<b>590,052</b>	<b>(722,438)</b>	<b>-</b>

<b>Group 2005</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>ASSETS</b>								
Cash and short-term funds	2,541,024	-	-	-	-	-	38,885	2,579,909
Securities purchased under resale agreements	9,671	-	-	-	-	-	-	9,671
Deposits and placements with banks and other financial institutions	-	354,923	38,000	-	-	-	-	392,923
Securities held-for-trading	141,142	610,416	436,018	485,814	1,318,030	512,856	72,656	3,576,932
Securities available-for-sale	-	-	29,997	39,872	530,773	252,688	28,810	882,140
Securities held-to-maturity	5,651	-	28,803	83,508	529,891	705,548	19,682	1,373,083
Loans, advances and financing	1,743,479	1,015,516	65,137	520,852	816,632	52,765	314,490	4,528,871
Amount due from Originators	-	3,361	-	7,684	121,753	-	-	132,798
Other assets	13,301	4,862	1,132	4,160	13,222	7,214	111,967	155,858
Deferred tax assets	-	-	-	-	-	-	76,736	76,736
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	244,294	244,294
Investments in associated companies	-	-	-	-	-	-	39,432	39,432
Property and equipment	-	-	-	-	-	-	40,565	40,565
<b>TOTAL ASSETS</b>	<b>4,454,268</b>	<b>1,989,078</b>	<b>599,087</b>	<b>1,141,890</b>	<b>3,330,301</b>	<b>1,531,071</b>	<b>987,517</b>	<b>14,033,212</b>
<b>LIABILITIES</b>								
Deposits from customers	3,105,146	1,568,124	488,391	132,275	500	-	-	5,294,436
Deposits and placements of banks and other financial institutions	1,337,077	839,400	732,945	363,196	719,537	599,261	-	4,591,416
Obligations on securities sold under repurchase agreements	1,460,482	3,428	-	-	-	-	-	1,463,910
Acceptances payable	996	1,456	734	-	-	-	-	3,186
Recourse obligation on loans sold to Cagamas Berhad	-	3,361	-	7,684	121,753	-	-	132,798
Other liabilities	20,683	10,069	6,787	1,614	3,049	6,991	43,370	92,563
Term loans	-	-	-	285,000	-	-	-	285,000

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<b>Group 2005</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
Subordinated certificates of deposits	-	-	-	-	-	198,768	-	198,768
Redeemable unsecured subordinated bonds	-	-	-	-	-	460,000	-	460,000
<b>Total Liabilities</b>	<b>5,924,384</b>	<b>2,425,838</b>	<b>1,228,857</b>	<b>789,769</b>	<b>844,839</b>	<b>1,265,020</b>	<b>43,370</b>	<b>12,522,077</b>
<b>EQUITY</b>								
Share capital	-	-	-	-	-	-	300,000	300,000
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	-	120,000	-	-	120,000
Reserves	-	-	-	-	-	-	1,085,052	1,085,052
Shareholder's equity	-	-	-	-	120,000	-	1,385,052	1,505,052
Minority interests	-	-	-	-	-	-	6,083	6,083
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,000</b>	<b>-</b>	<b>1,391,135</b>	<b>1,511,135</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,924,384</b>	<b>2,425,838</b>	<b>1,228,857</b>	<b>789,769</b>	<b>964,839</b>	<b>1,265,020</b>	<b>1,434,505</b>	<b>14,033,212</b>
<b>Net maturity mismatch</b>	<b>(1,470,116)</b>	<b>(436,760)</b>	<b>(629,770)</b>	<b>352,121</b>	<b>2,365,462</b>	<b>266,051</b>	<b>(446,988)</b>	<b>-</b>

<b>Bank 2006</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>ASSETS</b>								
Cash and short-term funds	2,985,279	-	-	-	-	-	7,446	2,992,725
Securities purchased under resale agreements	473,540	30,924	-	-	-	-	-	504,464
Deposits and placements with banks and other financial institutions	-	252,571	896,823	73,662	-	-	-	1,223,056
Securities held-for-trading	661,000	1,328,124	712,379	217,416	2,980,007	1,026,085	107,711	7,032,722
Securities available-for-sale	-	-	48,683	-	294,829	438,781	23,925	806,218
Securities held-to-maturity	-	-	1,997	-	606,917	1,092,717	21,788	1,723,419
Loans, advances and financing	1,109,452	1,601,397	154,128	156,631	732,770	17,163	270,398	4,041,939
Amount due from Originators	816	-	1,967	19,564	67,347	-	-	89,694
Other assets	5,206	4,433	13,234	2,512	26,903	16,926	92,276	161,490
Deferred tax assets	-	-	-	-	-	-	66,644	66,644
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	244,130	244,130
Investments in subsidiary companies	-	-	-	-	-	-	83,103	83,103
Investments in associated companies	-	-	-	-	-	-	21,950	21,950
Property and equipment	-	-	-	-	-	-	37,670	37,670
<b>TOTAL ASSETS</b>	<b>5,235,293</b>	<b>3,217,449</b>	<b>1,829,211</b>	<b>469,785</b>	<b>4,708,773</b>	<b>2,591,672</b>	<b>977,041</b>	<b>19,029,224</b>
<b>LIABILITIES</b>								
Deposits from customers	3,749,796	2,004,265	291,506	175,981	8,844	-	-	6,230,392
Deposits and placements of banks and other financial institutions	3,004,268	1,445,764	476,513	392,857	1,026,803	1,335,916	-	7,682,121
Obligations on securities sold under repurchase agreements	2,498,936	91,072	273	-	-	-	-	2,590,281
Acceptances payable	964	1,336	803	-	-	-	-	3,103
Recourse obligation on loans sold to Cagamas Berhad	816	-	1,967	19,564	67,347	-	-	89,694
Other liabilities	18,135	14,183	5,243	2,092	8,338	98,428	57,461	203,880

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<b>Bank 2006</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
Redeemable unsecured subordinated bonds	-	-	-	-	-	595,000	-	595,000
<b>Total Liabilities</b>	<b>9,272,915</b>	<b>3,556,620</b>	<b>776,305</b>	<b>590,494</b>	<b>1,111,332</b>	<b>2,029,344</b>	<b>57,461</b>	<b>17,394,471</b>
<b>EQUITY</b>								
Share capital	-	-	-	-	-	-	310,000	310,000
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	120,000	-	-	-	120,000
Reserves	-	-	-	-	-	-	1,204,753	1,204,753
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,000</b>	<b>-</b>	<b>-</b>	<b>1,514,753</b>	<b>1,634,753</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9,272,915</b>	<b>3,556,620</b>	<b>776,305</b>	<b>710,494</b>	<b>1,111,332</b>	<b>2,029,344</b>	<b>1,572,214</b>	<b>19,029,224</b>
<b>Net maturity mismatch</b>	<b>(4,037,622)</b>	<b>(339,171)</b>	<b>1,052,906</b>	<b>(240,709)</b>	<b>3,597,441</b>	<b>562,328</b>	<b>(595,173)</b>	<b>-</b>

<b>Bank 2005</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>ASSETS</b>								
Cash and short-term funds	2,305,309	-	-	-	-	-	24,604	2,329,913
Deposits and placements with banks and other financial institutions	-	390,400	38,000	-	-	-	-	428,400
Securities held-for-trading	141,141	610,416	436,018	485,813	1,318,030	490,586	72,656	3,554,660
Securities available-for-sale	-	-	29,997	39,872	242,726	252,687	20,697	585,979
Securities held-to-maturity	-	-	-	77,837	444,108	705,549	19,683	1,247,177
Loans, advances and financing	1,700,652	1,011,588	58,488	508,438	710,799	32,560	327,908	4,350,433
Amount due from Originators	-	3,361	-	7,684	121,753	-	-	132,798
Other assets	2,733	550	390	4,130	13,326	7,214	115,855	144,198
Deferred tax assets	-	-	-	-	-	-	76,736	76,736
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	244,294	244,294
Investments in subsidiary companies	-	-	-	-	-	-	38,617	38,617
Investments in associated companies	-	-	-	-	-	-	21,950	21,950
Property and equipment	-	-	-	-	-	-	37,912	37,912
<b>TOTAL ASSETS</b>	<b>4,149,835</b>	<b>2,016,315</b>	<b>562,893</b>	<b>1,123,774</b>	<b>2,850,742</b>	<b>1,488,596</b>	<b>1,000,912</b>	<b>13,193,067</b>
<b>LIABILITIES</b>								
Deposits from customers	2,517,198	1,566,973	488,354	132,275	500	-	-	4,705,300
Deposits and placements of banks and other financial institutions	1,496,681	801,400	732,945	363,196	719,537	599,261	-	4,713,020
Obligations on securities sold under repurchase agreements	1,460,482	3,428	-	-	-	-	-	1,463,910
Acceptances payable	996	1,456	734	-	-	-	-	3,186
Recourse obligation on loans sold to Cagamas Berhad	-	3,361	-	7,684	121,753	-	-	132,798
Other liabilities	11,209	10,045	4,667	1,566	3,049	6,991	38,917	76,444
Term loans	-	-	-	-	-	-	-	-

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<b>Bank 2005</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 6 months RM'000</b>	<b>&gt;6 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
Subordinated certificates of deposits	-	-	-	-	-	198,768	-	198,768
Redeemable unsecured subordinated bonds	-	-	-	-	-	460,000	-	460,000
<b>Total Liabilities</b>	<b>5,486,566</b>	<b>2,386,663</b>	<b>1,226,700</b>	<b>504,721</b>	<b>844,839</b>	<b>1,265,020</b>	<b>38,917</b>	<b>11,753,426</b>
<b>EQUITY</b>								
Share capital	-	-	-	-	-	-	300,000	300,000
Interest bearing irredeemable convertible unsecured loan stocks 2002/2007	-	-	-	-	120,000	-	-	120,000
Reserves	-	-	-	-	-	-	1,019,641	1,019,641
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,000</b>	<b>-</b>	<b>1,319,641</b>	<b>1,439,641</b>
<b>TOTAL LIABILITIES AND EQUITY</b>								
	<b>5,486,566</b>	<b>2,386,663</b>	<b>1,226,700</b>	<b>504,721</b>	<b>964,839</b>	<b>1,265,020</b>	<b>1,358,558</b>	<b>13,193,067</b>
<b>Net maturity mismatch</b>	<b>(1,336,731)</b>	<b>(370,348)</b>	<b>(663,807)</b>	<b>619,053</b>	<b>1,885,903</b>	<b>223,576</b>	<b>(357,646)</b>	<b>-</b>



## **CREDIT RISK MANAGEMENT**

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 and guarantee activities and, to a lesser extent, pre-settlement and settlement exposures of sales and trading activities.

