[A] Explanatory Notes Pursuant To Financial Reporting Standard 134 (FRS 134) : Interim Financial Reporting

A1. Basis of Preparation

The unaudited condensed interim financial statements have been prepared in accordance with the Malaysian Accounting Standards Board's (MASB) Standard No. FRS 134: Interim Financial Reporting (formerly known as MASB 26), Bank Negara Malaysia's Revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) and Appendix 9B of the Bursa Malaysia Securities Berhad's ("Bursa Securities") Listing Requirements, and should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 March 2006.

The accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 March 2006 except for the adoption of the following new and revised Financial Reporting Standards ("FRS") issued by MASB that are effective for the Group's first FRS annual reporting date, 31 March 2007:

FRS 2 Share-based Payment
FRS 3 Business Combinations
FRS 5 Non-current Assets Held for Sale and Discontinued Operations
FRS 101 Presentation of Financial Statements
FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110 Events after the Balance Sheet Date
FRS 116 Property, Plant and Equipment
FRS 121 The Effects of Changes in Foreign Exchange Rates
FRS 127 Consolidated and Separate Financial Statements
FRS 128 Investments in Associates
FRS 132 Financial Instruments: Disclosure and Presentation
FRS 133 Earnings Per Share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets
FRS 140 Investment Property

The adoption of FRS 2, 5, 108, 110, 116, 121, 127, 128, 132, 133, 138 and 140, other than FRS 3,101 and 136, do not have significant financial impacts on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new and revised FRSs are disclosed in Note A13.

The allowance for bad and doubtful debts and financing of the Group are computed based on the requirement of BNM/GP3 which is consistent with the adoption made in the previous audited annual financial statements.

A2. Declaration of Audit Confirmation

The annual audit report on the financial statements for the financial year ended 31 March 2006 did not contain any qualification.

A3. **Seasonal and Cyclical Factors**

The business operations of the Group are generally not affected by any seasonal or cyclical factors.

A4. **Nature And Amount Of Items Affecting Assets, Liabilities, Equity, Net Income Or Cash Flows That Are Unusual Because Of Their Nature, Size Or Incidence**

The assets, liabilities, equity, net income and cash flows of the Group for the 2nd quarter and the financial period ended 30 September 2006 were not substantially affected by any item of a material and unusual nature except for the changes disclosed in Note A5.

A5. **Changes In Estimates**

During the financial period ended 30 September 2006, certain accounting estimates of the banking group subsidiary were changed prospectively. Impact of the changes in estimates to the current financial period are as summarized below:

(a) Specific Allowance For Long Dated Non-Performing Loans (NPLs)

Specific allowances now computed by assigning a 50% discount to the value of collaterals of NPLs of between five years and seven years. This change in accounting estimate has resulted in an additional specific allowance for bad and doubtful debts and financing of RM77.8 million in current quarter. The banking subsidiary group continues to assign no value to property collateral for NPLs which have been outstanding for over 7 years.

(b) Specific Allowance For NPLs Of Three To Five Months Repayments In Arrear

Specific allowances of 20% is now provided for NPLs of three to five months repayments in arrear whereas previously, no specific allowance was provided for such NPLs. This change in accounting estimate has resulted in an additional specific allowance for bad and doubtful debts and financing of RM29.9 million in the current quarter.

A6. **Changes In Debt And Equity Securities**

There were no issuance of equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period ended 30 September 2006 other than the following:-

(a) The issued and paid-up share capital of the Company was increased from RM1,167,978,154 to RM1,170,788,154 arising from the issuance of 2,810,000 new ordinary shares of RM1.00 each from the exercise of 2,810,000 warrants 2002/2007 at the exercise price of RM1.21 per share.

(b) On 18 September 2006, the Company issued RM200 million Commercial Papers out of its RM300.0 million Commercial Papers/Medium Term Notes Programme. The proceeds from the issuance was used to repay the existing term loan of RM200.0 million.

