

**AFFIN HOLDINGS BERHAD**  
(Company no. 23218 - W)  
**Condensed Interim Financial Statements**  
**Unaudited Balance Sheets As At 30 June 2006**

	<-----GROUP----->		<-----COMPANY----->	
	Current Financial Quarter 30/06/2006 RM'000	Previous Financial Year Ended 31/12/2005 RM'000	Current Financial Quarter 30/06/2006 RM'000	Previous Financial Year Ended 31/12/2005 RM'000
<b>ASSETS</b>				
Cash and short term funds	6,594,851	3,344,911	52,034	120,525
Deposits and placements with financial institutions	201,112	323,922	-	389
Securities held for trading	70,347	1,300,447	-	-
Securities available-for-sale	5,838,816	4,890,256	-	-
Securities held-to-maturity	1,414,109	1,577,699	-	-
Loans, advances and financing	17,111,925	16,973,209	-	-
Trade debtors	327,940	137,063	-	-
Other assets	455,732	216,963	3,278	7,035
Tax Recoverable	88,766	128,091	33,352	36,986
Statutory deposits with Bank Negara Malaysia	764,097	665,715	-	-
Investment in subsidiaries	-	-	3,552,487	3,484,096
Amount due from subsidiaries	-	-	11,267	18,319
Investment in associates	90,075	84,935	10,597	10,597
Deferred tax assets	130,388	156,173	-	-
Land held for sale	89,280	89,280	-	-
Property, plant and equipment	305,718	310,545	1,108	532
Goodwill	1,079,570	989,260	-	-
Life business assets	237,069	-	-	-
<b>TOTAL ASSETS</b>	<b>34,799,795</b>	<b>31,188,469</b>	<b>3,664,123</b>	<b>3,678,479</b>
<b>LIABILITIES, INSURANCE RESERVES AND EQUITY</b>				
Deposits from customers	24,370,450	21,464,544	-	-
Deposits and placements of bank and other financial institutions	776,821	1,174,270	-	-
Obligation on securities sold under repurchase agreements	2,341,014	1,476,889	-	-
Bills and acceptance payable	554,400	480,574	-	-
Trade creditors	292,943	116,857	-	-
Amount due to Cagamas	905,138	1,241,160	-	-
Borrowings	1,163,491	1,223,461	653,530	693,530
Other liabilities	831,068	804,076	7,774	8,882
Provision for taxation	643	55	-	-
Amount due to subsidiaries	-	-	563,741	563,870
Deferred tax liabilities	174	151	-	-
Life business liabilities	63,726	-	-	-
<b>TOTAL LIABILITIES</b>	<b>31,299,868</b>	<b>27,982,037</b>	<b>1,225,045</b>	<b>1,266,282</b>

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	<-----GROUP----->		<-----COMPANY----->	
	Current Financial Quarter 30/06/2006 RM'000	Previous Financial Year Ended 31/12/2005 RM'000	Current Financial Quarter 30/06/2006 RM'000	Previous Financial Year Ended 31/12/2005 RM'000
<b>INSURANCE RESERVES</b>				
Life policyholders' funds	162,673	-	-	-
Asset revaluation reserve	10,670	-	-	-
<b>TOTAL INSURANCE RESERVES</b>	<b>173,343</b>	-	-	-
<b>EQUITY</b>				
Share capital	1,229,725	1,211,388	1,229,725	1,211,388
Reserves:-				
Share premium	1,069,239	1,063,541	1,069,239	1,063,541
Statutory reserve	364,669	364,669	-	-
Retained profits	662,763	577,380	140,114	137,268
Investment fluctuation reserve	(65,975)	(11,490)	-	-
Other reserves	944	944	-	-
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>3,261,365</b>	3,206,432	<b>2,439,078</b>	2,412,197
Minority interests	65,219	-	-	-
<b>TOTAL EQUITY</b>	<b>3,326,584</b>	3,206,432	<b>2,439,078</b>	2,412,197
<b>TOTAL LIABILITIES, INSURANCE RESERVES AND EQUITY</b>	<b>34,799,795</b>	<b>31,188,469</b>	<b>3,664,123</b>	<b>3,678,479</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>22,051,773</b>	25,198,256	-	-
<b>CAPITAL ADEQUACY</b>				
<u>Before deducting proposed dividends:</u>				
Core capital ratio	9.94%	10.58%		
Risk-weighted capital ratio	13.32%	14.32%		
<u>After deducting proposed dividends:</u>				
Core capital ratio	9.94%	10.43%		
Risk-weighted capital ratio	13.32%	14.18%		
<b>NET ASSETS PER SHARE (RM)</b>	<b>2.65</b>	2.65		

*The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2005.*

# AFFIN HOLDINGS BERHAD

(Company no. 23218 - W)

## Condensed Interim Financial Statements

### Unaudited Income Statements For The Financial Quarter Ended 30 June 2006

<u>Group</u>	<-----Individual Quarter----->		<-----Cumulative Quarter----->	
	Current Year Quarter ended 30/06/2006 RM'000	Preceding Year Corresponding Quarter ended 30/06/2005 RM'000	Current year- to-date ended 30/06/2006 RM'000	Preceding Year- to-date ended 30/06/2005 RM'000
<b>Revenue</b>	<b>467,972</b>	434,467	<b>871,530</b>	894,164
Interest income	<b>379,848</b>	353,978	<b>713,191</b>	698,064
Interest expense	<b>(213,801)</b>	(175,543)	<b>(382,461)</b>	(348,134)
<b>Net interest income</b>	<b>166,047</b>	178,435	<b>330,730</b>	349,930
Income from Islamic operations	<b>25,088</b>	29,538	<b>38,828</b>	67,403
Other operating income	<b>63,036</b>	50,951	<b>119,511</b>	128,697
<b>Operating income</b>	<b>254,171</b>	258,924	<b>489,069</b>	546,030
Other operating expenses	<b>(134,324)</b>	(134,928)	<b>(259,588)</b>	(264,610)
<b>Operating profit before loan and financing loss and provision</b>	<b>119,847</b>	123,996	<b>229,481</b>	281,420
Allowance for losses on loans and financing	<b>(29,184)</b>	(10,485)	<b>(61,774)</b>	(9,024)
Impairment losses	<b>(12,385)</b>	(3)	<b>(16,804)</b>	(6,036)
Transfer from/(to) profit equalisation reserve	<b>(1,000)</b>	(5,228)	<b>4,707</b>	(18,763)
<b>Operating profit/(loss)</b>	<b>77,278</b>	108,280	<b>155,610</b>	247,597
Finance cost	<b>(10,998)</b>	(14,148)	<b>(21,647)</b>	(28,776)
Share in profit of associates	<b>8,910</b>	7,698	<b>11,139</b>	14,489
<b>Profit/(loss) before taxation and zakat</b>	<b>75,190</b>	101,830	<b>145,102</b>	233,310
Taxation	<b>(23,333)</b>	(47,469)	<b>(42,162)</b>	(89,082)
Zakat	-	(354)	-	(709)
<b>Net profit for the financial period</b>	<b>51,857</b>	<b>54,007</b>	<b>102,940</b>	<b>143,519</b>
Attributable to:				
Equity holders of the parent	<b>51,857</b>	49,293	<b>102,940</b>	130,457
Minority interests	-	4,714	-	13,062
	<b>51,857</b>	<b>54,007</b>	<b>102,940</b>	<b>143,519</b>
Earnings per share (sen)	<b>4.24</b>	4.09	<b>8.45</b>	11.04
Fully diluted earnings per share (sen)	<b>4.19</b>	4.05	<b>8.35</b>	10.94

*The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2005.*

**AFFIN HOLDINGS BERHAD**  
(Company no. 23218 - W)  
**Condensed Interim Financial Statements**  
**Unaudited Income Statements For The Financial Quarter Ended 30 June 2006**

<u>Company</u>	<-----Individual Quarter----->		<-----Cumulative Quarter----->	
	Current Year Quarter ended 30/06/2006 RM'000	Preceding Year Corresponding Quarter ended 30/06/2005 RM'000	Current year- to-date ended 30/06/2006 RM'000	Preceding Year- to-date ended 30/06/2005 RM'000
Revenue	<u>47,779</u>	<u>197,538</u>	<u>54,858</u>	<u>237,060</u>
Interest income	1,308	1,673	2,384	2,316
Interest expense	-	-	-	-
<b>Net interest income</b>	<b>1,308</b>	<b>1,673</b>	<b>2,384</b>	2,316
Income from Islamic operations	-	-	-	-
Other operating income	<u>46,471</u>	<u>195,865</u>	<u>52,474</u>	234,744
<b>Operating income</b>	<b>47,779</b>	<b>197,538</b>	<b>54,858</b>	237,060
Other operating expenses	(3,852)	(1,691)	(4,669)	(3,458)
Impairment losses	-	-	-	-
<b>Operating profit before loan and financing loss and provision</b>	<b>43,927</b>	<b>195,847</b>	<b>50,189</b>	233,602
Allowance for losses on loans and financing	-	-	-	-
Transfer from/(to) profit equalisation reserve	-	-	-	-
<b>Operating profit</b>	<b>43,927</b>	<b>195,847</b>	<b>50,189</b>	233,602
Finance cost	(10,649)	(13,608)	(21,156)	(27,539)
Share in profit of associates	-	-	-	-
<b>Profit before taxation and zakat</b>	<b>33,278</b>	<b>182,239</b>	<b>29,033</b>	206,063
Taxation	(8,438)	(80,083)	(8,630)	(90,969)
Zakat	-	-	-	-
<b>Net profit for the financial period</b>	<b>24,840</b>	<b>102,156</b>	<b>20,403</b>	<b>115,094</b>