The primary objective of credit risk management is to ensure that exposure to credit risk is always kept within its capability and financial capacity to withstand potential future losses.

For non-retail credits, risk measurement begins with an assessment and rating of the financial standing of the borrower or counterparty using an internally developed credit rating model. The model consists of quantitative and qualitative scores which are translated into a rating grade, which ranges from “AAA” (lowest risk) to “C” (highest risk).

Credit risk is quantified based on Expected Default Frequencies and Expected Losses on default from its portfolio of loans and off-balance sheet commitments. Expected Default Frequencies are calibrated to the internal rating model while Loan Loss Estimates are based on past portfolio default experiences.

The Group’s lending activities are guided by internal credit policies and guidelines that are approved by the Board of Directors. Within these policies, name limits restrict total exposure allowed to corporate groups according to their level of creditworthiness, while sector limits ensure that the Group’s total credit exposure to each economic sector is within prudent thresholds.

## **OPERATIONAL RISK MANAGEMENT**

Operational risk is the potential loss from a breakdown in internal process, systems, deficiencies in people and management or operational failure arising from external events. It is increasingly recognised that operational risk is the single most widespread risk facing financial institutions today.

Operational risk management is the discipline of systematically identifying the critical potential points and causes of failure, assess the potential cost and to minimise the impact of such risk through the initiation of risk mitigating measures and policies.

The Group minimises operational risk by putting in place appropriate policies, internal controls and procedures as well as maintaining back-up procedures for key activities and undertaking contingency planning. These are supported by independent reviews by the Group’s Internal Audit team.

## **LEGAL AND REGULATORY RISK**

The Group manages legal and regulatory risks to its business. Legal risk arises from the potential that breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgement, may lead to the incurrence of losses, disrupt or otherwise resulting in financial and reputational risk.

Legal risk is managed by internal legal counsel and where necessary, in consultation with external legal counsel to ensure that legal risk is minimised.

Regulatory risk is managed through the implementation of measures and procedures within the organization to facilitate compliance with regulations. These include a compliance monitoring and reporting process that requires identification of risk areas, prescription of controls to minimize these risks, staff training and assessments, provision of advise and disseminating of information.

## **RISK MANAGEMENT POLICY ON FINANCIAL DERIVATIVES**

### **Purpose of engaging in financial derivatives**

Financial derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives are contracts that transfer risks, mainly market risks. Financial derivatives is one of the financial instruments engaged by the Group both for revenue purposes as well as to manage the Group's own market risk exposure. The Group's involvement in financial derivatives is currently focussed on interest rate derivatives and foreign exchange rate derivatives.

The principal exchange rate contracts used are forward foreign exchange contracts and cross currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate. A cross currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

The principal interest rate contracts used are interest rate futures, interest rate swaps and forward rate agreements. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate futures is an exchange traded contract whose value is based on the difference between a specific interest rate and a reference rate on a notional deposit or fixed income security at a future settlement date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

For revenue purposes, the Group maintains trading positions in these instruments and engages in transactions with customers to satisfy their needs in managing their respective interest rate and foreign exchange rate exposures. Derivative transactions generate income for the Group from the buy-sell spreads. The Group also takes conservative exposures, within acceptable limits, to carry an inventory of these instruments in order to provide market liquidity and to earn potential gains on fluctuations in the value of these instruments.

As part of the asset and liability exposure management, the Group uses derivatives to manage the Group's market risk exposure. As the value of these financial derivatives are principally driven by interest rate and foreign exchange rate factors, the Group uses them to reduce the overall interest rate and foreign exchange rate exposures of the Group. These are performed by entering into an exposure in derivatives that produces opposite value movements vis-à-vis exposures generated by other non-derivative activities of the Group. The Group manages these risks on a portfolio basis. Hence, exposures on derivatives are aggregated or netted against similar exposures arising from other financial instruments engaged by the Group.

### Fair value of financial derivatives

The estimated fair values of the Group's outstanding derivative financial instruments are as below. These are stand-alone values without taking into account their potential offsetting relationships with other non-derivatives exposures of the Group. As such, no adjustment is made in the financial statements.

	Group		Bank	
	Principal Amount RM'000	Fair Value RM'000	Principal Amount RM'000	Fair Value RM'000
<b>2006</b>				
Interest rate related contracts:				
Interest rate futures	580,000	140	580,000	140
Interest rate swaps	15,683,328	926	15,683,328	926
Foreign exchange related contracts:				
Forward exchange contracts	3,241,064	3,366	3,241,064	3,366
Cross currency swaps	375,676	4,681	375,676	4,681
Malaysian Government Securities futures	10,000	15	10,000	15
	<u>19,890,068</u>	<u>9,128</u>	<u>19,890,068</u>	<u>9,128</u>
<b>2005</b>				
Interest rate related contracts:				
Interest rate futures	550,000	448	550,000	448
Interest rate swaps	7,572,299	112	7,570,207	140
Foreign exchange related contracts:				
Forward exchange contracts	1,543,738	(18)	1,543,738	(18)
Cross currency swaps	463,600	(1,333)	463,600	(1,333)
Malaysian Government Securities futures	27,900	(158)	27,900	(158)
	<u>10,157,537</u>	<u>(949)</u>	<u>10,155,445</u>	<u>(921)</u>

### Risk associated with financial derivatives

As derivatives are contracts that transfer risks, they expose the holder to the same types of market and credit risks as other financial instruments, and the Group manages these risks in a consistent manner under the overall risk management framework.

### Market risk of derivatives used for trading purposes

Market risk arising from the interest rate-related and foreign exchange-related derivative contracts measures the potential losses to the value of these contracts due to changes in market rates/prices. Exposures to market risk may be reduced through offsetting on and off-balance sheet positions.

The contractual amounts of these contracts provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Value-at-risk method is used to measure the market risk from these contracts. Value-at-risk, is a statistical measure that estimates the potential changes in portfolio value that may occur brought about by potential changes in market rates over a defined period at a 99% confidence level under normal market condition.

As at 31 March 2006, value at risk of foreign exchange-related derivative contracts used for trading purposes of the Group was RM1,049,183 (RM25,849 as at 31 March 2005) and the Bank was RM1,049,183 (RM25,849 as at 31 March 2005).

The value at risk of the interest rate related derivative contracts used for trading purposes was RM9,446,292 (RM5,392,001 as at 31 March 2005) and RM9,446,292 (RM5,391,992 as at 31 March 2005) for the Group and the Bank, respectively.

### **Credit risk of derivatives**

Counterparty credit risk arises from the possibility that a counterparty may be unable to meet the terms of the derivative contracts. Unlike conventional asset instruments, the Group's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted contract with another in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. The Group will only suffer a replacement cost if the contract carries a fair value gain at time of default.

As at 31 March 2006, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM26,977,165 (RM20,257,362 as at 31 March 2005) and RM26,977,165 (RM20,286,719 as at 31 March 2005) for the Group and the Bank, respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of movement in market rates and time.

The Group limit its credit risks within a conservative framework by dealing with creditworthy counterparties, setting credit limit on exposures to counterparties and obtaining collateral where appropriate.

#### 45. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as investments in subsidiary companies and taxation are excluded, as they do not fall within the scope of FRS132<sub>2004</sub> (Financial Instruments: Disclosure and Presentation) (formerly known as Malaysian Accounting Standards Board ("MASB") 24) which requires the fair value information to be disclosed.