A7. **Dividend Paid**

There was no dividend paid during the financial period ended 30 September 2006.

A8. **Segment Information**

Segment information on Revenue, Profit Before Tax and Total Assets

	2nd Quarter ended <- 30 September 2006 ->		**Cumulative Period Ended <--------- 30 September 2006 --------->**		
Group	**Revenue**	**Profit Before Tax**	**Revenue**	**Profit Before Tax**	**Assets**
	RM'000	RM'000	RM'000	RM'000	RM'000
Commercial Banking	314,576	(18,349)	638,757	32,693	20,403,723
Investment Banking	25,459	(22,296)	49,191	(11,780)	1,825,230
Stockbroking	6,753	872	16,558	2,235	334,896
Unit Trust	1,250	99	2,450	111	20,975
Asset Management	1,266	261	2,485	569	5,894
Others	4,126	(3,247)	4,513	(6,751)	50,308
	353,430	(42,660)	713,954	17,077	22,641,026
Consolidation eliminations	(3,898)	(3,480)	(4,301)	(3,485)	-
	349,532	(46,140)	709,653	13,592	22,641,026
Goodwill	-	-	-	-	304,149
Unallocated corporate assets	-	-	-	-	175,830
	349,532	(46,140)	709,653	13,592	23,121,005

A8. **Segment Information (cont'd)**

Segment information on Revenue, Profit Before Tax and Total Assets (continued)

	2nd Quarter ended		**Cumulative Period Ended**		
	<- 30 September 2005 -->		**<--------- 30 September 2005 ---------->**		
Group	**Revenue**	**Profit Before Tax**	**Revenue**	**Profit Before Tax**	**Assets**
	RM'000	RM'000	RM'000	RM'000	RM'000
Commercial Banking	288,705	(305,152)	578,173	(258,867)	20,735,248
Investment Banking	28,328	(11,930)	55,975	(1,606)	1,841,798
Stockbroking	8,822	994	18,490	(14,737)	504,386
Unit Trust	1,391	94	2,748	270	16,994
Asset Management	1,576	597	3,212	1,324	5,824
Others	18,854	19,829	19,668	20,144	39,408
	347,676	(295,568)	678,266	(253,472)	23,143,658
Consolidation eliminations	(24,859)	(27,080)	(26,754)	(27,386)	-
	322,817	(322,648)	651,512	(280,858)	23,143,658
Goodwill	-	-	-	-	279,832
Unallocated corporate assets	-	-	-	-	284,677
	322,817	(322,648)	651,512	(280,858)	23,708,167

A9. **Valuation Of Property, Plant And Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The valuation of property, plant and equipment have been brought forward without amendment from the previous annual financial statements.

A10. **Material Events Subsequent To The Balance Sheet Date**

The Company's wholly-owned subsidiary, Syabas Sutra Sdn Bhd (in members' voluntary winding up) had on 9 October 2006 completed the distribution-in-specie of its entire holdings of ordinary and preference shares in Alliance Bank Malaysia Berhad to the Company. From the date thereof, the Company directly holds 100% equity interest in Alliance Bank Malaysia Berhad.

A11. **Changes In The Composition Of The Group**

Alliance Finance Berhad, a wholly-owned subsidiary of Alliance Bank Malaysia Berhad, had been dissolved pursuant to Section 272(5) of the Companies Act, 1965 with effect from 3 July 2006.

A12. **Changes In Contingent Liabilities Since The Last Annual Balance Sheet Date**

Please refer to Note B10.

A13. **Changes in Accounting Policies**

During the financial period ended 30 September 2006, the Group has adopted the new and revised FRSs issued by MASB that are applicable with effect from 1 April 2006 which resulted in changes in accounting policies as follows:

(a) (1) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. Minority interest is now presented within total equity in the consolidated balance sheet and as an allocation from net profit for the period in the consolidated income statement. The movement of minority interest is now presented in the consolidated statement of changes in equity.