*The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2005.*

**AFFIN HOLDINGS BERHAD**

(Company no. 23218 - W)

**Unaudited Condensed Consolidated Statement Of Changes In Equity  
For The Financial Period Ended 30 June 2006**

-----Attributable to Equity Holders of the Parent----->

<u>GROUP</u>	<b>Issued and fully paid ordinary shares of RM1 each</b>		<b>Non-distributable</b>				<b>Distributable</b>		Minority Interests RM'000	<b>Total Equity RM'000</b>
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Statutory reserves RM'000	Investment fluctuation reserve RM'000	Other reserve RM'000	Retained profits RM'000	<b>Total Shareholders' Equity RM'000</b>		
<b>At 1 January 2006</b>	1,211,388	1,211,388	1,063,541	364,669	(11,490)	944	577,380	<b>3,206,432</b>	-	<b>3,206,432</b>
Issue of share capital:										
- pursuant to the exercise of Employees Shares Options Scheme	18,337	18,337	5,698	-	-	-	-	<b>24,035</b>	-	<b>24,035</b>
Net change in fair value of securities available-for-sale	-	-	-	-	(54,485)	-	-	<b>(54,485)</b>	-	<b>(54,485)</b>
Minority interest's share of capital in a newly established subsidiary	-	-	-	-	-	-	-	-	65,219	<b>65,219</b>
Net profit for the financial period	-	-	-	-	-	-	102,940	<b>102,940</b>	-	<b>102,940</b>
Dividend paid	-	-	-	-	-	-	(17,557)	<b>(17,557)</b>	-	<b>(17,557)</b>
<b>At 30 June 2006</b>	<b>1,229,725</b>	<b>1,229,725</b>	<b>1,069,239</b>	<b>364,669</b>	<b>(65,975)</b>	<b>944</b>	<b>662,763</b>	<b>3,261,365</b>	<b>65,219</b>	<b>3,326,584</b>
<b>At 1 January 2005</b>	1,035,721	1,035,721	903,318	396,732	14,496	944	335,751	<b>2,686,962</b>	379,960	<b>3,066,922</b>
Issue of share capital arising from:										
- pursuant to the exercise of Employees Shares Options Scheme	10,904	10,904	-	-	-	-	-	<b>10,904</b>	-	<b>10,904</b>
- in consideration for the acquisition of 128,178,454 ordinary shares in AFFIN-ACF Holdings Berhad ('ACFH') pursuant to the Scheme of Arrangement	160,223	160,223	160,223	-	-	-	-	<b>320,446</b>	-	<b>320,446</b>
Acquisition of net assets attributable to minority interests in ACFH by the Company during the period	-	-	-	-	-	-	-	-	(238,389)	<b>(238,389)</b>
Net change in fair value of securities available-for-sale	-	-	-	-	(29,210)	-	-	<b>(29,210)</b>	(7,170)	<b>(36,380)</b>
Net profit for the financial period	-	-	-	-	-	-	130,457	<b>130,457</b>	13,062	<b>143,519</b>
Transfer of statutory reserve to retained profits	-	-	-	(127,836)	-	-	127,836	-	-	-
Dividends paid	-	-	-	-	-	-	(8,676)	<b>(8,676)</b>	(696)	<b>(9,372)</b>
<b>At 30 June 2005</b>	<b>1,206,848</b>	<b>1,206,848</b>	<b>1,063,541</b>	<b>268,896</b>	<b>(14,714)</b>	<b>944</b>	<b>585,368</b>	<b>3,110,883</b>	<b>146,767</b>	<b>3,257,650</b>

The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2005.

**AFFIN HOLDINGS BERHAD**  
(Company no. 23218 - W)  
**Unaudited Condensed Statement Of Changes In Equity**  
**For The Financial Period Ended 30 June 2006**

<u>Company</u>	<b>Issued and fully paid ordinary shares of RM1 each</b>		<b>Non-distributable</b>	<b>Distributable</b>	<b>Total</b> RM'000
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Retained profits RM'000	
<b>At 1 January 2006</b>	1,211,388	1,211,388	1,063,541	137,268	2,412,197
Issue of share capital pursuant to the exercise of Employees Share Options Scheme	18,337	18,337	5,698	-	24,035
Net loss for the financial period	-	-	-	20,403	20,403
Dividend paid	-	-	-	(17,557)	(17,557)
<b>At 30 June 2006</b>	<b>1,229,725</b>	<b>1,229,725</b>	<b>1,069,239</b>	<b>140,114</b>	<b>2,439,078</b>
<b>At 1 January 2005</b>	1,035,721	1,035,721	903,318	7,593	1,946,632
Issue of share capital:					
- pursuant to the exercise of Employees Share Option Scheme	10,904	10,904	-	-	10,904
- in consideration for the acquisition of 128,178,454 ordinary shares in Affin-ACF Holdings Berhad	160,223	160,223	160,223	-	320,446
Net profit for the financial period	-	-	-	115,094	115,094
Dividend paid	-	-	-	(8,676)	(8,676)
<b>At 30 June 2005</b>	<b>1,206,848</b>	<b>1,206,848</b>	<b>1,063,541</b>	<b>114,011</b>	<b>2,384,400</b>

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**AFFIN HOLDINGS BERHAD**

(Company no. 23218 - W)

**Unaudited Condensed Consolidated Cash Flow Statement  
For The Financial Period Ended 30 June 2006**

	Group	
	As at 30/06/2006 RM'000	As at 30/06/2005 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation and zakat	145,102	233,310
Adjustment for non-operating and non-cash items	76,485	115,887
Operating profit before changes in working capital	<u>221,587</u>	<u>349,197</u>
Net changes in operating assets	635,427	(2,284,740)
Net changes in operating liabilities	3,180,571	985,090
Payment of tax and zakat	(17,231)	(34,333)
Taxation refund	52,453	682
Net cash generated from operating activities	<u>4,072,807</u>	<u>(984,104)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (increase)/decrease in securities	(817,174)	1,738,137
Net purchase of property, plant and equipment	(15,190)	(26,950)
Dividend received from associated company	2,880	1,440
Cash consideration and expenses relating to acquisition of additional interests in subsidiary	(510)	(16,663)
Partial cash payment on acquisition of life insurance business by a newly established subsidiary	(12,100)	-
	<u>(842,094)</u>	<u>1,695,964</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in borrowings	(59,970)	(70,185)
Proceeds from issuance of shares	24,035	10,904
Capital injection to a newly established subsidiary by minority interests	65,219	-
Dividends paid to shareholders	(17,557)	(8,676)
Dividends paid to minority interests	-	(696)
Net cash used in financing activities	<u>11,727</u>	<u>(68,653)</u>
Net increase/(decrease) in cash and cash equivalents	3,242,440	643,207
Cash and cash equivalents at beginning of the period	3,326,204	3,999,993
Cash and cash equivalents at end of the period	<u>6,568,644</u>	<u>4,643,200</u>
<b><u>Analysis of cash &amp; cash equivalent</u></b>		
Cash and short term funds	6,594,851	4,661,879
Adjustment for money held in trust on behalf of clients and remisiers	(26,207)	(18,679)
	<u>6,568,644</u>	<u>4,643,200</u>

*The Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2005.*

**Part A - Explanatory Notes pursuant to Financial Reporting Standard ('FRS 134') and Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8') issued by Bank Negara Malaysia**

**A1. BASIS OF PREPARATION**

The unaudited condensed interim financial statements for the quarter ended 30 June 2006 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values:

- (i) securities held-for-trading,
- (ii) securities available-for-sale,
- (iii) derivative financial instruments, and
- (iv) investment properties.

The unaudited condensed financial statements has been prepared in accordance with FRS134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ('MASB') and Chapter 9, part K of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the year ended 31 December 2005. The explanatory notes to this interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the Group since the year ended 31 December 2005.

**A2. CHANGES IN ACCOUNTING POLICIES**

The financial policies and methods of computations applied for the condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended 31 December 2005, except for the adoption of the following new and revised Financial Reporting Standards ('FRS') issued by the Malaysian Accounting Standards Board ('MASB') effective for the financial period beginning 1 January 2006:

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

The adoption of the above FRSs does not have significant financial impact on the Group.