The estimated fair values of the Group's and the Bank's financial instruments are as follows:

2006	Group		Bank	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
<b>Financial Assets</b>				
Cash and short-term funds	3,106,184	3,106,184	2,992,725	2,992,725
Securities purchased under resale agreements	529,267	529,267	504,464	504,464
Deposits and placements with banks and other financial institutions	1,223,624	1,351,099	1,223,056	1,350,531
Securities held-for-trading	7,053,649	7,053,649	7,032,722	7,032,722
Securities available-for-sale	831,821	831,821	806,218	806,218
Securities held-to-maturity	1,807,667	1,902,716	1,723,419	1,815,337
Loans, advances and financing *	4,262,093	4,283,888	4,103,492	4,125,280
Amount due from Originators	89,694	87,254	89,694	87,254
Other financial assets	160,129	160,129	151,868	151,868
	<u>19,064,128</u>	<u>19,306,007</u>	<u>18,627,658</u>	<u>18,866,399</u>
Non-financial assets	374,074		401,566	
<b>TOTAL ASSETS</b>	<u>19,438,202</u>		<u>19,029,224</u>	

2006	Group		Bank	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
<b>Financial Liabilities</b>				
Deposits from customers	6,432,177	6,434,324	6,230,392	6,232,539
Deposits and placements of banks and other financial institutions	7,516,897	7,598,202	7,682,121	7,763,426
Obligations on securities sold under repurchase agreements	2,590,281	2,590,281	2,590,281	2,590,281
Acceptances payable	3,103	3,103	3,103	3,103
Recourse obligation on loans sold to Cagamas Berhad	89,694	87,254	89,694	87,254
Term loans	276,233	276,233	-	-
Redeemable unsecured subordinated bonds	595,000	636,185	595,000	636,185
Other financial liabilities	223,192	223,192	203,604	203,604
	<u>17,726,577</u>	<u>17,848,774</u>	<u>17,394,195</u>	<u>17,516,392</u>
<b>Non-Financial Liabilities</b>				
Other non-financial liabilities	672		276	
Shareholder's equity	1,710,953		1,634,753	
	<u>1,711,625</u>		<u>1,635,029</u>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>19,438,202</u>		<u>19,029,224</u>	
<b>2005</b>				
<b>Financial Assets</b>				
Cash and short-term funds	2,579,909	2,579,909	2,329,913	2,329,913
Securities purchased under resale agreements	9,671	9,671	-	-
Deposits and placements with banks and other financial institutions	392,923	392,121	428,400	427,598
Securities held-for-trading	3,576,932	3,576,932	3,554,660	3,554,660
Securities available-for-sale	882,140	882,140	585,979	585,979
Securities held-to-maturity	1,373,083	1,380,151	1,247,177	1,247,177
Loans, advances and financing *	4,528,871	4,577,265	4,350,433	4,398,714
Amount due from Originators	132,798	139,027	132,798	139,027
Other financial assets	140,379	140,379	128,719	128,719
	<u>13,616,706</u>	<u>13,677,595</u>	<u>12,758,079</u>	<u>12,811,787</u>
Non-financial assets	416,506		434,988	
<b>TOTAL ASSETS</b>	<u>14,033,212</u>		<u>13,193,067</u>	

2005	Group		Bank	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
<b>Financial Liabilities</b>				
Deposits from customers	5,294,436	5,295,085	4,705,300	4,705,949
Deposits and placements of banks and other financial institutions ^	4,591,416	4,544,526	4,713,020	4,666,130
Obligations on securities sold under repurchase agreements	1,463,910	1,463,910	1,463,910	1,463,910
Acceptances payable	3,186	3,186	3,186	3,186
Recourse obligation on loans sold to Cagamas Berhad	132,798	139,027	132,798	139,027
Term loans	285,000	255,000	-	-
Subordinated certificates of deposits	198,768	220,671	198,768	220,671
Redeemable unsecured subordinated bonds	460,000	435,906	460,000	435,906
Other financial liabilities	89,754	89,754	74,249	74,249
	<u>12,519,268</u>	<u>12,447,065</u>	<u>11,751,231</u>	<u>11,709,028</u>
<b>Non-Financial Liabilities</b>				
Other non-financial liabilities	2,809		2,195	
Shareholder's equity	1,505,052		1,439,641	
Minority interests	6,083		-	
	<u>1,513,944</u>		<u>1,441,836</u>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>14,033,212</u>		<u>13,193,067</u>	

\* The general allowance for loans, advances and financing for the Group and the Bank amounting to RM63,925,000 (RM69,091,000 as at 31 March 2005) and RM61,553,000 (RM66,278,000 as at 31 March 2005) respectively has been included under non-financial assets.

^ The fair value of deposits with financial institutions is below its carrying amount as a result of an increase in Klibor rates. The Group has not reduced the carrying values as uncertainties surrounding the circumstances may change and any changes in uncertainties could affect the resulting fair value estimates.

The fair values of derivatives financial instruments are shown in Note 44.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential losses that may arise should these commitments crystallise. The Group assesses that their respective fair values are unlikely to be significant from the carrying value given that the overall level of fees involved is not significant and no provision is necessary to be made.

The following methods and assumptions were used to estimate the fair value of assets and liabilities as at 31 March 2006 and 2005:

**(a) Cash And Short-Term Funds**

The carrying values are a reasonable estimate of the fair values because of negligible credit risk and short-term in nature or frequent repricing.

**(b) Securities Purchased Under Resale Agreements And Deposits And Placements With Banks And Other Financial Institutions**

The fair values of securities purchased under resale agreements and deposits and placements with banks and other financial institutions with remaining maturities less than six months are estimated to approximate their carrying values. For securities purchased under resale agreements and deposits and placements with financial institutions with maturities of more than six months, the fair values are estimated based on discounted cash flows using the prevailing Klibor rates and interest rate swap rates.

**(c) Securities Held-For-Trading, Securities Available-For-Sale And Securities Held-To-Maturity**

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using discounted cash flow or net tangible assets techniques. The fair values of unquoted debt equity conversion securities which are not actively traded, are estimated to be at par value, taking into consideration of the underlying collateral values. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using market indicative rates of similar instruments at the balance sheet date.

**(d) Loans, Advances And Financing And Subordinated Term Loans (“Loans And Financing”)**

The fair value of variable rate loans and financing are estimated to approximate their carrying values. For fixed rate loans and financing, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing indicative rates adjusted for credit risk. In respect of non-performing loans and financing, the fair values are deemed to approximate the carrying values, net of interest/income in-suspense and specific allowance for bad and doubtful debts and financing.

**(e) Other Assets**

The estimated fair value of the other assets are estimated to approximate their carrying values because the realisable value of the final consideration as at balance sheet date is similar as that of carrying value.



**(f) Deposits From Customers, Deposits And Placements Of Banks And Other Financial Institutions And Obligations On Securities Sold Under Repurchase Agreements**

The fair values of deposits liabilities payable on demand or with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date.

The fair value of term deposits, negotiable instrument of deposits and obligations on securities sold under repurchase agreements with remaining maturities of more than six months are estimated based on discounted cash flows using Klibor rates and interest rate swap rates.

**(g) Acceptances Payables**

The carrying values are a reasonable estimate of their fair values based on their short-term nature.

**(h) Other Liabilities**

The fair value of other liabilities approximates the carrying value at the balance sheet date

**(i) Recourse obligation on loans sold to Cagamas Berhad**

The fair values for amount due to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at balance sheet date.

**(j) Term Loans, Subordinated Certificates of Deposits And Subordinated Bonds**

The fair values of borrowings with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date. The fair values of borrowings with remaining maturities of more than six months are estimated based on discounted cash flows using market indicative rates of instruments with similar risk profiles at the balance sheet date.

**(k) Interest Rate Swaps, Futures And Forward Rate Agreements**

The estimated fair values is based on the market price to enter into an offsetting contract at balance sheet date.

**(l) Short Term Financial Assets and Financial Liabilities**

The fair values of the other financial assets and other financial liabilities, which are considered short term in nature, are estimated to be approximately their carrying values.

As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss experience and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting value estimates.

**46. NET TANGIBLE ASSETS PER SHARE (RM)**

Net tangible assets per share represents the balance sheet total assets value less total liabilities, including long term loans and minority interests and goodwill/premium expressed as an amount per ordinary share.

Net tangible assets per share is calculated as follows:

	2006		2005	
	Group RM'000	Bank RM'000	Group RM'000	Bank RM'000
Total assets	19,438,202	19,029,224	14,033,212	13,193,067
Less :				
Total liabilities	17,727,249	17,394,471	12,522,077	11,753,426
Minority interests	-	-	6,083	-
Unamortised premium on acquisitions	6,835	-	7,457	-
	<u>17,734,084</u>	<u>17,394,471</u>	<u>12,535,617</u>	<u>11,753,426</u>
Net tangible assets	1,704,118	1,634,753	1,497,595	1,439,641
Less :				
Interest Bearing Irredeemable Convertible Unsecured Loan Stocks ("ICULS") 2002/2007	120,000	120,000	120,000	120,000
Preference share capital	100,000	100,000	100,000	100,000
Net tangible assets after deducting the nominal amounts of ICULS 2002/2007 and preference share capital	<u>1,484,118</u>	<u>1,414,753</u>	<u>1,277,595</u>	<u>1,219,641</u>
Issued and fully paid up ordinary shares of RM1.00 each	<u>210,000</u>	<u>210,000</u>	<u>200,000</u>	<u>200,000</u>
Net tangible assets per share (RM)	<u>8.11</u>	<u>7.78</u>	<u>7.49</u>	<u>7.20</u>
Net tangible assets per share, after deducting the nominal amounts of ICULS 2002/2007 and preference share capital (RM)	<u>7.07</u>	<u>6.74</u>	<u>6.39</u>	<u>6.10</u>

## **47. SEGMENT ANALYSIS**

The Group's businesses are organized into five segments, based on the products and services that it provides. These segments are merchant banking, Islamic banking, offshore banking, funds management and others.

### **Merchant banking**

The merchant banking caters to the business needs of large corporate customers and financial institutions and provides customers with, among other things, a broad range of financing options, treasury and derivative solutions and services, corporate finance services, debt capital market and private banking.

### **Islamic banking**

Islamic banking segment relates to Islamic banking business activities undertaken by the Group which covers all Islamic products and services of investment banking.

### **Offshore banking**

Through AmInternational (L) Ltd and AmMerchant Bank Labuan branch, the Group has established a presence in the international arena at the Labuan International Offshore Financial Centre. The products and services offered include corporate finance, advisory and trust services, conventional and Islamic banking and acting as Listing Sponsor for corporations seeking listing on the Labuan International Financial Exchange.

### **Funds management**

The Group's funds management unit, comprising of AmInvestment Services Berhad and AmInvestment Management Sdn Bhd, provides investment management, management of unit trusts and customized investment solutions for both retail and institutional clients

### **Others**

Others are a variety of activities, which complements and supports the operations of the business units. It includes the Bank's corporate income and expense items that are not allocated to individual business segments. In addition, the income and the Bank's funding cost of the Group's associated and subsidiary companies are included in this category.