The presentation of the comparative financial statements of the Group have been restated to conform with the current period's presentation.

(2) FRS 3 : Business Combinations and FRS 136: Impairment of Assets

The adoption of FRS 3 Business Combination and the consequential changes to FRS 136 Impairment of Assets, has resulted in a change in the accounting policy relating to purchased goodwill.

Goodwill acquired in a business combination is now stated at cost less any accumulated impairment losses. The adoption of these new FRSs has resulted in the Group ceasing annual amortization of goodwill. Instead, goodwill is allocated to cash-generating units

A13. **Changes in Accounting Policies (cont'd)**

(2) FRS 3 : Business Combinations and FRS 136: Impairment of Assets(cont'd)

and the carrying amount is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill impairment is determined by comparing its carrying amount against its recoverable amount in accordance with FRS 136. Any impairment loss is recognised in the income statement and subsequent reversal is not allowed.

This change in accounting policies has been accounted for prospectively for business combinations where the agreement date is on or after 1 April 2006. For business combination entered into prior to that date, the transitional provisions of FRS 3 requires the Group to eliminate the carrying accumulated amortization as at 1 April 2006 against the carrying amount of goodwill. With the adoption of FRS 3, this has the effect of reducing the amortization charge of the Group by RM4,842,000 for the 1st quarter ended 30 June 2006. No impairment loss on goodwill has been recognised in the 2nd quarter and the six months period ended 30 September 2006.

Negative goodwill represents the excess in fair value of the net identifiable assets acquired over the cost of the acquisition, is now recognised immediately in the income statement. Prior to 1 April 2006, negative goodwill was amortised over the weighted average useful life of the non-monetary assets acquired. As at 1 April 2006, the carrying amount of negative goodwill for the Group totaling RM33,086,000 was adjusted to retained profits/(loss) brought forward. Similarly, the reserve on consolidation of RM9,125,000 from capital reserve was reclassified to retained profit/(loss) brought forward with the adoption of FRS 3.

(b) The changes in accounting policies as described above which were adjusted to the opening retained profits/(loss) and capital reserves of the Group are as follows:

	Group	
	2006	**2005**
	RM'000	**RM'000**
Effects on retained profit /(loss):		
At 1 April, as previously stated	(173,680)	36,533
Effects of adopting FRS 3		
- Business Combinations	42,211	-
At 1 April, as restated	(131,469)	36,533
Effects on capital reserves:		
At 1 April, as previously stated	16,138	16,138
Effects of adopting FRS 3		
- Business Combinations	(9,125)	-
At 1 April, as restated	7,013	16,138

[B] Explanatory Notes Pursuant To Appendix 9B of Bursa Securities's Listing Requirements

B1. Review of Performance

For the current quarter under review, the Group registered an operating profit of RM91.7 million. However, after loan loss provisioning and impairment of RM137.8 million (versus RM417.5 million over the same period last year), the current quarter result is a pre-tax loss of RM46.1 million. The loss after tax is RM39.8 million.

For the 6 months financial period ended 30 September 2006, the Group recorded an operating profit of RM190.8 million and a profit before tax of RM13.6 million. The turnaround from the loss before tax of RM280.9 million recorded in the previous financial period ended 30 September 2005, was attributable to better recoveries and lower specific allowances and provision for impairment losses. Both loan loss provisions and impairment loss decreased from RM456.1 million and RM26.2 million respectively from the last corresponding period to RM176.8 million and RM0.4 million.

In September 2006, as disclosed under Note A5, the banking group subsidiary's loss provisioning included a mark down of property collateral by 50% for NPLs that were more than 5 years but less than 7 years. Property collateral for NPLs that were more than 7 years continued to be marked down to zero value. In addition, the banking group subsidiary also changed its basis in making specific provisions for NPLs at 3 months in arrears instead of 6 months in arrears previously so that the provisioning is aligned with the NPL classification for accounts at 3 months in arrears. Before effecting these changes in basis for specific provisions, the Group's profit before tax for financial period ended 30 September 2006 would be RM122 million.