The principal effects of the changes in accounting policies resulting from the adoption of the new and revised FRSs that are applicable with effect from 1 January 2006 are summarised below:-

(i) FRS 2 : Share-based payment

The adoption of FRS 2 has resulted in a change in accounting policy for staff costs of the Group arising from share options granted by the Company to its employees (including directors) of the Group.



## A2. CHANGES IN ACCOUNTING POLICIES (cont.)

### (i) FRS 2 : Share-based payment (cont.)

Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted to employees of the Group. Upon the adoption of FRS 2, where the Group pays for services of its employees using share options, the fair value of the transaction is recognised as an expense in the income statement over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share option at the date of the grant and the number of share options to be vested by vesting date. At balance sheet date, the Group revises its estimate of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of FRS 2, this FRS will apply to share options which were granted after 31 December 2004 and which had not yet vested as at 1 January 2006.

The adoption of this FRS has not resulted in any financial impact to the Group as there were no new share options granted by the Group after 31 December 2004 which remain unvested as at 1 January 2006.

### (ii) FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interests and other disclosures. Minority interests 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 interests 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.

The Group's present provisioning for bad and doubtful debts and financing is in conformity with the requirements of Bank Negara Malaysia's guidelines on the classification of non-performing loans and provision for sub-standard, bad and doubtful debts, BNM/GP3 which is consistent with those applied in the previous annual financial statements.

Following the completion of the Proposed Acquisition of the life insurance business of Tahan Insurance Malaysia Berhad on 30 June 2006, the Group has also adopted all the relevant accounting policies for life insurance business in accordance with FRS 203 Life Insurance Business and FRS 140 Investment Properties during the year.

### A3. AUDITOR'S REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 December 2005 was not subjected to any qualification.

### A4. SEASONAL OR CYCLICAL FACTORS

The operations of the Group are generally not affected by any seasonal or cyclical factors but are in tandem with the country's economic situation.

### A5. ITEMS OF UNUSUAL NATURE, SIZE AND INCIDENCE AFFECTING NET ASSETS, EQUITY, NET INCOME OR CASH FLOWS

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group and the Company during the financial quarter ended 30 June 2006.

### A6. CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in prior financial years that have a material effect in the current financial quarter.

### A7. DEBT AND EQUITY SECURITIES

Save as disclosed below, there were no issuance, cancellations, share buy-backs, resale of shares bought back and repayment of debts and equity securities by the Company.

#### Issuance of shares

During the year, the Company's issued and paid-up capital was increased from RM1,211,388,115 to RM1,229,725,115 by the issuance of 18,337,000 new ordinary shares of RM1.00 pursuant to the exercise of options granted under the company's Employees' Share Options Scheme at the following option prices:

<u>Number of new ordinary shares issued</u>	<u>Option price per share</u>
4,442,000	RM 1.00
13,895,000	RM 1.41

### A8. DIVIDEND

A final dividend of 2 sen per share less 28% tax in respect of the financial year ended 31 December 2005 amounting to RM17,557,000 was paid on 8 June 2006.

## A9. SEGMENTAL REPORTING

### (i) SEGMENTAL REPORTING ON REVENUE AND PROFIT

The segment analysis by activity for the 3 months financial period ended 30 June 2006 is as follows:-

	3 months ended 30/06/2006		3 months ended 30/06/2005	
	Total Revenue	Profit/(Loss) Before Tax	Total Revenue	Profit/(Loss) Before Tax
	RM'000	RM'000	RM'000	RM'000
Corporate commercial banking	194,320	(12,912)	188,767	39,520
Retail banking	153,441	74,573	164,442	24,519
Treasury and money market	101,169	8,992	68,208	46,488
Investment banking	2,976	724	2,155	498
Stock-broking and asset management	16,011	5,930	8,838	(1,346)
Insurance	793	42	662	(14)
Others	3,523	(71)	3,946	(1,386)
	<u>472,233</u>	<u>77,278</u>	<u>437,018</u>	<u>108,279</u>
Intersegment elimination	(4,261)	-	(2,551)	-
Segment revenue/ segment results	<u>467,972</u>	<u>77,278</u>	<u>434,467</u>	<u>108,279</u>
Finance cost		(10,998)		(14,148)
Share in profit of associates		8,910		7,698
Profit before taxation		<u>75,190</u>		<u>101,829</u>
Taxation and zakat		(20,838)		(45,661)
Share in tax of associates		(2,495)		(2,161)
Net profit for the financial period		<u>51,857</u>		<u>54,007</u>

The segment analysis by activity for the 6 months ended 30 June 2006 is as follows:-

	6 months ended 30/06/2006		6 months ended 30/06/2005	
	Total Revenue	Profit/(Loss) Before Tax	Total Revenue	Profit/(Loss) Before Tax
	RM'000	RM'000	RM'000	RM'000
Corporate commercial banking	332,309	5,228	337,679	90,840
Retail banking	297,641	112,979	318,389	61,606
Treasury and money market	205,166	28,511	207,953	93,731
Investment banking	8,382	2,959	4,898	1,230
Stock-broking and asset management	25,746	6,211	21,980	2,128
Insurance	1,283	(123)	1,421	(1)
Others	7,136	(155)	7,014	(1,938)
	<u>877,663</u>	<u>155,610</u>	<u>899,334</u>	<u>247,596</u>
Intersegment elimination	(6,133)	-	(5,170)	-
Segment revenue/ segment results	<u>871,530</u>	<u>155,610</u>	<u>894,164</u>	<u>247,596</u>
Finance cost		(21,647)		(28,776)
Share in profit of associates		11,139		14,489
Profit before taxation		<u>145,102</u>		<u>233,309</u>
Taxation and zakat		(39,043)		(85,700)
Share in tax of associates		(3,119)		(4,090)
Net profit for the financial period		<u>102,940</u>		<u>143,519</u>

(ii) **SEGMENTAL REPORTING ON LOANS, ADVANCES AND FINANCING ANALYSED BY:**

	<b>Group</b>	
	<b>As at 30/06/2006 RM'000</b>	<b>As at 31/12/2005 RM'000</b>
<b>(a) <u>BY TYPE</u></b>		
Overdrafts	1,923,647	1,887,804
Term loans/financing		
Housing loans/financing	3,815,487	3,805,920
Syndicated term loan/financing	629,046	635,033
Hire purchase receivables	6,704,273	6,629,743
Other term loans/financing	4,021,885	4,201,770
Bills receivable	103,453	111,565
Trust receipts	497,759	395,496
Claims on customers under acceptance credits	736,189	713,275
Staff loans/financing (of which RM NIL to Directors)	165,498	172,606
Credit/charge cards	91,141	90,545
Revolving credit	1,425,676	1,280,199
Other loans/financing	36,958	29,605
	<hr/>	<hr/>
	20,151,012	19,953,561
Less: Unearned interest and income	(1,861,851)	(1,824,467)
	<hr/>	<hr/>
<b>Gross loans, advances and financing</b>	<b>18,289,161</b>	<b>18,129,094</b>
Less: Allowance for bad and doubtful debts and financing		
- General	(285,401)	(327,039)
- Specific	(891,835)	(828,846)
	<hr/>	<hr/>
<b>Total net loans, advances and financing</b>	<b>17,111,925</b>	<b>16,973,209</b>
	<hr/>	<hr/>
<b>(b) <u>BY TYPE OF CUSTOMER</u></b>		
Domestic non-banking institutions		
- Others	66,339	41,794
Domestic business enterprises		
- Small medium enterprises	4,989,408	5,080,721
- Others	3,723,720	3,660,656
Government and statutory bodies	105,597	112,146
Individuals	8,869,861	8,860,946
Other domestic entities	195,700	45,640
Foreign entities	338,536	327,191
	<hr/>	<hr/>
	<b>18,289,161</b>	<b>18,129,094</b>
	<hr/>	<hr/>
<b>(c) <u>BY INTEREST / PROFIT RATE SENSITIVITY</u></b>		
Fixed rate		
Housing loans/financing	561,476	647,714
Hire purchase receivables	5,657,210	5,620,841
Other fixed rate loan/financing	4,022,498	3,733,661
Variable rate		
BLR plus	4,043,011	4,492,640
Cost-plus	4,004,966	3,634,238
	<hr/>	<hr/>
	<b>18,289,161</b>	<b>18,129,094</b>
	<hr/>	<hr/>

(ii) **SEGMENTAL REPORTING ON LOANS, ADVANCES AND FINANCING ANALYSED BY (continued):**

(d) **BY ECONOMIC PURPOSE**

	Group	
	As at 30/06/2006 RM'000	As at 31/12/2005 RM'000
Construction	181,520	190,338
Purchase of landed property (of which: - Residential - Non-residential)	3,154,191	3,093,320
Purchase of securities	577,344	591,878
Purchase of transport vehicles	617,858	814,821
Fixed assets other than land and building	5,330,058	5,132,997
Personal uses	54,530	35,805
Credit card	505,207	504,869
Consumer durable	91,141	90,545
Working capital	26,328	21,777
Others	344,060	176,835
<b>Total</b>	<b>7,406,924</b>	<b>7,475,909</b>