**47. SEGMENT ANALYSIS**

<b>Group</b>	<b>Merchant Banking RM'000</b>	<b>Islamic Banking RM'000</b>	<b>Offshore Banking RM'000</b>	<b>Fund Management RM'000</b>	<b>Others RM'000</b>	<b>Total Before Elimination RM'000</b>	<b>Elimination/ Consolidation Adjustments RM'000</b>	<b>Total RM'000</b>
<b>2006</b>								
External revenue	767,151	92,900	55,558	34,031	2,692	952,332	31,895	984,227
Revenue from other segments	45,665	3,610	5,950	-	101	55,326	(55,326)	-
Operating revenue	812,816	96,510	61,508	34,031	2,793	1,007,658	(23,431)	984,227
Segments results	247,555	67,753	6,858	14,344	3,875	340,385	(17,882)	322,503
Amortisation of premium on acquisition	-	-	-	-	-	-	(1,556)	(1,556)
Profit from operations	247,555	67,753	6,858	14,344	3,875	340,385	(19,438)	320,947
Share in results of associated companies	-	-	-	-	-	-	2,387	2,387
Profit before taxation	247,555	67,753	6,858	14,344	3,875	340,385	(17,051)	323,334
Taxation	(67,445)	(18,973)	(20)	(3,879)	(406)	(90,723)	4,278	(86,445)
Minority interest	-	-	-	-	-	-	(1,330)	(1,330)
Net profit for the year	180,110	48,780	6,838	10,465	3,469	249,662	(14,103)	235,559
<b>Other Information</b>								
Segments assets	17,676,983	829,724	1,042,442	45,392	5,387	19,599,928	(239,268)	19,360,660
Investments in subsidiary companies	83,103	-	-	-	-	83,103	(83,103)	-
Investments in associated companies	21,950	-	-	-	-	21,950	19,150	41,100
Goodwill on consolidation	-	-	-	-	-	-	36,442	36,442
Total assets	17,782,036	829,724	1,042,442	45,392	5,387	19,704,981	(266,779)	19,438,202
Segment liabilities	16,534,162	576,218	830,590	25,148	394	17,966,512	(239,263)	17,727,249
Property and equipment purchases	6,306	7	38	394	3	6,748	-	6,748
Depreciation	6,439	16	47	621	13	7,136	-	7,136
Amortisation of premium on acquisition	-	-	-	-	-	-	1,556	1,556

<b>Group</b>	<b>Merchant Banking RM'000</b>	<b>Islamic Banking RM'000</b>	<b>Offshore Banking RM'000</b>	<b>Fund Management RM'000</b>	<b>Others RM'000</b>	<b>Total Before Elimination RM'000</b>	<b>Elimination/ Consolidation Adjustments RM'000</b>	<b>Total RM'000</b>
<b>2005</b>								
External revenue	679,973	81,972	43,249	27,820	2,677	835,691	(2,100)	833,591
Revenue from other segments	35,809	533	18,364	-	85	54,791	(54,791)	-
Operating revenue	<u>715,782</u>	<u>82,505</u>	<u>61,613</u>	<u>27,820</u>	<u>2,762</u>	<u>890,482</u>	<u>(56,891)</u>	<u>833,591</u>
Segments results	224,792	18,200	5,117	11,222	2,400	261,731	(32,971)	228,760
Amortisation of premium on acquisition	-	-	-	-	-	-	(1,274)	(1,274)
Profit from operations	224,792	18,200	5,117	11,222	2,400	261,731	(34,245)	227,486
Share in results of associated companies	-	-	-	-	-	-	16,314	16,314
Profit/(Loss) before taxation	224,792	18,200	5,117	11,222	2,400	261,731	(17,931)	243,800
Taxation	(57,446)	(5,149)	-	(3,289)	(388)	(66,272)	(1,891)	(68,163)
Minority interest	-	-	-	-	-	-	(2,292)	(2,292)
Net profit/(loss) for the year	<u>167,346</u>	<u>13,051</u>	<u>5,117</u>	<u>7,933</u>	<u>2,012</u>	<u>195,459</u>	<u>(22,114)</u>	<u>173,345</u>
<b>Other Information</b>								
Segments assets	11,560,653	1,313,669	1,440,544	35,957	5,382	14,356,205	(362,425)	13,993,780
Investments in subsidiary companies	38,617	-	-	-	-	38,617	(38,617)	-
Investments in associated companies	21,950	-	-	-	-	21,950	17,482	39,432
Total assets	<u>11,621,220</u>	<u>1,313,669</u>	<u>1,440,544</u>	<u>35,957</u>	<u>5,382</u>	<u>14,416,772</u>	<u>(383,560)</u>	<u>14,033,212</u>
Segment liabilities	<u>10,256,309</u>	<u>1,108,723</u>	<u>1,503,263</u>	<u>16,143</u>	<u>408</u>	<u>12,884,846</u>	<u>(362,769)</u>	<u>12,522,077</u>
Property and equipment purchases	3,388	57	12	1,284	7	4,748	2	4,750
Depreciation	11,192	17	104	632	45	11,990	-	11,990
Amortisation of premium on acquisition	-	-	-	-	-	-	1,274	1,274

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia except for Frasers International Pte. Ltd. and its subsidiary companies, activities of which are principally conducted in Singapore. These activities in Singapore are not significant in relation to the Group's activities in Malaysia.

#### 48. CAPITAL ADEQUACY RATIO

(i) The capital adequacy ratio of the Bank as at 31 March 2006 is analysed as follows:

	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Tier 1 capital		
Paid-up ordinary share capital	210,000	200,000
Paid-up non-cumulative preference share capital	100,000	100,000
Share premium	100,284	60,284
Statutory reserve	329,549	300,000
Unappropriated profit at end of year	778,330	671,666
	<u>1,518,163</u>	<u>1,331,950</u>
Less: Deferred tax assets	(66,644)	(78,548)
Total Tier 1 capital	<u>1,451,519</u>	<u>1,253,402</u>
Tier 2 capital		
Redeemable unsecured subordinated bonds	595,000	460,000
Interest bearing ICULS	120,000	120,000
Subordinated certificates of deposits	-	198,650
General allowance for bad and doubtful debts	61,564	66,278
Total	<u>776,564</u>	<u>844,928</u>
Less: Restriction on subordinated debt capital	-	(31,949)
Total Tier 2 capital	<u>776,564</u>	<u>812,979</u>
Total capital funds	2,228,083	2,066,381
Less : Investment in subsidiary companies	83,103	38,617
Investment in capital of related financial institutions	504,219	460,000
Capital base	<u>1,640,761</u>	<u>1,567,764</u>
Capital Ratios:		
Core capital ratio	12.10%	13.28%
Risk-weighted capital ratio	13.67%	16.61%
Core capital ratio (net of proposed dividends )	11.63%	-
Risk-weighted capital ratio (net of proposed dividends)	<u>13.21%</u>	<u>-</u>

(ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	<b>2006</b>		<b>2005</b>	
	<b>Principal</b>	<b>Risk-Weighted</b>	<b>Principal</b>	<b>Risk-Weighted</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
0%	2,578,576	-	3,224,911	-
10%	20,180	2,018	84,684	8,468
20%	2,501,674	500,335	4,284,469	856,894
50%	247,625	123,812	257,826	128,913
100%	6,643,173	6,643,173	8,444,280	8,444,280
	<u>11,991,228</u>	<u>7,269,338</u>	<u>16,296,170</u>	<u>9,438,555</u>
Add: Total equivalent to market risk		4,731,027		
		<u>12,000,365</u>		

The capital adequacy ratio of the Group as at 31 March 2005 has not been restated for prior year adjustments effect as mentioned in Note 49 to the financial statements.

#### **49. PRIOR YEAR'S ADJUSTMENTS**

During the financial year, the Group and Bank adopted the revised BNM/GP8 which have resulted in the following new accounting policies:

- (1) The holdings of the securities portfolio of the Group and Bank are segregated based on the following categories and valuation methods:

i) Securities held-for-trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short term price movements or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statements.

ii) Securities held-to-maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from the derecognition of securities held-to-maturity are recognised in the income statements.

iii) Securities available-for-sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at amortised costs (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed off or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statements.

- (2) Derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivative instrument is recognised in the income statements unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(i) Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instruments is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

(ii) Cash flow hedge

Gains and losses on the hedging instruments, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are then released to the income statement in the periods when the hedged item affects the income statement.

- (3) Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing shall be reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, the interest accrued on the non-performing loans shall be recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.