The Group net interest income, including income from Islamic Banking grew by 12.9% or RM37.5 million compared to the same period last year mainly due to strong Islamic financing growth of 30% or RM485 million year-on-year. This higher net interest income was further attributed to the improvement in margin.

The increase in operating expenses by RM36.6 million or 17.5% was mainly due to the Group's investment in human capital, infrastructure building and marketing.

The Group registered an improvement in recoveries, recording RM114.5 million compared to RM45.7 million for the same period last year.

The Group's gross loans and advances stood at RM13.9 billion, declined by RM620 million or 4.2% compared to 31 March 2006, largely due to loans written off amounting to RM331 million coupled with repayment of several lumpy loans during the period under review. On the other hand, Consumer Banking portfolio continued to grow across all products during the period – credit cards (21%), housing loan (7%), and hire purchase (6%). The Group net non-performing loan ratio registered at 8.0% whilst the gross NPL provisioning cover at 30 September 2006 was at 51.0%. The banking group subsidiary's risk weighted capital ratio improved to 16.6% from 15.08% as at 31 March 2006.

B2. **Comparisons With Preceding Quarter's Results**

For the current quarter under review, the Group reported an operating profit of RM91.7 million as compared to preceding quarter of RM99.1 million. However, after loan loss provisioning and impairment of RM137.8 million (versus RM39.3 million over the preceding quarter), the current quarter result is a pre-tax loss of RM46.1 million. For the preceding quarter ended 30 June 2006, the Group recorded profit before tax of RM59.7 million.

The higher loan loss provision was mainly due to the adoption of the policy of 50% mark down on property collateral value of NPLs that were more than 5 years but less than 7 years as well as the change in basis of making specific provisions for NPLs at 3 months in arrears instead of 6 months in arrears previously, as disclosed under Note A5.

B3. **Current Year Prospects**

The Group remains committed to its long term strategy of improving asset quality, whilst growing quality loans, advances and fee income. The further strengthening of its integrated risk management systems and streamlining of Group-wide functions for better synergy will underscore the Group's objective of achieving sustainable and profitable growth.

SMEs remain a primary customer segment for Commercial Banking. Twenty–two (22) SME Business Centres are now available at selected branches, enabling the Bank to draw closer relationship with its customers while reinforcing our community banking approach. The new Commercial Banking business model has been launched with Alliance Partnership and Alliance SME. In Consumer Banking, the Bank has begun building customer franchise with the business unit recording a continued and sustained growth. For instance, credit cards have outgrown the industry's year-on-year average and for the 2nd Quarter, recorded a 19% growth, the best in five quarters. Distribution channels are also being strengthened and extended via direct sales force, third-party distribution channels and on-line banking.

In August 2006, Alliance Merchant Bank Berhad changed its name to Alliance Investment Bank Berhad (AIB). The name change marks another milestone in the transformation process and the merger integration activities of AIB and Kuala Lumpur City Securities (KLCS). The exercise is expected to be completed by end December 2006 where AIB will encompass the merchant banking business and the stockbroking business of KLCS.

The Group will continue to invest in building the required infrastructure and in enhancing its human capital and talent pool to support business growth and to better manage risks. The Group has embarked on an integrated enterprise-wide risk management framework within the Basel II Accord, establishing a culture of best practices that will angur well in terms of enhancing reputation and instilling confidence amongst customers, regulators and stakeholders.

B3. **Current Year Prospects (cont'd)**

In instilling a service and sales-driven culture, the Group has made significant investment in strengthening the bench strength of the Bank by investing in experienced professionals. Distribution channels are also being strengthened and extended via direct sales force, third-party distribution channels and on-line banking.

Supporting the sales force is the expansion and enhancement of our product suite in terms of new credit cards offerings, bancassurance products, unit trust funds as well as new SMEC credit programme and Business Premise Financing.