(iii) **NON-PERFORMING LOANS/FINANCING**

(a) **Movements in non-performing loans, advances and financing**

	Group	
	As at 30/06/2006 RM'000	As at 31/12/2005 RM'000
Balance at the beginning of financial period/year	3,290,501	3,761,073
Classified as non-performing during the period/year	330,094	907,111
Reclassified as performing during the period/year	(148,258)	(472,889)
Loans/financing converted to securities	-	(85,000)
Amount recovered	(166,988)	(632,831)
Amount written-off	(76,820)	(186,963)
<b>Balance at the end of financial period/year</b>	<b>3,228,529</b>	<b>3,290,501</b>
less: Specific allowance	(891,835)	(828,846)
<b>Net non-performing loans, advances and financing</b>	<b>2,336,694</b>	<b>2,461,655</b>
Net NPL as a % of gross loans, advances and financing less specific allowance	13.43%	14.23%

(b) **Non-performing loans/financing by economic purpose**

Construction	133,478	136,667
Purchase of landed property:		
- Residential	602,466	623,721
- Non-residential	170,436	161,155
Purchase of securities	176,166	255,704
Purchase of transport vehicles	187,004	150,444
Personal uses	96,488	90,663
Credit card	3,443	2,677
Consumer durable	1,446	835
Working capital	57,228	59,296
Others	1,800,374	1,809,339
<b>Total</b>	<b>3,228,529</b>	<b>3,290,501</b>

(c) **Movement in allowance for bad and doubtful debts**

Movements in the allowance for bad and doubtful debts and financing accounts are as follows:-

**General allowance**

Balance at the beginning of financial period/year  
 Allowance made during the financial period/year  
 Amount written back during the financial period/year  
 Balance at the end of financial period/year

As % of gross loans, advances and financing less specific allowance

Group	
As at 30/06/2006	As at 31/12/2005
RM'000	RM'000
327,039	328,285
249	2,563
(41,887)	(3,809)
285,401	327,039
1.64%	1.89%

**Specific allowance**

Balance at the beginning of financial period/year  
 Allowance made during the financial period/year  
 Amount transferred to allowance for impairment of securities held-to-maturity  
 Amount written-off  
 Amount written back during the financial period/year  
 Balance at the end of financial period/year

828,846	696,512
172,005	449,885
-	(4,760)
(75,509)	(222,425)
(33,507)	(90,366)
891,835	828,846

**A10. SECURITIES HELD**

(a) **Securities held-for-trading**

**At fair value**

Malaysian Government Investment Issuance ('GII')  
 Khazanah Bonds  
 Bankers' Acceptance and Islamic Acceptance Bills  
 Bank Negara Malaysia Notes  
 Bank Negara Malaysia Bills  
 Negotiable Instruments of Deposit

Quoted Securities

- Shares  
 - Warrants

Unquoted Securities

- Private Debt Securities

Total securities held for trading

Group	
As at 30/06/2006	As at 31/12/2005
RM'000	RM'000
-	364,315
-	8,620
-	219,705
-	69,796
-	30,758
-	99,750
-	792,944
-	7,848
255	383
70,092	499,272
70,347	1,300,447

**A10. SECURITIES HELD (cont.)**

	<b>Group</b>	
	<b>As at 30/06/2006 RM'000</b>	<b>As at 31/12/2005 RM'000</b>
<b>(b) <u>Securities available-for-sale</u></b>		
<b>At fair value</b>		
Malaysian Government Securities	807,846	827,178
Malaysian Government Treasury Bills	279,388	232,311
Malaysian Government Investment Issuance ('GII')	134,774	84,446
Cagamas Bonds	724,755	366,207
Khazanah Bonds	678,414	784,304
Bankers' Acceptance and Islamic Accepted Bills	632,319	589,293
Islamic Corporate Notes	55,702	-
Bank Negara Malaysia Notes	19,734	46,253
Bank Negara Malaysia Bills	236,221	310,327
Negotiable Instruments of Deposit	434,727	454,863
Negotiable Islamic Debt Certificate	258,762	225,885
	4,262,642	3,921,067
Quoted Securities		
- Shares	118,543	136,604
- Private Debt Securities	23,317	25,420
Unquoted Securities		
- Private Debt Securities	1,540,022	915,191
	5,944,524	4,998,282
Allowance for impairment of securities	(105,708)	(108,026)
Total securities available-for-sale	5,838,816	4,890,256
<b>(c) <u>Securities held-to-maturity</u></b>		
<b>At amortised cost</b>		
Malaysian Government Securities	338,497	344,925
Cagamas Bonds	60,172	60,255
Khazanah Bonds	8,144	8,018
Negotiable Instruments of Deposit	-	60,000
	406,813	473,198
Quoted Securities		
- Private Debt Securities	56,514	58,557
- Irredeemable Convertible Unsecured Loan Stock ('ICULS')	35,000	40,000
Unquoted Securities		
- Shares	200	200
- Private Debt Securities	934,424	1,012,582
	1,432,951	1,584,537
<b>At cost</b>		
Unquoted Securities		
- Shares	65,415	65,415
- Private Debt Securities	45,539	45,881
	1,543,905	1,695,833
Allowance for impairment of securities	(129,796)	(118,134)
Total securities held-to-maturity	1,414,109	1,577,699
<b>Total securities held</b>	<b>7,323,272</b>	<b>7,768,402</b>

**A11. OTHER ASSETS**

	Group	
	As at 30/06/2006	As at 31/12/2005
	RM'000	RM'000
Clearing Accounts	178,643	5,050
Money order and postal order purchased	1,491	1,758
Accrued income / interest receivable	36,280	28,142
Premium Receivable	23,264	928
Foreclosed properties	80,421	78,037
Derivative assets	21,071	5,972
Other debtors, deposits and prepayments	83,362	97,076
Amount due from life insurance fund	31,200	-
	455,732	216,963
	455,732	216,963

**A12. OTHER LIABILITIES**

	Group	
	As at 30/06/2006	As at 31/12/2005
	RM'000	RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding Programmes of a subsidiary	212,205	260,789
Liabilities directly associated with land held for sale	29,263	29,263
Interest payable	153,837	137,705
Margin and collateral deposits	22,085	16,079
Trust accounts for clients and remisiers	26,207	18,707
Clearing account	29,570	100,232
Defined contribution plan	3,642	6,179
Accrued employee benefits	1,853	5,385
Derivative liabilities	9,204	2,057
Other creditors and accruals	230,942	218,632
Balance of cash consideration on acquisition of life insurance business	108,900	-
Profit equalisation reserve	1,001	5,707
Provision for zakat	2,359	3,341
	831,068	804,076
	831,068	804,076

**A13. INTEREST INCOME**

	Group			
	Current Financial Quarter ended 30/06/2006	Preceding Year Financial Quarter ended 30/06/2005	Current Year- to-date 30/06/2006	Preceding Year-to-date 30/06/2005
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPL	244,947	234,291	473,631	463,551
- Recoveries from NPL	23,487	18,057	42,147	50,799
Money at call and deposit placement with financial institutions	43,971	34,938	66,932	60,700
Securities				
- Held-for-trading	6,688	35,655	13,882	56,585
- Available-for-sale	34,389	12,757	64,062	32,118
- Held-for-maturity	10,724	9,714	21,713	20,613
Others	6	54	11	64
	364,212	345,466	682,378	684,430
Accretion of discount less amortisation of premium	15,636	8,512	30,813	13,634
	379,848	353,978	713,191	698,064



#### A14. INTEREST EXPENSE

	Group			
	Current Financial Quarter ended 30/06/2006 RM'000	Preceding Year Financial Quarter ended 30/06/2005 RM'000	Current Year- to-date 30/06/2006 RM'000	Preceding Year-to-date 30/06/2005 RM'000
Deposits and placements of banks and other financial institutions	10,431	12,426	23,166	22,793
Deposits from customers	168,549	119,779	305,379	245,057
Subordinated term loan	8,476	9,100	16,860	18,100
Loans sold to Cagamas	11,096	7,482	23,565	24,928
Others	15,249	26,756	13,491	37,256
	213,801	175,543	382,461	348,134

#### A15. OTHER OPERATING INCOME

##### Fees income:

- Fees on loans, advances and financing	558	1,459	952	2,913
- Net Brokerage	12,235	9,013	23,013	19,970
- Portfolio management fees	103	67	206	678
- Corporate advisory fees	1,091	1,782	4,494	2,936
- Commission	3,901	4,167	8,372	9,185
- Service charges and fees	13,427	12,949	26,133	28,704
- Guarantee fees	4,796	6,076	8,608	14,385
- Other fee income	1,155	1,453	2,628	4,761
	37,266	36,966	74,406	83,532