**50. COMPARATIVE FIGURES**

The presentation and classification of items in the current year's financial statements are consistent with the previous financial period except the following figures which have been restated as a result of the adoption of the revised BNM/GP8, which are as follows:

<b>Group</b>	<b>As previously stated RM'000</b>	<b>Effect of change RM'000</b>	<b>As restated RM'000</b>
<b>Balance Sheet</b>			
<b>As at 31 March 2005</b>			
Dealing securities	2,769,827	(2,769,827)	-
Investment securities	3,073,107	(3,073,107)	-
Securities held-for-trading	-	3,576,932	3,576,932
Securities available-for-sale	-	882,140	882,140
Securities held-to-maturity	-	1,373,083	1,373,083
Other assets	287,819	837	288,656
Deferred tax assets	78,548	(1,812)	76,736
Reserves	1,096,806	(11,754)	1,085,052
	<hr/>	<hr/>	<hr/>
Net tangible assets per share (RM)	7.55	(0.06)	7.49
	<hr/>	<hr/>	<hr/>
<b>Income Statement</b>			
<b>Financial period ended 31 March 2005</b>			
Interest income	563,780	569	564,349
Income from Islamic banking business	47,111	441	47,552
Other operating income	227,783	(6,093)	221,690
Operating profit	295,439	(5,082)	290,357
Impairment loss on securities	-	(10,549)	(10,549)
Allowance for diminution in value of investments - net	(17,856)	17,856	-
Profit before taxation	225,261	2,225	227,486
Taxation	(67,900)	(263)	(68,163)
Profit before minority interests	173,675	1,962	175,637
Net profit attributable to the shareholders of the Bank	171,383	1,962	173,345
	<hr/>	<hr/>	<hr/>
Basic earnings per share (sen)	78.50	0.97	79.47
	<hr/>	<hr/>	<hr/>

<b>Bank</b>	<b>As previously stated RM'000</b>	<b>Effect of change RM'000</b>	<b>As restated RM'000</b>
<b>Balance Sheet</b>			
<b>As at 31 March 2005</b>			
Dealing securities	2,459,851	(2,459,851)	-
Investment securities	2,939,301	(2,939,301)	-
Securities held-for-trading	-	3,554,660	3,554,660
Securities available-for-sale	-	585,979	585,979
Securities held-to-maturity	-	1,247,177	1,247,177
Other assets	276,157	839	276,996
Deferred tax assets	78,548	(1,812)	76,736
Reserves	1,031,950	(12,309)	1,019,641
	<hr/>	<hr/>	<hr/>
Net tangible assets per share (RM)	7.26	(0.06)	7.20
	<hr/>	<hr/>	<hr/>
<b>Income Statement</b>			
<b>Financial period ended 31 March 2005</b>			
Interest income	535,760	583	536,343
Income from Islamic Banking Operations	47,111	441	47,552
Other operating income	226,044	(5,686)	220,358
Operating profit	303,374	(4,662)	298,712
Impairment loss on securities	-	(7,800)	(7,800)
Allowance for diminution in value of investments - net	(13,402)	13,402	-
Profit before taxation	238,914	940	239,854
Taxation	(62,333)	(263)	(62,596)
Net profit attributable to the shareholders of the Bank	176,581	677	177,258
	<hr/>	<hr/>	<hr/>
Basic earnings per share (sen)	81.10	0.33	81.43
	<hr/>	<hr/>	<hr/>

**51. ISLAMIC BANKING BUSINESS**

The state of affairs as at 31 March 2006 and the results for the financial year ended 31 March 2006 of the Islamic banking business of the Group and of the Bank included in the financial statements after elimination of intercompany transactions and balances are summarised as follows:

**BALANCE SHEETS  
AS AT 31 MARCH 2006**

	Note	Group 2006 RM'000	Bank 2006 RM'000	Group and Bank 2005 RM'000
<b>ASSETS</b>				
Cash and short-term funds	(ii)	444,971	444,971	581,950
Deposit and placements with banks and other financial institutions	(iii)	-	-	33,100
Securities held-for-trading	(iv)	286,825	286,825	166,024
Securities available-for-sale	(v)	18,830	-	-
Securities held-to-maturity	(vi)	56,171	-	-
Financing activities	(vii)	73,853	73,853	511,940
Statutory deposit with Bank Negara Malaysia		14,500	14,500	14,500
Other receivables, deposits and prepayments		9,499	9,499	3,218
Property and equipment	(viii)	32	32	41
Deferred tax assets	(ix)	44	44	2,678
<b>TOTAL ASSETS</b>		<b>904,725</b>	<b>829,724</b>	<b>1,313,451</b>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>				
Deposits from customers	(x)	247,537	247,537	311,881
Deposits and placements of banks and other financial institutions	(xi)	274,275	274,275	355,623
Converted fund	(xii)	71,310	-	301,677
Other liabilities	(xiii)	54,407	54,406	139,544
Total Liabilities		<b>647,529</b>	<b>576,218</b>	<b>1,108,725</b>
<b>ISLAMIC BANKING FUNDS</b>				
Capital funds	(xiv)	102,839	100,000	100,000
Reserves		154,357	153,506	104,726
Islamic Banking Funds		<b>257,196</b>	<b>253,506</b>	<b>204,726</b>
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		<b>904,725</b>	<b>829,724</b>	<b>1,313,451</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	(xxi)	<b>2,802,023</b>	<b>2,802,023</b>	<b>2,287,399</b>

The accompanying notes form an integral part of the Islamic banking business financial statements.

**INCOME STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

	<b>Note</b>	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Income derived from investment of depositors' funds and others	(xv)	25,740	21,961	40,658
Allowance for losses on financing	(xvi)	(6,238)	(6,238)	(23,385)
Transfer from/(to) profit equalisation reserve		1,919	1,919	(2,195)
Total attributable income		21,421	17,642	15,078
Income attributable to the depositors	(xvii)	(24,437)	(21,281)	(35,358)
Loss attributable to the Group and the Bank		(3,016)	(3,639)	(20,280)
Income derived from investment of Islamic banking funds	(xviii)	74,705	74,549	42,252
Total net income		71,689	70,910	21,972
Other operating expenses	(xix)	(3,157)	(3,157)	(3,772)
Profit before taxation		68,532	67,753	18,200
Taxation	(xx)	(18,973)	(18,973)	(5,149)
Profit after taxation		49,559	48,780	13,051

The accompanying notes form an integral part of the Islamic banking business financial statements.

Company No: 23742-V

<b>Group and Bank</b>	<b>Capital Funds RM'000</b>	<b>Non-Distributable</b>		<b>Distributable</b>	<b>Total RM'000</b>
		<b>Available-for-sale reserve RM'000</b>	<b>Exchange fluctuation reserve RM'000</b>	<b>Unappropriated Profit RM'000</b>	
At 1 April 2004	60,000	-	-	91,675	151,675
Increase during the year	40,000	-	-	-	40,000
Profit for the year	-	-	-	13,051	13,051
At 31 March 2005	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>104,726</u>	<u>204,726</u>
<b>Group</b>					
At 31 March 2005					
As previously stated	100,000	-	-	104,434	204,434
Prior year adjustments	-	-	-	292	292
At 1 April 2005 (restated)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>104,726</u>	<u>204,726</u>
Increase during the year	2,839		-	-	2,839
Net unrealised gain on revaluation of securities available-for-sale	-	81	-	-	81
Translation adjustments	-	-	(9)	-	(9)
Profit for the year	-	-	-	49,559	49,559
At 31 March 2006	<u>102,839</u>	<u>81</u>	<u>(9)</u>	<u>154,285</u>	<u>257,196</u>
<b>Bank</b>					
<b>Bank</b>	<b>Capital Funds RM'000</b>	<b>Distributable</b>		<b>Total RM'000</b>	
		<b>Unappropriated Profit RM'000</b>			
At 31 March 2005					
As previously stated	100,000	104,434		204,434	
Prior year adjustments	-	292		292	
At 1 April 2005 (restated)	<u>100,000</u>	<u>104,726</u>		<u>204,726</u>	
Profit for the year	-	48,780		48,780	
At 31 March 2006	<u>100,000</u>	<u>153,506</u>		<u>253,506</u>	

The accompanying notes form an integral part of the Islamic Banking Business financial statements.

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2006**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(Loss) before taxation	68,532	67,753	18,200
Reversal of general allowance for bad and doubtful financing	(6,671)	(6,671)	(1,166)
Specific allowance for bad and doubtful financing	7,684	7,684	32,509
Gain on revaluation of securities held-for-trading	(821)	(821)	(431)
Depreciation of property and equipment	16	16	48
Transfer (from)/to profit equalisation reserve	(1,919)	(1,919)	2,195
Operating profit before working capital changes	<u>66,821</u>	<u>66,042</u>	<u>51,355</u>
(Increase)/Decrease in operating assets			
Deposits with financial institutions	33,100	33,100	(3,100)
Securities held-for-trading	(119,980)	(119,980)	(107,010)
Financing activities	437,074	437,074	45,210
Other receivables, deposits and prepayments	(6,281)	(6,281)	(1,984)
Increase/(Decrease) in operating liabilities			
Deposits from customers	(64,344)	(64,344)	87,151
Deposits and placements of banks and other financial institutions	(81,348)	(81,348)	52,659
Converted fund	(230,367)	(301,677)	(26,644)
Other liabilities	<u>(54,957)</u>	<u>(54,947)</u>	<u>41,932</u>
Cash generated (used in)/from operations	(20,282)	(92,361)	139,569
Taxation paid	<u>(44,611)</u>	<u>(44,611)</u>	<u>(5,315)</u>
Net cash generated (used in)/from operating activities	<u>(64,893)</u>	<u>(136,972)</u>	<u>134,254</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of securities	(74,841)	-	-
Purchase of property and equipment	(7)	(7)	(65)
Net cash used in investing activities	<u>(74,848)</u>	<u>(7)</u>	<u>(65)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from increase in capital funds	<u>2,762</u>	-	<u>40,000</u>
Net cash generated from financing activities	<u>2,762</u>	-	<u>40,000</u>
Net increase in cash and cash equivalents	(136,979)	(136,979)	174,189
Cash and cash equivalents at beginning of year	581,950	581,950	407,761
Cash and cash equivalents at end of year	<u>444,971</u>	<u>444,971</u>	<u>581,950</u>

The accompanying notes form an integral part of the Islamic banking business financial statements.

**NOTES TO THE ISLAMIC BANKING BUSINESS FINANCIAL STATEMENTS****(i) ISLAMIC BANKING BUSINESS***Disclosure of Shariah Advisor*

The Group and Bank's Islamic banking activities are subject to conformity with Shariah requirements and confirmation by the Shariah Advisor, Dr Amir Husin Mohd Nor, En. Adnan Bin Yusoff and Professor Madya Dr. Noor Naemah Abdul Rahman. The role and authority of the Shariah Advisor are as follows:

- (a) Advise and provide guidance on all matters pertaining to Shariah principles including product development, marketing and implementation activities.
- (b) Assist in the setting up of business and operational procedures with respect to compliance with Shariah principles.