Barring any unforeseen circumstances, the Group expects to improve on its level of performance in the second half of the current financial year ending 31 March 2007.

B4. **Profit Forecast**

There was no profit forecast issued by the Group.

B5. **Taxation / Deferred Taxation**

	2nd Quarter ended		**Cumulative Quarter ended**	
GROUP	**30.9.2006**	**30.9.2005**	**30.9.2006**	**30.9.2005**
	RM'000	RM'000	RM'000	RM'000
Company and subsidiaries:-				
- Current year	1,976	16,618	(1,310)	(1,265)
- Deferred tax	4,365	79,290	(10,947)	79,290
	6,341	95,908	(12,257)	78,025
- (Over)/under provision in prior year	-	-	(1,490)	-
	6,341	95,908	(13,747)	78,025
	=======	=======	=======	=======

The effective tax rate of the Group for the current period was higher than statutory rate even with the losses recorded in this quarter. This was mainly due to higher deferred tax recognition from the loan allowances made in banking group subsidiary which were non tax deductible.

B6. **Profit/(Loss) On Sale Of Unquoted Investment Or Properties**

There was no material profit/(loss) on sale of unquoted investment or properties for the current quarter and the financial period ended 30 September 2006 other than in the ordinary course of business.

B7. **Purchase And Disposal Of Quoted Securities**

There was no purchase or disposal of quoted securities for the current quarter and the financial period ended 30 September 2006, other than investments held by banking group subsidiary whose activities are regulated by law relating to banking companies and are subject to supervision by Bank Negara Malaysia.

B8. **Status Of Corporate Proposals**

Commercial Papers/Medium Term Notes Programme of RM300 Million

The Company has on 18 September 2006 successfully issued the Special First Issuance of Commercial Papers of RM200 million nominal value for a tenor of one (1) year out of the Commercial Papers/Medium Term Notes Programme of RM300 million. The proceeds from the issuance was used to repay the existing term loan of RM200.0 million.

B9. **Group Borrowings, Deposits From Customers, Deposits And Placements Of Banks And Other Financial Institutions And Debts Securities**

	GROUP	
	30.9.2006 RM'000	**31.3.2006** RM'000
(a) **Deposits From Customers**		
Fixed deposit and negotiable instruments of deposits		
- One year or less (short term)	11,237,251	11,646,326
- More than one year (medium/long term)	495,919	612,154
	11,733,170	12,258,480
Others	5,700,196	5,407,741
	17,433,366	17,666,221
	=========	=========

B9. **Group Borrowings, Deposits From Customers, Deposits And Placements Of Banks And Other Financial Institutions And Debts Securities (cont'd)**

		GROUP	
		30.9.2006	**31.3.2006**
		RM'000	RM'000
(b)	**Deposits And Placements Of Banks And Other Financial Institutions**		
	- One year or less (short term)	358,237	555,238
	- More than one year (medium/long term)	237,576	215,768
		595,813	771,006
(c)	**Short/Long Term Borrowings**		
	Secured and one year or less (short term)		
	Commercial Papers	200,000	-
	Unsecured and more than one year (medium/long term)		
	Term Loan	-	200,000
(d)	**Subordinated Bonds**		
	Unsecured and less than one year (short term)	-	535,500
	Unsecured and more than one year(medium/long term)	600,000	-

B10. **Commitments And Contingencies**

In the normal course of business, the banking subsidiaries make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