##### Investment income:

##### Gains/(losses) arising from sales of securities

- Held-for-trading	(3,971)	(23,936)	(4,410)	(22,165)
- Available-for-sale	3,777	13,875	7,826	21,732
- Held-to-maturity	237	383	320	3,852

##### Net trading income from money market instruments

	(153)	(634)	-	-
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##### Unrealised gains/(losses) on revaluation of securities held-for-trading

	(594)	10,444	(346)	12,261
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##### Gains/(losses) on revaluation of derivatives:

- realised	(1,463)	(58)	255	3,043
- unrealised	5,277	(1,390)	5,236	(1,495)
	3,110	(1,316)	8,881	17,228

##### Dividend income:

- Held-for-trading securities	-	393	1	398
- Available-for-sale securities	8	548	9	907
- Held-to-maturity securities	1,059	701	1,426	796
	1,067	1,642	1,436	2,101

##### Other income:

##### Foreign exchange gains/(losses):

- realised	11,875	12,203	17,600	12,354
- unrealised	(531)	(3,535)	2,703	1,382

##### Gain on disposal of property, plant and equipment

	1,963	2,855	1,963	2,929
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##### Other non-operating income

	8,286	2,136	12,522	9,171
	21,593	13,659	34,788	25,836

#### **Total Other Operating Income**

	<b>63,036</b>	<b>50,951</b>	<b>119,511</b>	<b>128,697</b>
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**A16. OTHER OPERATING EXPENSES**

	Group			
	Current Financial Quarter ended 30/06/2006 RM'000	Preceding Year Financial Quarter ended 30/06/2005 RM'000	Current Year- to-date 30/06/2006 RM'000	Preceding Year-to-date 30/06/2005 RM'000
<u>Personnel costs</u>				
Wages, salaries and bonus	51,274	48,442	105,248	97,308
Defined contribution plan	7,717	6,024	15,806	13,697
Termination benefits	3,000	3,750	6,000	11,883
Other personnel costs	10,647	7,544	15,719	13,722
	72,638	65,760	142,773	136,610
<u>Promotion and marketing-related expenses</u>				
Business promotion and advertisement	590	1,305	1,169	1,908
Entertainment	562	852	995	1,202
Travelling and accomodation	1,025	694	1,720	1,115
Dealers' handling fees	6,807	3,269	13,735	10,311
Commission	5	12	5	14
Brokerage fees	4	63	16	103
Others	1,351	6,311	2,742	8,598
	10,344	12,506	20,382	23,251
<u>Establishment-related expenses</u>				
Rental of premises	6,253	6,251	12,480	12,725
Equipment rental	1,279	1,329	2,247	2,435
Repair and maintenance	7,881	8,194	14,051	15,406
Depreciation	10,853	15,512	21,329	27,702
Others	10,333	7,700	18,641	14,269
	36,599	38,986	68,748	72,537
<u>General administrative expenses</u>				
Telecommunication expenses	2,359	1,393	4,662	4,382
Auditors' remuneration	329	238	756	431
Professional fees	2,005	4,685	3,813	9,133
Property, plant & equipment written off	371	512	447	635
Others	9,679	10,848	18,007	17,631
	14,743	17,676	27,685	32,212
<b>Total other operating expenses</b>	<b>134,324</b>	<b>134,928</b>	<b>259,588</b>	<b>264,610</b>
<u>Statutory Disclosures:-</u>				
Director's Remuneration	1,048	475	1,523	695
Rental of premises	6,253	6,251	12,480	12,725
Hire of equipment	1,279	1,329	2,247	2,435
Auditors' Remuneration:				
(i) Statutory audit				
- current year	103	176	496	351
- underprovision in previous years	60	-	60	-
(ii) Others	166	48	200	66
Depreciation of property, plant and equipment	10,853	15,512	21,329	27,702
Dealers' handling fees	6,807	3,269	13,735	10,311
Property, plant and equipment written off	371	512	447	635
Provision for impairment losses on foreclosed properties	-	-	-	70

#### A17. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	Group			
	Current Financial Quarter ended 30/06/2006 RM'000	Preceding Year Financial Quarter ended 30/06/2005 RM'000	Current Year- to-date 30/06/2006 RM'000	Preceding Year-to-date 30/06/2005 RM'000
<u>Allowance for bad and doubtful debts</u>				
<u>on loans and financing:-</u>				
Specific allowance				
- Made during the financial year	107,442	75,004	172,005	125,522
- Written back	(17,592)	(85,625)	(33,507)	(101,742)
General allowance (net)	(40,361)	2,742	(41,638)	(2,973)
<u>Bad debts:-</u>				
- recovered	(21,860)	(42,513)	(37,736)	(73,680)
- written off	1,409	83,476	1,979	84,593
Losses arising from NPLs sold to Danaharta:-				
- written back on final settlement	-	(24,100)	-	(24,100)
(Writeback)/allowance for bad & doubtful debts:				
- trade debtors	(99)	1,450	(160)	1,425
- other debtors	245	51	831	(21)
	29,184	10,485	61,774	9,024

#### A18. IMPAIRMENT LOSSES

Allowance made for impairment loss				
- Securities available-for-sale	5,945	3	5,945	6,036
- Securities held-to-maturity	6,440	-	10,859	-
	12,385	3	16,804	6,036

#### A19. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The Group's and the Company's property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

There were no changes in the valuation of property, plant and equipment that were brought forward from the previous audited financial statements from the year ended 31 December 2005.

#### A20. SUBSEQUENT MATERIAL EVENT

There were no subsequent material events after the Balance Sheet date, other than those disclosed in Note B8.

## A21. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the financial quarter under review, other than the following:-

(a) **Establishment of an Islamic Banking subsidiary, namely AFFIN Islamic Bank Berhad ('AIBB') by AFFIN Bank Berhad ('ABB')**

On 9 March 2005, the Company announced that the Minister of Finance ('MOF') has granted its approval-in-principle for its subsidiary company, ABB to undertake Islamic Banking business through a subsidiary to be established by ABB. In this regard, MOF has also agreed to issue an Islamic Banking licence to ABB pursuant to Section 3(4) of the Islamic Banking Act, 1983. Accordingly, approval is also given pursuant to Section 29 of the Banking and Financial Institutions Act, 1989 for ABB to establish a subsidiary to undertake the Islamic banking business.

A wholly-owned subsidiary, namely AFFIN Islamic Bank Berhad ('AIBB') had been incorporated by ABB on 19 September 2005 and MOF had on 18 January 2006 issued the Islamic Banking licence to AIBB pursuant to Section 3(4) of the Islamic Banking Act 1983. The effective date of the licence commences on 1 April 2006.

On 16 January 2006, ABB entered into a Business Transfer Agreement ('BTA') with AIBB for the sale and transfer of assets and liabilities of the Islamic Banking business (save for the non-performing loans and accounts comprising part of the Islamic Banking business of ABB as at the transfer date) ('Proposed Transfer') from ABB to AIBB for cash. The consideration for the Proposed Transfer would be based on the net book value of the Islamic Banking business as at the date of transfer, to be satisfied entirely by cash.

Pursuant to the Vesting Order obtained from the High Court of Malaya on 20 March 2006, the assets and liabilities of the Islamic banking business of ABB as defined in the BTA, had been transferred to and vested in AIBB on 1 April 2006.

AFFIN Islamic Bank commenced its business operations on 3 April 2006, being the first business day after the transfer and vesting exercise on 1 April 2006.

(b) **Establishment of a joint venture (51% owned) company, namely AXA AFFIN Life Insurance Berhad to undertake the life insurance business in Malaysia ("Proposed JV") and proposed acquisition of life insurance business of Tahan Insurance Malaysia Berhad ("Proposed Acquisition")**

On 18 November 2005, AFFIN Holdings Berhad ("AHB"), National Mutual International Pty Ltd ("NMI"), a wholly owned subsidiary of AXA Asia Pacific Holdings Limited ("AXA") and Tahan Insurance Malaysia Berhad ("Tahan") had entered into a conditional business transfer agreement ("BTA") for the Proposed Acquisition. AHB and NMI (together as the "Purchaser") are contracting as promoters of a company to be incorporated ("NewCo") which when incorporated will assume their rights and obligations under the BTA.

The Proposed Acquisition would involve the acquisition by the Purchaser of the life insurance business of Tahan ("Life Business") for a cash consideration of RM121 million ("Total Consideration"), comprising the following:-

- i) RM89.8 million; and
- ii) RM31.2 million; being the amount owing by the life fund of the Life Business to Idaman Unggul Berhad, the shareholder of Tahan.

AHB had on 7 February 2006 entered into a conditional joint venture agreement with NMI in relation to the proposed joint venture ('Proposed JV') to undertake the life insurance business in Malaysia pursuant to the Proposed Acquisition and the joint venture company namely AXA AFFIN Life Insurance Berhad ("AXA AFFIN Life") had been incorporated on 15 February 2006.