*Zakat obligations*

The Group and Bank does not pay zakat on behalf of the shareholder or depositors.

**(ii) CASH AND SHORT TERM FUNDS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Cash and bank balances	371	371	150
Money on call and deposits maturing within one month:			
Licensed banks:			
Related	-	-	30,000
Others	444,600	444,600	546,800
Other licensed finance companies	-	-	5,000
	<u>444,971</u>	<u>444,971</u>	<u>581,950</u>

**(iii) DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Other financial institutions	-	-	<u>33,100</u>

**(iv) SECURITIES HELD-FOR-TRADING**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
<b>At Fair Value</b>			
<b>Money Market Securities</b>			
Cagamas bonds	100,077	100,077	60,362
Khazanah bonds	913	913	138
Negotiable Islamic Debt Certificates	23,804	23,804	48,296
Malaysian Government Investment Certificates	1,150	1,150	671
	<u>125,944</u>	<u>125,944</u>	<u>109,467</u>
<b>Unquoted Private Debt Securities of Companies Incorporated In Malaysia</b>			
Islamic corporate bonds	160,881	160,881	56,557
<b>Total securities held-for-trading</b>	<u>286,825</u>	<u>286,825</u>	<u>166,024</u>

**(v) SECURITIES AVAILABLE-FOR-SALE**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
<b>At Fair Value</b>			
<b>Quoted Securities In Malaysia</b>			
Corporate bonds	18,830	-	-

**(vi) SECURITIES HELD-TO-MATURITY**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
<b>At Amortised Cost</b>			
<b>Quoted Securities In Malaysia</b>			
Corporate bonds	56,171	-	-
<b>Market/Indicative Value :</b>			
<b>Quoted Securities In Malaysia</b>			
Corporate bonds	56,077	-	-



**(vii) FINANCING ACTIVITIES**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Term financing:			
Syndicated financing	70,435	70,435	500,660
Other term financing	499	499	7,024
Revolving credit	33,955	33,955	34,404
Gross financing	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>
Less:			
General allowance for bad and doubtful financing	1,125	1,125	7,796
Specific allowance for bad and doubtful financing	29,911	29,911	22,352
	<u>31,036</u>	<u>31,036</u>	<u>30,148</u>
Net financing	<u>73,853</u>	<u>73,853</u>	<u>511,940</u>

Financing analysed by concepts are as follows:

Bai Bithaman Ajil	24,667	24,667	506,458
Murabahah	64,932	64,932	19,131
Wujud	15,290	15,290	16,499
	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>

The maturity structure of financing are as follows:

Maturing within one year	84,858	84,858	496,240
Three to five years	20,031	20,031	20,099
Over five years	-	-	25,749
	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>

Financing analysed by their economic purposes are as follows:

Electricity, gas and water	45,796	45,796	135,331
Agriculture	19,135	19,135	19,131
Construction	20,030	20,030	20,030
Transport, storage and communication	-	-	20,099
Real estate	9,541	9,541	9,133
Purchase of non-residential landed property	3,791	3,791	6,150
Manufacturing	6,554	6,554	6,555
Others	42	42	-
Property investment holding	-	-	325,659
	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>

Financing analysed by type of customers are as follows:

Business enterprises	104,889	104,889	214,116
Small and medium size industries	-	-	327,972
	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Financing analysed by profit rate sensitivity are as follows:			
Fixed rate			
Term loans	39,957	39,957	522,957
Variable rate			
Cost-plus	64,932	64,932	19,131
	<u>104,889</u>	<u>104,889</u>	<u>542,088</u>

Movements in non-performing financing are as follows:

<b>Gross</b>			
Balance at beginning of year	42,273	42,273	45,037
Non-performing during the year	449	449	40
Recoveries	(2,802)	(2,802)	(556)
Debt equity conversion	-	-	(2,178)
Reclassification to performing financing	-	-	(70)
Amount written off	-	-	-
Balance at end of year	<u>39,920</u>	<u>39,920</u>	<u>42,273</u>
Specific allowance	<u>(29,911)</u>	<u>(29,911)</u>	<u>(22,352)</u>
Non-performing financing	<u>10,009</u>	<u>10,009</u>	<u>19,921</u>
Net NPL as % of gross financing less specific allowance	<u>13.35%</u>	<u>13.35%</u>	<u>3.83%</u>

Non-performing financing analysed by their economic purposes are as follows:

Construction	20,030	20,030	20,030
Real estate	9,541	9,541	9,133
Purchase of non-residential landed property	3,791	3,791	6,150
Manufacturing	6,554	6,554	6,555
Others	4	4	405
	<u>39,920</u>	<u>39,920</u>	<u>42,273</u>

Movements in allowances for bad and doubtful financing are as follows:

<b>General Allowance</b>			
Balance at beginning of year	7,796	7,796	8,962
Reversal of allowance during the year	(6,671)	(6,671)	(1,166)
Balance at end of year	<u>1,125</u>	<u>1,125</u>	<u>7,796</u>
% of total loans less specific allowance and income-in-suspense	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>
<b>Specific Allowance</b>			
Balance at beginning of year	22,352	22,352	11,452
Allowance made during the year	7,684	7,684	32,509
Amount written off	(125)	(125)	(21,609)
Balance at end of year	<u>29,911</u>	<u>29,911</u>	<u>22,352</u>

**(viii) PROPERTY AND EQUIPMENT**

<b>Group and Bank</b>	<b>Leasehold improvements RM'000</b>	<b>Computer hardware and software RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Total RM'000</b>
<b>COST</b>				
At beginning of year	39	59	106	204
Addition	-	7	-	7
At end of year	<u>39</u>	<u>66</u>	<u>106</u>	<u>211</u>
<b>ACCUMULATED DEPRECIATION</b>				
At beginning of year	37	37	89	163
Addition	1	6	9	16
At end of year	<u>38</u>	<u>43</u>	<u>98</u>	<u>179</u>
<b>NET BOOK VALUE</b>				
As at 31 March 2006	<u>1</u>	<u>23</u>	<u>8</u>	<u>32</u>
As at 31 March 2005	<u>2</u>	<u>22</u>	<u>17</u>	<u>41</u>
Depreciation charge for the year ended 31 March 2005	<u>36</u>	<u>-</u>	<u>12</u>	<u>48</u>

**(ix) DEFERRED TAX ASSETS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Balance at beginning of year	2,678	2,678	2,509
Net transfer (to)/from income statement (Note xx)	(2,634)	(2,634)	169
Balance at end of year	<u>44</u>	<u>44</u>	<u>2,678</u>
The deferred taxation is in respect of the following:			
General allowance for financing activities	315	315	2,184
Profit equalisation reserve	77	77	614
Temporary difference between depreciation and tax allowance	(7)	(7)	(9)
Other temporary differences	(341)	(341)	(111)
	<u>44</u>	<u>44</u>	<u>2,678</u>

**(x) DEPOSITS FROM CUSTOMERS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Mudarabah Fund			
Mudarabah Special Investment deposits	247,537	247,537	311,881
			-

The maturity structure of term/investment deposits is as follows:

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Due within six months	218,273	218,273	286,238
Six months to one year	29,264	29,264	25,643
	<u>247,537</u>	<u>247,537</u>	<u>311,881</u>

The deposits are sourced from the following types of customers:

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Business enterprises	141,323	141,323	197,122
Others	106,214	106,214	114,759
	<u>247,537</u>	<u>247,537</u>	<u>311,881</u>

**(xi) DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Mudarabah Fund			
Licensed banks	59,601	59,601	99,614
Other financial institutions	214,674	214,674	226,009
Non-Mudarabah Fund			
Related licensed finance company	-	-	30,000
	<u>274,275</u>	<u>274,275</u>	<u>355,623</u>

**(xii) CONVERTED FUND**

This represent funds transferred from non Islamic banking business to Islamic banking business for funding purposes at commercial terms.

**(xiii) OTHER LIABILITIES**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Other payables and accruals	37,754	37,753	92,700
Taxation and zakat payable	16,377	16,377	44,649
Profit equalisation reserve	276	276	2,195
	<u>54,407</u>	<u>54,406</u>	<u>139,544</u>

The movements in profit equalisation reserve are as follows:

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Balance at beginning of year	2,195	2,195	-
Provision during the year	3,046	3,046	6,042
Amount written back	(4,965)	(4,965)	(3,847)
	<u>(1,919)</u>	<u>(1,919)</u>	<u>2,195</u>
Balance at end of year	<u>276</u>	<u>276</u>	<u>2,195</u>

**(xiv) CAPITAL FUNDS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Allocated:			
Balance at beginning of year	100,000	100,000	60,000
Increase during the year	2,839	-	40,000
Balance at end of year	<u>102,839</u>	<u>100,000</u>	<u>100,000</u>
Utilised:			
Balance at beginning of year	100,000	100,000	60,000
Increase during the year	2,839	-	40,000
Balance at end of year	<u>102,839</u>	<u>100,000</u>	<u>100,000</u>

**(xv) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Income derived from investment of:			
(i) general investment deposits	19,887	19,887	27,224
(ii) specific investment deposits	3,733	-	7,756
(iii) others	2,120	2,074	5,678
	<u>25,740</u>	<u>21,961</u>	<u>40,658</u>

**(i) Income derived from investment of general investment deposits**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Finance income and hibah:			
Financing activities	4,097	4,097	15,684
Securities held-for-trading	4,720	4,720	2,128
Money at call and deposits with financial institutions	10,554	10,554	9,111
	<u>19,371</u>	<u>19,371</u>	<u>26,923</u>
Gain on revaluation of securities-held-for-trading	516	516	301
	<u>19,887</u>	<u>19,887</u>	<u>27,224</u>