Risk weighted exposure of the Group as at

	30.9.2006			**31.3.2006**		
	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
Direct credit substitutes	**354,825**	**354,825**	**309,641**	366,235	366,235	325,954
Transaction-related contingent items	**736,060**	**368,029**	**324,800**	917,406	458,703	351,381
Short-term self-liquidating trade-related contingencies	**125,968**	**25,194**	**25,182**	334,976	66,995	66,192
Irrevocable commitments to extend credit:-						
- maturity exceeding one year	**225,210**	**112,605**	**112,605**	219,222	109,611	109,611
- maturity not exceeding one year	**5,114,005**	**-**	**-**	4,488,350	-	-
Foreign exchange related contracts less than one year	**805,999**	**11,102**	**2,826**	765,338	17,127	4,513
Underwriting liabilities	**28,825**	**14,413**	**14,413**	18,000	9,000	9,000
Other commitments and contingencies	**239,587**	**-**	**-**	304,493	-	-
Total	**7,630,479**	**886,168**	**789,467**	7,414,020	1,027,671	866,651

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

B11. Financial Instruments With Off-Balance Sheet Risk

Details of financial instruments with off-balance sheet risk as at 30 September 2006:
Value of contracts classified by remaining period to maturity or next repricing date (whichever is earlier).

Alliance Bank Group

Items	Principal Amount RM'000	1 month or less RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 - 5 years RM'000	> 5 years RM'000	Margin requirement RM'000
Foreign exchange related contracts								
-forward	128,868	22,770	66,933	39,165	-	-	-	-
-swaps	677,131	355,233	314,641	7,256	-	-	-	-
Interest rate related contracts								
-forward	-	-	-	-	-	-	-	-
-futures	-	-	-	-	-	-	-	-
-swaps	-	-	-	-	-	-	-	-
Total	805,999	378,003	381,574	46,421	-	-	-	-

Foreign exchange, interest rate and equity and commodity related contracts are subject to market risk and credit risk.

Market risk
Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at end of the financial period, the amount of contracts which were not hedged and hence, exposed to market risk was RM43,141,000 (31.3.2006: RM35,230,000).

Credit risk
Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the banking subsidiary has a gain position. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices. As at end of the financial period, the amounts of credit risk, measured in terms of cost to replace the profitable contracts, was RM4,751,000 (31.3.2006: RM3,676,000).

Related accounting policies
Alliance Bank acts as an intermediary with counterparties who wish to swap their interest obligations. Alliance Bank also uses interest rate swaps, futures, forward and option contracts in its trading account activities and its overall interest rate risk management.

Interest income and interest expenses associated with interest rate swaps that qualify as hedges are recognized over the life of the swap agreement as a component of interest income or interest expenses. Gains and losses on interest rate futures, forward and option contracts that qualify as hedged assets or liabilities are generally deferred and amortized over the life of the hedged assets or liabilities as adjustments to interest income or interest expenses.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognized in the current period using the mark-to-market method, and are included in net result from dealing securities.

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity, and unrealized losses and gains are recognized in the income statement in the period in which they arise.

B12. **Material Litigation**

As at the date of this report, there was no pending material litigation.

B13. **Dividend Payable**

No interim dividend has been declared by the Company for the financial period ended 30 September 2006.

B14. **Losses Per Share**

Basic losses per share is calculated by dividing the net losses after taxation and minority interest attributable to equity holders of the parent dividend by the weighted average number of ordinary shares in issue during the period.

Basic losses per share	**Financial Period Ended 30.9.2006**	**Financial Period Ended 30.9.2005**
Net loss after taxation and minority interest attributable to equity holders of the parent (RM'000)	(366)	(203,057)
Weighted average number of ordinary shares in issue ('000)	1,168,769	1,162,661
Basic/Fully diluted losses per share (sen)	(0.03)	(17.46)

Fully diluted losses per share

The calculation of the diluted losses per share is based on the net loss after taxation and minority interest attributable to the equity holders of the parent for financial period divided by the adjusted weighted average number of ordinary shares.

For the financial period ended 30 September 2006, total outstanding Warrants 2002/2007 has been excluded in the computation of diluted losses per RM1.00 ordinary share for the Group, as their exercise and conversion to ordinary shares would not be dilutive. Accordingly, the diluted losses per share for the current financial period is presented as equal to basic losses per share.