On 10 May 2006, the Company acquired and subscribed for fifty-one (51) ordinary shares of RM1.00 each, representing 51% of the issued and paid-up capital of AXA AFFIN Life for a cash consideration of RM51. The balance forty-nine ordinary shares of RM1.00 each in AXA AFFIN Life representing 49% equity interest is held by AXA. The issued and paid-up share capital of AXA AFFIN Life was subsequently increased from RM100 to RM133,100,100 on 15 June 2006 and thereafter to RM218,000,100 on 9 August 2006 by way of the following allotments of shares to AHB and NMI according to their percentage shareholdings in AXA AFFIN Life of 51% and 49% respectively:-

**A21. CHANGES IN THE COMPOSITION OF THE GROUP (cont.)**

**(b) Establishment of a joint venture (51% owned) company, namely AXA AFFIN Life Insurance Berhad to undertake the life insurance business in Malaysia ("Proposed JV") and proposed acquisition of life insurance business of Tahan Insurance Malaysia Berhad ("Proposed Acquisition") (cont.)**

- (i) Allotment of 133,100,000 new ordinary shares of RM1.00 each at par, among which 67,881,000 new ordinary shares to AHB and the balance of 65,219,000 new ordinary shares to NMI on 15 June 2006;
- (ii) Allotment of 84,900,000 new ordinary shares of RM1.00 each at par, among which 43,299,000 new ordinary shares to AHB and 41,601,000 new ordinary shares to NMI on 9 August 2006.

On 12 June 2006, the Kuala Lumpur High Court of Malaya had given an Order under Sections 128(1), 133(1) and 135 of the Insurance Act 1996 confirming the scheme of transfer involving, inter alia, the sale and transfer of the life insurance business of Tahan to AXA AFFIN Life. Pursuant to the Order, the Life Business shall be transferred to AXA AFFIN Life on 30 June 2006.

With the issuance of the licence by the Ministry of Finance on 30 June 2006 for AXA AFFIN Life to carry on life insurance business and all the requisite approvals obtained for the Proposed Acquisition and Proposed JV, all the conditions precedent in the conditional business transfer agreement dated 18 November 2005 had been fulfilled and the Proposed Acquisition is thus deemed completed on 30 June 2006. Consequently, the life insurance business of Tahan is transferred to AXA AFFIN Life and AXA AFFIN Life will be able to offer its life insurance products and services effective from 30 June 2006.

The carrying amount of the assets and liabilities of the life business acquired by AXA AFFIN Life as at 30 June 2006 are summarised below:

	<u>RM '000</u>
Life business assets	215,832
Life business liabilities	42,489
Life policyholders' funds	162,673
Asset revaluation reserve	10,670
	<u>215,832</u>
Net assets of life business	-
Amount owing by life funds to shareholders	31,200
Excess of purchase consideration over the carrying amounts of net assets acquired	89,800
Total purchase consideration	<u>121,000</u>

The Group is currently in the process of assessing the fair values of the assets and liabilities of the life insurance business acquired and identifying the intangible assets relating to the life business acquired. Any consequential adjustments will be made by the Group accordingly in the current financial year.

## A22. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

GROUP	Current financial quarter ended 30/06/2006			Previous financial year ended 31/12/2005		
	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
Direct credit substitutes	417,890	417,890	417,890	348,481	348,481	342,932
Transaction-related contingent items	2,184,636	1,092,318	1,092,318	2,354,770	1,177,385	1,177,385
Short-term self-liquidating trade-related contingencies	4,139,502	827,900	188,384	4,397,559	879,512	161,080
Obligations under underwriting agreements	497,278	389,077	389,077	467,362	233,681	233,681
Foreign exchange related contracts						
- Less than one year	1,860,368	22,853	6,636	2,114,201	27,989	8,271
Interest rate related contracts						
- Less than one year	3,872,070	23,098	11,549	3,577,000	2,543	1,272
- One year to less than five years	-	-	-	2,099,556	9,465	4,732
- Five years and above	-	-	-	-	-	-
Irrevocable commitments to extend credit:						
- Maturity exceeding 1 year	2,401,623	1,200,812	1,118,783	5,058,142	2,529,072	733,118
- Maturity not exceeding 1 year	6,678,406	-	-	4,781,185	-	-
	<b>22,051,773</b>	<b>3,973,948</b>	<b>3,224,637</b>	<b>25,198,256</b>	<b>5,208,128</b>	<b>2,662,471</b>

\* The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

**A23. INTEREST / PROFIT RATE RISK**

GROUP	Non-trading Book						Trading Book	Total	Weighted average interest rate (%)
	Up to 1	1-3	> 3-12	> 1-5	Over 5	Non-interest			
	month	months	months	years	years	bearing			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>30/06/2006</b>									
<b>ASSETS</b>									
Cash & short-term funds	6,285,491	-	-	-	-	309,360	-	<b>6,594,851</b>	3.73
Deposits & placements with banks and other financial institutions	27,591	136,254	37,267	-	-	-	-	<b>201,112</b>	3.61
Securities held for trading	-	-	-	-	-	-	70,347	<b>70,347</b>	5.37
Securities available-for-sale	736,003	695,081	994,947	2,774,182	637,277	1,326	-	<b>5,838,816</b>	4.27
Securities held-to-maturity	6,317	15,006	118,188	790,928	236,570	247,100	-	<b>1,414,109</b>	3.47
Loans, advance & financing									
- Performing	7,271,312	1,054,085	1,393,237	3,886,492	1,465,516	(285,401)	-	<b>14,785,241</b>	8.11
- Non-performing	-	-	-	-	-	2,326,684	-	<b>2,326,684</b>	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	764,097	-	<b>764,097</b>	
Land held for sale	-	-	-	-	-	89,280	-	<b>89,280</b>	
Other assets	3,358	14,438	5	51	-	2,371,571	-	<b>2,389,423</b>	
Tax recoverable	-	-	-	-	-	88,766	-	<b>88,766</b>	
Life fund assets	-	-	-	-	-	237,069	-	<b>237,069</b>	
<b>TOTAL ASSETS</b>	<b>14,330,072</b>	<b>1,914,864</b>	<b>2,543,644</b>	<b>7,451,653</b>	<b>2,339,363</b>	<b>6,149,852</b>	<b>70,347</b>	<b>34,799,795</b>	
<b>LIABILITIES, INSURANCE RESERVES AND EQUITY</b>									
Deposits from customers	13,951,552	4,934,773	5,337,144	146,981	-	-	-	<b>24,370,450</b>	3.20
Deposits & placements of banks and other financial institutions	550,026	190,000	36,795	-	-	-	-	<b>776,821</b>	4.43
Obligations on securities sold on repurchase agreements	2,331,907	9,107	-	-	-	-	-	<b>2,341,014</b>	3.45
Bills and acceptance payable	194,350	212,830	53,885	-	93,335	-	-	<b>554,400</b>	3.82
Amount due to Cagamas	33,338	23,449	193,050	655,301	-	-	-	<b>905,138</b>	4.10
Borrowings	9,961	-	120,000	1,033,530	-	-	-	<b>1,163,491</b>	5.77
Other liabilities	26,234	-	-	-	-	1,081,448	16,503	<b>1,124,185</b>	
Provision for taxation	-	-	-	-	-	643	-	<b>643</b>	
Life business liabilities	-	-	-	-	-	63,726	-	<b>63,726</b>	
<b>TOTAL LIABILITIES</b>	<b>17,097,368</b>	<b>5,370,159</b>	<b>5,740,874</b>	<b>1,835,812</b>	<b>93,335</b>	<b>1,145,817</b>	<b>16,503</b>	<b>31,299,868</b>	

**A23. INTEREST / PROFIT RATE RISK (cont.)**

<b>GROUP</b>	<b>Non-trading Book</b>						<b>Trading Book</b>	<b>Total</b>	<b>Weighted average interest rate (%)</b>
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
<b>30/06/2006</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>INSURANCE RESERVES</b>									
Life policyholders' funds	-	-	-	-	-	162,673	-	<b>162,673</b>	
Asset revaluation reserve	-	-	-	-	-	10,670	-	<b>10,670</b>	
	-	-	-	-	-	173,343	-	<b>173,343</b>	
<b>EQUITY</b>									
Shareholders' Funds	-	-	-	-	-	3,261,365	-	<b>3,261,365</b>	
Minority's Interests	-	-	-	-	-	65,219	-	<b>65,219</b>	
<b>Total liabilities and shareholders' funds</b>	<b>17,097,368</b>	<b>5,370,159</b>	<b>5,740,874</b>	<b>1,835,812</b>	<b>93,335</b>	<b>4,645,744</b>	<b>16,503</b>	<b>34,799,795</b>	
On balance sheet- interest sensitivity gap	(2,767,296)	(3,455,295)	(3,197,230)	5,615,841	2,246,028	1,504,108	53,844	-	
Off balance sheet- interest sensitivity gap	234,871	194,902	(291,015)	(53,758)	(85,000)	-	-	-	
<b>Total interest sensitivity gap</b>	<b>(2,532,425)</b>	<b>(3,260,393)</b>	<b>(3,488,245)</b>	<b>5,562,083</b>	<b>2,161,028</b>	<b>1,504,108</b>	<b>53,844</b>	<b>-</b>	