## (ii) Income derived from investment of specific investment deposits

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Finance income and hibah:			
Financing activities	43	-	7,756
Securities available-for-sale	845	-	-
Securities held-to-maturity	2,845	-	-
	<u>3,733</u>	<u>-</u>	<u>7,756</u>

## (iii) Income derived from investment of other deposits

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Finance income and hibah:			
Financing activities	427	427	3,271
Securities held-for-trading	492	492	-
Securities available-for-sale	11	-	-
Securities held-to-maturity	38	-	444
Money at call and deposits with financial institutions	1,097	1,100	1,900
	<u>2,065</u>	<u>2,019</u>	<u>5,615</u>
Gain on revaluation of securities-held-for-trading	55	55	63
	<u>2,120</u>	<u>2,074</u>	<u>5,678</u>

## (xvi) ALLOWANCE FOR LOSSES ON FINANCING

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
(Reversal of allowance)/Allowance for bad and doubtful financing:			
- general allowance	(6,671)	(6,671)	(1,166)
- specific allowance (net)	7,684	7,684	32,509
Bad debts written off/(recovered)	5,225	5,225	(7,958)
	<u>6,238</u>	<u>6,238</u>	<u>23,385</u>

## (xvii) INCOME ATTRIBUTABLE TO DEPOSITORS

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Deposits from customers			
- Mudarabah Fund	1,790	1,790	15,285
Deposits and placements of banks and other financial institutions			
- Mudarabah Fund	13,545	13,506	5,341
Converted funds	9,102	5,985	14,732
	<u>24,437</u>	<u>21,281</u>	<u>35,358</u>

**(xviii) INCOME DERIVED FROM ISLAMIC BANKING FUNDS**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Finance income and hibah:			
Financing activities	1,924	1,921	5,272
Securities held-for-trading	2,294	2,294	476
Securities available-for-sale	36	-	-
Securities held-to-maturity	119	-	-
Money at call and deposits with financial institutions	5,127	5,127	2,037
	<u>9,500</u>	<u>9,342</u>	<u>7,785</u>
Net gain from sale of securities held-for-trading	47,477	47,477	26,582
Gain on revaluation of securities-held-for-trading	250	250	67
Fee and commission income			
Guarantee fees	3,039	3,039	3,200
Other fee income	14,439	14,441	4,618
	<u>17,478</u>	<u>17,480</u>	<u>7,818</u>
Total	<u>74,705</u>	<u>74,549</u>	<u>42,252</u>

**(xix) OTHER OPERATING EXPENSES**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Personnel costs	1,840	1,840	1,478
Establishment costs	83	83	66
Marketing and communication expenses	349	349	397
Administration and general expenses	885	885	1,831
	<u>3,157</u>	<u>3,157</u>	<u>3,772</u>

**(xx) TAXATION**

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Estimated current tax payable	16,339	16,339	5,318
Transfer from/(to) deferred tax assets	2,634	2,634	(169)
Total	<u>18,973</u>	<u>18,973</u>	<u>5,149</u>



**(xxi) COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Islamic Banking Business of the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's assets.

<b>Group and Bank</b>	<b>2006</b>			<b>2005</b>		
	<b>Principal Amount RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk Weighted Amount RM'000</b>	<b>Principal Amount RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk Weighted Amount RM'000</b>
<b>Commitments</b>						
Irrevocable commitments to extend credit maturing within one year	30,000	-	-	75,000	-	-
Sell and buy back agreements	<u>2,174,849</u>	<u>2,174,849</u>	<u>915,378</u>	<u>1,797,882</u>	<u>1,797,882</u>	<u>965,427</u>
	<u>2,204,849</u>	<u>2,174,849</u>	<u>915,378</u>	<u>1,872,882</u>	<u>1,797,882</u>	<u>965,427</u>
<b>Contingent Liabilities</b>						
Islamic revolving underwriting facilities	365,000	182,500	158,100	174,000	87,000	66,600
Certain transaction-related contingent items	4,062	2,031	2,031	2,444	1,222	1,222
Al-Kafalah guarantees	<u>228,112</u>	<u>228,112</u>	<u>114,056</u>	<u>238,073</u>	<u>238,073</u>	<u>126,637</u>
	<u>597,174</u>	<u>412,643</u>	<u>274,187</u>	<u>414,517</u>	<u>326,295</u>	<u>194,459</u>
	<u>2,802,023</u>	<u>2,587,492</u>	<u>1,189,565</u>	<u>2,287,399</u>	<u>2,124,177</u>	<u>1,159,886</u>

The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

**(xxii) YIELD/PROFIT RATE RISK**

The following table shows the effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group	<-----Non-trading book ----->							Trading book	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- yield/profit sensitive RM'000			
<b>2006</b>										
<b>ASSETS</b>										
Cash and short-term funds	444,600	-	-	-	-	-	371	-	444,971	3.17
Securities held-for-trading	-	-	-	-	-	-	-	286,825	286,825	4.19
Securities available-for-sale	-	-	18,576	-	-	-	254	-	18,830	5.64
Securities held-to-maturity	-	55,247	-	-	-	-	924	-	56,171	6.21
Financing activities										
- performing	45,835	-	19,134	-	-	-	-	-	64,969	4.48
- non-performing*	-	-	-	-	-	-	8,884	-	8,884	-
Other non-profit sensitive balances	-	-	-	-	-	-	24,075	-	24,075	-
<b>TOTAL ASSETS</b>	<b>490,435</b>	<b>55,247</b>	<b>37,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,508</b>	<b>286,825</b>	<b>904,725</b>	
<b>LIABILITIES AND</b>										
<b>ISLAMIC BANKING FUNDS</b>										
Deposits from customers	112,845	84,582	20,846	29,264	-	-	-	-	247,537	2.97
Deposits and placements of banks and other financial institutions	180,659	79,403	9,173	5,040	-	-	-	-	274,275	3.17
Converted funds	71,310	-	-	-	-	-	-	-	71,310	5.20
Other non-profit sensitive balances	-	-	-	-	-	-	54,407	-	54,407	-
Total Liabilities	364,814	163,985	30,019	34,304	-	-	54,407	-	647,529	
Islamic Banking Funds	-	-	-	-	-	-	257,196	-	257,196	-
<b>TOTAL LIABILITIES AND</b>										
<b>ISLAMIC BANKING FUNDS</b>	<b>364,814</b>	<b>163,985</b>	<b>30,019</b>	<b>34,304</b>	<b>-</b>	<b>-</b>	<b>311,603</b>	<b>-</b>	<b>904,725</b>	
On-balance sheet yield/profit rate sensitivity gap	125,621	(108,738)	7,691	(34,304)	-	-	(277,095)	286,825	-	
Off-balance sheet yield/profit rate sensitivity gap	(1,233,373)	(487,473)	(295,956)	(1,521)	1,661,213	357,110	-	-	-	
Total yield/profit sensitivity gap	(1,107,752)	(596,211)	(288,265)	(35,825)	1,661,213	357,110	(277,095)	286,825	-	
<b>Cumulative yield/profit rate sensitivity gap</b>	<b>(1,107,752)</b>	<b>(1,703,963)</b>	<b>(1,992,228)</b>	<b>(2,028,053)</b>	<b>(366,840)</b>	<b>(9,730)</b>	<b>(286,825)</b>	<b>-</b>	<b>-</b>	

\* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing outstanding.

Bank	<-----Non-trading book ----->							Trading book	Total	Effective profit rate	
	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	1 - 5 years	Over 5 years	Non- sensitive				yield/profit
2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>											
Cash and short-term funds	444,600	-	-	-	-	-	371	-	444,971	3.17	
Securities held-for-trading	-	-	-	-	-	-	-	286,825	286,825	4.19	
Financing activities											
- performing	45,835	-	19,134	-	-	-	-	-	64,969	4.48	
- non-performing*	-	-	-	-	-	-	8,884	-	8,884	-	
Other non-profit sensitive balances	-	-	-	-	-	-	24,075	-	24,075	-	
<b>TOTAL ASSETS</b>	<b>490,435</b>	<b>-</b>	<b>19,134</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,330</b>	<b>286,825</b>	<b>829,724</b>		
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>											
Deposits from customers	112,845	84,582	20,846	29,264	-	-	-	-	247,537	2.97	
Deposits and placements of banks and other financial institutions	180,659	79,403	9,173	5,040	-	-	-	-	274,275	3.17	
Other non-profit sensitive balances	-	-	-	-	-	-	54,406	-	54,406	-	
Total Liabilities	293,504	163,985	30,019	34,304	-	-	54,406	-	576,218		
Islamic Banking Funds	-	-	-	-	-	-	253,506	-	253,506	-	
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>	<b>293,504</b>	<b>163,985</b>	<b>30,019</b>	<b>34,304</b>	<b>-</b>	<b>-</b>	<b>307,912</b>	<b>-</b>	<b>829,724</b>		
On-balance sheet yield/profit rate sensitivity gap	196,931	(163,985)	(10,885)	(34,304)	-	-	(274,582)	286,825	-		
Off-balance sheet yield/profit rate sensitivity gap	(1,233,373)	(487,473)	(295,956)	(1,521)	1,661,213	357,110	-	-	-		
Total yield/profit sensitivity gap	(1,036,442)	(651,458)	(306,841)	(35,825)	1,661,213	357,110	(274,582)	286,825	-		
<b>Cumulative yield/profit rate sensitivity gap</b>	<b>(1,036,442)</b>	<b>(1,687,900)</b>	<b>(1,994,741)</b>	<b>(2,030,566)</b>	<b>(369,353)</b>	<b>(12,243)</b>	<b>(286,825)</b>	<b>-</b>	<b>-</b>		

\* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing outstanding.

Group and Bank	<-----Non-trading book ----->							Trading book	Total	Effective profit rate %
	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	1 - 5 years	Over 5 years	Non-sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2005</b>										
<b>ASSETS</b>										
Cash and short-term funds	581,800	-	-	-	-	-	150	-	581,950	2.70
Deposit and placements with banks and other financial institutions	-	33,100	-	-	-	-	-	-	33,100	2.96
Securities held-for-trading	-	-	-	-	-	-	-	166,024	166,024	3.97
Financing activities										
- performing	2,275	393,850	20,920	70,390	12,380	-	-	-	499,815	6.93
- non-performing*	-	-	-	-	-	-	12,125	-	12,125	-
Other non-profit sensitive balances	-	-	-	-	-	-	20,437	-	20,437	-
<b>TOTAL ASSETS</b>	<b>584,075</b>	<b>426,950</b>	<b>20,920</b>	<b>70,390</b>	<b>12,380</b>	<b>-</b>	<b>32,712</b>	<b>166,024</b>	<b>1,313,451</b>	
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>										
Deposits from customers	196,440	78,903	10,895	25,643	-	-	-	-	311,881	2.68
Deposits of banks and other financial institutions	190,210	131,084	24,379	412	9,538	-	-	-	355,623	4.50
Converted funds	5,704	152,741	5,370	1,073	-	-	136,789	-	301,677	3.22
Other non-profit sensitive balances	-	-	-	-	-	-	139,544	-	139,544	-
Total Liabilities	392,354	362,728	40,644	27,128	9,538	-	276,333	-	1,108,725	
Islamic Banking Funds	-	-	-	-	-	-	204,726	-	204,726	-
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>	<b>392,354</b>	<b>362,728</b>	<b>40,644</b>	<b>27,128</b>	<b>9,538</b>	<b>-</b>	<b>481,059</b>		<b>1,313,451</b>	
On-balance sheet yield/profit rate sensitivity gap	191,721	64,222	(19,724)	43,262	2,842	-	(448,347)	166,024	-	
Off-balance sheet yield/profit rate sensitivity gap	(696,772)	(764,617)	(240,651)	410,362	1,048,074	243,604	-	-	-	
Total yield/profit sensitivity gap	(505,051)	(700,395)	(260,375)	453,624	1,050,916	243,604	(448,347)	166,024	-	
<b>Cumulative yield/profit rate sensitivity gap</b>	<b>(505,051)</b>	<b>(1,205,446)</b>	<b>(1,465,821)</b>	<b>(1,012,197)</b>	<b>38,719</b>	<b>282,323</b>	<b>(166,024)</b>	<b>-</b>	<b>-</b>	

\* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing outstanding.

**(xxiii) FAIR VALUE OF ISLAMIC BANKING OPERATIONS FINANCIAL INSTRUMENTS**

The estimated fair values of the Group and the Bank's Islamic Banking Business financial instruments are as follows:

2006	Group		Bank	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
<b>Financial Assets</b>				
Cash and short-term funds	444,971	444,971	444,971	444,971
Securities held-for-trading	286,825	286,825	286,825	286,825
Securities available-for-sale	18,830	18,830	-	-
Securities held-to-maturity	56,171	56,077	-	-
Financing activities*	73,853	73,853	73,853	73,853
Other financial assets	14,500	14,500	14,500	14,500
	<u>895,150</u>	<u>895,056</u>	<u>820,149</u>	<u>820,149</u>
<b>Non-financial assets</b>	<u>9,575</u>		<u>9,575</u>	
<b>TOTAL ASSETS</b>	<u>904,725</u>		<u>829,724</u>	
<b>Financial Liabilities</b>				
Deposits from customers	247,537	247,505	247,537	247,505
Deposits and placements of banks and other financial institutions	274,275	274,273	274,275	274,273
Converted fund	71,310	71,310	-	-
Other financial liabilities	37,754	37,754	37,753	37,753
	<u>630,876</u>	<u>630,842</u>	<u>559,565</u>	<u>559,531</u>
<b>Non-financial liabilities</b>				
Other non-financial liabilities	16,653		16,653	
Islamic Banking Funds	257,196		253,506	
	<u>273,849</u>		<u>270,159</u>	
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>	<u>904,725</u>		<u>829,724</u>	

2005	Bank	
	Carrying Value RM'000	Fair Value RM'000
<b>Financial Assets</b>		
Cash and short-term funds	581,950	581,950
Deposit and placements with banks and other financial institutions	33,100	33,100
Securities held-for-trading	166,024	166,024
Financing activities*	511,940	523,369
Other financial assets	14,500	14,500
	<u>1,307,514</u>	<u>1,318,943</u>
<b>Non-financial assets</b>	5,937	
<b>TOTAL ASSETS</b>	<u>1,313,451</u>	
<b>Financial Liabilities</b>		
Deposits from customers	311,881	311,968
Deposits and placements of banks and other financial institutions	355,623	355,738
Converted fund	301,677	301,677
Other financial liabilities	92,700	92,700
	<u>1,061,881</u>	<u>1,062,083</u>
<b>Non-financial liabilities</b>		
Other non-financial liabilities	46,844	
Islamic Banking Funds	204,726	
	<u>251,570</u>	
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		
	<u>1,313,451</u>	

\* The general allowance for the Group and the Bank amounting to RM1,125,000 (RM7,796,000 as at 31 March 2005) and RM1,125,000 (RM7,796,000 as at 31 March 2005) has been included under non-financial assets.

#### (xxiv) NET INCOME FROM ISLAMIC BANKING BUSINESS

For consolidation with the conventional operations, net income from Islamic Banking Business comprises the following items:

	Group 2006 RM'000	Bank 2006 RM'000	Group and Bank 2005 RM'000
Income derived from investment of depositors' funds	25,740	21,961	40,658
Less : Income attributable to depositors	(24,437)	(21,281)	(35,358)
Income attributable to the Group and the Bank	1,303	680	5,300
Income derived from Islamic banking funds	74,705	74,549	42,252
	<u>76,008</u>	<u>75,229</u>	<u>47,552</u>

**(xxv) CAPITAL ADEQUACY RATIO**

- (i) The capital adequacy ratio of the Islamic Banking Business as at 31 March 2005 is analysed as follows:

	<b>Group 2006 RM'000</b>	<b>Bank 2006 RM'000</b>	<b>Group and Bank 2005 RM'000</b>
Tier 1 capital			
Islamic Banking Funds	102,839	100,000	100,000
Exchange fluctuation reserve	(9)	-	-
Unappropriated profit at end of year	154,285	153,506	104,432
Total tier 1 capital	<u>257,115</u>	<u>253,506</u>	<u>204,432</u>
Less : Deferred tax asset, net	(44)	(44)	(2,789)
	<u>257,071</u>	<u>253,462</u>	<u>201,643</u>
Tier 2 capital			
General allowance for bad and doubtful financing	1,125	1,125	7,796
Total tier 2 capital	<u>1,125</u>	<u>1,125</u>	<u>7,796</u>
Capital base	<u>258,196</u>	<u>254,587</u>	<u>209,439</u>
Capital Ratios:			
Core capital ratio	19.71%	19.93%	11.17%
Risk-weighted capital ratio	<u>19.79%</u>	<u>20.01%</u>	<u>11.60%</u>

- (ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	<b>2006</b>				<b>2005</b>	
	<b>Group</b>		<b>Bank</b>		<b>Group and Bank</b>	
	<b>Principal RM'000</b>	<b>Risk- Weighted RM'000</b>	<b>Principal RM'000</b>	<b>Risk- Weighted RM'000</b>	<b>Principal RM'000</b>	<b>Risk- Weighted RM'000</b>
0%	383,947	-	365,117	-	477,169	-
10%	1,623	162	1,623	162	54,433	5,443
20%	124,771	24,954	94,834	18,967	1,249,864	249,973
50%	228,112	114,056	228,112	114,056	222,873	111,437
100%	110,669	110,669	84,436	84,436	1,438,002	1,438,002
	<u>849,122</u>	<u>249,841</u>	<u>774,122</u>	<u>217,621</u>	<u>3,442,341</u>	<u>1,804,855</u>
Add : Total equivalent to market risk		<u>1,054,588</u>		<u>1,054,588</u>		<u>1,272,209</u>

The capital adequacy ratio of the Group as at 31 March 2005 has not been restated for prior year adjustments effect as mentioned in Note 51(xxvi) to the financial statements.

**(xxvi) PRIOR YEAR'S ADJUSTMENTS**

The prior year's adjustments relate to the change in accounting policy on adoption of revised GP8/BNM as described in Note 49 to the financial statements.

The presentation and classification of items in the current year's financial statements are consistent with the previous financial year except the following figures which have been restated as a result of the adoption of the revised BNM/GP8 , which are as follows:

	<b>As previously stated RM'000</b>	<b>Effect of change RM'000</b>	<b>As restated RM'000</b>
<b>Balance Sheet</b>			
<b>As at 31 March 2005</b>			
Dealing securities	165,618	(165,618)	-
Securities held-for-trading	-	166,024	166,024
Deferred tax assets	2,789	(111)	2,678
Other liabilities	139,541	3	139,544
Unappropriated profit	104,434	292	104,726
	<hr/>	<hr/>	<hr/>
<b>Income Statement</b>			
<b>Financial year ended 31 March 2005</b>			
Income derived from investment of depositors' funds and others	40,295	363	40,658
Reversal of allowance for diminution in value of investments	35	(35)	-
Income derived from Islamic Banking Funds	42,174	78	42,252
Taxation	(5,035)	(114)	(5,149)
Profit after taxation	12,759	292	13,051
	<hr/>	<hr/>	<hr/>



**53. CURRENCY**

All amounts are in Ringgit Malaysia.