**A23. INTEREST / PROFIT RATE RISK (cont.)**

	Non-trading Book						Trading Book	Total	Weighted average interest rate (%)
	Up to 1 month	1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-interest bearing			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
<b>31/12/2005</b>									
<b>Assets</b>									
Cash and short-term funds	3,196,287	-	-	-	-	148,624	-	<b>3,344,911</b>	3.05
Deposits & placements with banks and other financial institutions	65,237	252,966	5,719	-	-	-	-	<b>323,922</b>	3.04
Securities held for trading	-	-	-	-	-	-	1,300,447	<b>1,300,447</b>	3.67
Securities available-for-sale	225,351	672,195	1,450,938	2,399,033	94,711	48,028	-	<b>4,890,256</b>	3.43
Securities held-to-maturity	171,473	-	35,814	788,323	288,303	293,786	-	<b>1,577,699</b>	2.92
Loans, advances and financing									
- performing	6,256,577	858,993	1,547,691	4,066,236	2,109,096	(327,039)	-	<b>14,511,554</b>	7.40
- non-performing	-	-	-	-	-	2,461,655	-	<b>2,461,655</b>	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	665,715	-	<b>665,715</b>	
Land held for sale	-	-	-	-	-	89,280	-	<b>89,280</b>	
Other assets	6,938	15,239	32	2,830	678	1,864,192	5,030	<b>1,894,939</b>	
Tax recoverable	-	-	-	-	-	128,091	-	<b>128,091</b>	
<b>Total assets</b>	<b>9,921,863</b>	<b>1,799,393</b>	<b>3,040,194</b>	<b>7,256,422</b>	<b>2,492,788</b>	<b>5,372,332</b>	<b>1,305,477</b>	<b>31,188,469</b>	
<b>Liabilities</b>									
Deposits from customers	11,235,252	4,948,705	4,711,121	569,466	-	-	-	<b>21,464,544</b>	2.99
Deposits and placements of banks and other financial institutions	862,585	255,000	56,685	-	-	-	-	<b>1,174,270</b>	3.04
Obligations on securities sold under repurchase agreements	1,455,006	21,883	-	-	-	-	-	<b>1,476,889</b>	2.26
Bills and acceptances payable	137,271	212,356	35,193	-	-	95,754	-	<b>480,574</b>	3.03
Amount due to Cagamas	-	36,143	402,269	802,748	-	-	-	<b>1,241,160</b>	4.11
Borrowings	314,931	-	160,000	748,530	-	-	-	<b>1,223,461</b>	6.07
Other liabilities	18,958	165	1,371	84	-	900,506	-	<b>921,084</b>	
Provision for taxation	-	-	-	-	-	55	-	<b>55</b>	
<b>Total liabilities</b>	<b>14,024,003</b>	<b>5,474,252</b>	<b>5,366,639</b>	<b>2,120,828</b>	<b>-</b>	<b>996,315</b>	<b>-</b>	<b>27,982,037</b>	
Shareholders' Funds	-	-	-	-	-	3,206,432	-	<b>3,206,432</b>	
<b>Total liabilities and shareholders' funds</b>	<b>14,024,003</b>	<b>5,474,252</b>	<b>5,366,639</b>	<b>2,120,828</b>	<b>-</b>	<b>4,202,747</b>	<b>-</b>	<b>31,188,469</b>	
On balance sheet- interest sensitivity gap	(4,102,140)	(3,674,859)	(2,326,445)	5,135,594	2,492,788	1,169,585	1,305,477	-	
Off balance sheet- interest sensitivity gap	242,556	441,000	(379,000)	(304,556)	-	-	-	-	
<b>Total interest sensitivity gap</b>	<b>(3,859,584)</b>	<b>(3,233,859)</b>	<b>(2,705,445)</b>	<b>4,831,038</b>	<b>2,492,788</b>	<b>1,169,585</b>	<b>1,305,477</b>	<b>-</b>	

## A24. CAPITAL ADEQUACY

The capital adequacy ratios in respect of the banking subsidiaries are as follows:-

	Group	
	As at 30/06/2006 RM'000	As at 31/12/2005 RM'000
<b><u>Tier I Capital</u></b>		
Paid-up share capital	1,477,783	1,477,783
Share premium	394,407	394,407
Retained profits	256,175	284,045
Statutory reserve	336,310	336,310
	2,464,675	2,492,545
less: Goodwill	(137,323)	(137,323)
Deferred tax assets/(liabilities)	(130,039)	(130,039)
<b>Total Tier 1 capital (a)</b>	<b>2,197,313</b>	<b>2,225,183</b>
<b><u>Tier II Capital</u></b>		
Subordinated loans/financing	500,000	500,000
General allowance for bad and doubtful debts and financing	284,734	326,622
<b>Total Tier 2 capital (b)</b>	<b>784,734</b>	<b>826,622</b>
Total capital (a) + (b)	2,982,047	3,051,805
less: Investment in subsidiaries	(39,497)	(39,497)
<b>Capital base</b>	<b>2,942,550</b>	<b>3,012,308</b>
<b><u>Before deducting proposed dividends:</u></b>		
Core capital ratio	9.94%	10.58%
Risk-weighted capital ratio	13.32%	14.32%
<b><u>After deducting proposed dividends:</u></b>		
Core capital ratio	9.94%	10.43%
Risk-weighted capital ratio	13.32%	14.18%

The capital adequacy ratios of the Group as at 31 December 2005 have incorporated the market risk pursuant to the Bank Negara Malaysia's Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

In view of the adjustment made on the risk-weighted assets by AFFIN Bank Berhad, the Group's risk-weighted capital ratios ('RWCR') as at 31 December 2005 had been restated as follows:-

	As at 31 December 2005	
	As previously reported	As restated
<b><u>Before deducting proposed dividends:</u></b>		
Core capital ratio	11.51%	10.58%
Risk-weighted capital ratio	15.58%	14.32%
<b><u>After deducting proposed dividends:</u></b>		
Core capital ratio	11.35%	10.43%
Risk-weighted capital ratio	15.43%	14.18%

**A26. OPERATIONS OF ISLAMIC BANKING**

(i) **Unaudited Islamic Balance Sheet**

	<b>GROUP</b>	
	<b>Current Financial Quarter Ended 30/06/2006 RM'000</b>	<b>Previous Financial Year Ended 31/12/2005 RM'000</b>
<b>ASSETS</b>		
Cash and short term funds	660,994	1,307,396
Deposits and placements with financial institutions	70,000	140,000
Securities held for trading	-	61,126
Securities available-for-sale	531,565	534,857
Securities held-to-maturity	91,316	92,593
Loans, advances and financing	1,152,196	1,503,899
Statutory deposit with Bank Negara Malaysia	40,000	75,000
Other assets	94,114	16,847
Property, plant and equipment	109	14
<b>TOTAL ASSETS</b>	<b>2,640,294</b>	<b>3,731,732</b>
<b>LIABILITIES, ISLAMIC BANKING FUNDS</b>		
Deposits from customers	1,915,350	2,038,344
Deposits and placements of banks and other financial institutions	98,000	100,600
Bills and acceptances payable	5,001	2,014
Other liabilities	364,872	1,188,149
Provision for tax and zakat	2,359	3,341
<b>Total Liabilities</b>	<b>2,385,582</b>	<b>3,332,448</b>
Total Islamic Banking Capital Funds	254,712	399,284
<b>TOTAL LIABILITIES &amp; ISLAMIC BANKING FUNDS</b>	<b>2,640,294</b>	<b>3,731,732</b>
	-	-
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>5,054,052</b>	<b>4,966,285</b>

**A26. OPERATIONS OF ISLAMIC BANKING (cont.)**

<b>(ii) <u>Unaudited Islamic Income Statement</u></b>	<b>GROUP</b>			
	<b>Current Year Quarter</b>	<b>Preceding Year Corresponding Quarter</b>	<b>Current year- to-date</b>	<b>Preceding Year- to-date</b>
	<b>30/06/2006</b>	<b>30/06/2005</b>	<b>30/06/2006</b>	<b>30/06/2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of depositors' funds and others	34,717	43,545	68,407	99,338
Allowance for losses on financing	(1,121)	3,344	(3,418)	8,046
Transfer from/(to) profit equalisation reserve	(1,000)	(5,228)	4,707	(18,763)
	<u>32,596</u>	<u>41,661</u>	<u>69,696</u>	<u>88,621</u>
Income attributable to depositors	(12,338)	(21,376)	(37,887)	(44,454)
Income attributable to shareholders	20,258	20,285	31,809	44,167
Income derived from investment of Islamic banking capital funds	2,709	7,368	8,308	12,518
	<u>22,967</u>	<u>27,653</u>	<u>40,117</u>	<u>56,685</u>
Other operating expenses	(7,986)	(897)	(9,384)	(1,983)
Profit before tax and zakat	14,981	26,756	30,733	54,702
Taxation	(4,302)	(210)	(4,302)	(1,023)
Zakat	-	(354)	-	(709)
Net profit for the financial period	<u>10,679</u>	<u>26,192</u>	<u>26,431</u>	<u>52,970</u>

**(iii) Financing**

<b><u>BY TYPE</u></b>	<b>Group</b>	
	<b>As at 30/06/2006</b>	<b>As at 31/12/2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash line	58,051	58,229
Term financing		
Housing financing	1,049,511	1,394,578
Syndicated term financing	15,588	23,549
Hire purchase receivables	286,191	268,161
Other term financing	337,485	514,175
Bills financing	2,037	5,003
Trust receipts	68,115	71,824
Interest-free accepted bills	38,860	52,432
Staff financing	12,741	12,081
Revolving credit	11,646	95,143
	<u>1,880,225</u>	<u>2,495,175</u>
less: Unearned income	(704,103)	(860,412)
	<u>1,176,122</u>	<u>1,634,763</u>
less: Allowance for bad and doubtful debts and financing		
- General	(21,893)	(28,717)
- Specific	(2,033)	(102,147)
<b>Total net financing</b>	<u><b>1,152,196</b></u>	<u><b>1,503,899</b></u>

**A26. OPERATIONS OF ISLAMIC BANKING (cont.)**

**(iv) Non-performing financing (NPF)**

Movements in non-performing financing (including income receivables):

	<b>GROUP</b>	
	<b>As at 30/06/2006 RM'000</b>	<b>As at 31/12/2005 RM'000</b>
Balance at the beginning of financial period/year	481,426	535,782
Classified as non-performing during the period/year	30,939	150,332
Reclassified as performing during the period/year	(15,509)	(73,810)
Financing converted to securities	-	(59,999)
Amount written-off	(688)	(2,619)
Amount written back in respect of recoveries	(4,013)	(68,260)
Amount transferred to Conventional books	(476,021)	-
<b>Balance at the end of financial period/year</b>	<b>16,134</b>	<b>481,426</b>
less: Specific allowance	(2,033)	(102,147)
<b>Net non-performing loans, advances and financing</b>	<b>14,101</b>	<b>379,279</b>
As % of gross loans, advances and financing less specific allowance	1.20%	24.75%

Movements in allowance for bad and doubtful financing:

**General allowance**

Balance at the beginning of financial period/year	28,717	28,555
Allowance made during the period/year	-	283
Amount written back during the period/year	-	(121)
Amount transferred to Conventional books	(6,824)	-
Balance at the end of financial period/year	21,893	28,717
As % of gross loans, advances and financing less specific allowance	1.86%	1.87%

**Specific allowance**

Balance at the beginning of financial period/year	102,147	67,304
Allowance made during the period/year	4,031	52,011
Amount written off	(165)	(1,397)
Amount written back in respect of recoveries	(502)	(15,771)
Amount transferred to Conventional books	(103,478)	-
Balance at the end of financial period/year	2,033	102,147

**(v) Deposits from customers**

	<b>GROUP</b>	
	<b>As at 30/06/2006 RM'000</b>	<b>As at 31/12/2005 RM'000</b>
<u>By type of deposits</u>		
<b>Non-Mudharabah Funds</b>		
Demand deposits	1,238,698	1,191,600
Savings deposits	136,614	153,543
Negotiable Instruments of Deposits	104,835	157,342
	1,480,147	1,502,485
<b>Mudharabah Funds</b>		
Savings deposits	5,638	6,194
General investment deposits	429,565	529,665
	435,203	535,859
	1,915,350	2,038,344

## **Part B - Explanatory Notes pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad**

### **B1. REVIEW OF PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES**

The Group posted a pre-tax profit of RM75.2 million for the second quarter ended 30 June 2006, a drop of RM26.6 million or 26.2% as compared to RM101.8 million for the corresponding quarter ended 30 June 2005. For the six months ended 30 June 2006, the Group's pre-tax profit of RM145.1 million also indicated a decrease of RM88.2 million as compared to RM233.3 million for the corresponding period last year. This was mainly due to lower operating income, higher loan loss provision, higher impairment loss on securities, net of the savings in both finance cost and overhead expenses for the period under review.

AFFIN Bank Berhad ('ABB') group recorded a lower pre-tax profit of RM78.9 million for the current financial quarter as compared to RM79.7 million for the preceding year's corresponding quarter. For the six months ended 30 June 2006, the Group's pre-tax profit of RM143.4 million also indicated a drop of RM11.6 million as compared to RM155.0 million for the previous year's corresponding period. This was mainly due to the loan loss provision of RM64.9 million, higher overhead expenses as a result of the merger with AFFIN-ACF Finance Berhad ('AAFB') and lower Islamic banking income of RM8.7 million for the current financial period under review. The net interest income however increased by RM82.7 million on the enlarged loan base mainly arising from the merger with AAFB while the other operating income rose by RM14.0 million due to higher gains on foreign exchange and revaluation of derivative instruments. In addition, there was a writeback from profit equalisation reserve of RM4.7 million during the year.

For the six months ended 30 June 2006, AFFIN-ACF Holdings Sdn Bhd group reported a pre-tax profit of RM47,000 as opposed to the pre-tax loss of RM26.1 million for the corresponding period last year. The pretax loss in the previous year's corresponding period was mainly due to the goodwill written off of RM55.1 million upon the transfer of finance company business of AFFIN-ACF Finance Berhad to AFFIN Bank Berhad on 1 June 2005, net of the operating profit of RM29.4 million registered for the said period.

AFFIN Investment Bank Berhad's (formerly known as AFFIN Merchant Bank Berhad) group reported a lower pre-tax profit of RM2.7 million for the current financial quarter as compared to RM18.4 million for the preceding year's corresponding quarter. As at 30 June 2006, the group's pre-tax profit of RM14.4 million also indicated a drop of RM26.4 million or 64.7% as compared to RM40.8 million for the same period last year. This was mainly due to the drop in both Islamic banking income and non-interest income of RM11.8 million and RM10.6 million attributable to lower gains on sales of securities, impairment loss on securities of RM6.1 million, higher overhead expenses of RM4.7 million and lower write-back of loan loss provision of RM2.2 million, cushioned by the increase in net interest income of RM6.4 million or 45.9% for the period under review. In year 2005, the disposals of investments were part of the Bank's strategies to reduced its trading and available-for-sale securities and thus, contributed to higher gains on sales of securities for the said

AFFIN Discount Berhad registered a pre-tax loss of RM8.5 million for the current financial quarter as opposed to the pre-tax profit of RM5.4 million for the same quarter last year. For the half year ended 30 June 2006, the company also registered a pre-tax loss of RM7.1 million as compared to the pre-tax profit of RM15.6 million for the same period last year. This was mainly due to lower operating income, loss on sales of securities and higher overhead expenses due to additional provision for termination benefits for the period under review. The current performance of AFFIN Discount Berhad is in line with the company's intention to surrender its discount house licence to Bank Negara Malaysia and transfer its assets and liabilities to AFFIN Investment Bank Berhad by 1 July 2006.

AFFIN Moneybrokers Sdn Bhd posted a lower pre-tax profit of RM275,000 for the financial quarter ended 30 June 2006 as compared to RM508,000 for the same quarter last year. For the six months ended 30 June 2006, the company however recorded a higher pre-tax profit of RM1.1 million as compared to RM0.9 million for the preceding year's corresponding period, mainly due to higher brokerage income net of higher overheads incurred during the period under review.

AFFIN Capital Holdings Sdn Bhd group recorded a pre-tax profit of RM2.2 million for the current financial quarter as opposed to the pre-tax loss of RM2.3 million for the same quarter last year. The group's pre-tax profit of RM2.4 million for the six months ended 30 June 2006 also indicated an improvement of RM1.7 million as compared to the pre-tax profit of RM0.7 million for the preceding year's corresponding half year. This was mainly attributable to higher net brokerage income, write-back of loan loss provisions and lower finance cost for the period under review.

**B1. REVIEW OF PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (cont.)**

AFFIN Fund Management group posted a pre-tax profit of RM3.3 million for the financial quarter ended 30 June 2006 as opposed to a pre-tax loss of RM0.4 million for the same quarter last year. As at 30 June 2006, the group's pre-tax profit of RM3.3 million indicated an improvement of RM3.8 million as compared to the pre-tax loss of RM0.5 million for the same period last year. This was mainly attributable to higher management fees and upfront fees on higher sales of unit trust and lower overhead expenses for the period under review.

**B2. COMMENTS ON CURRENT FINANCIAL PERFORMANCE AGAINST THE PRECEDING QUARTER'S RESULTS**

The Group recorded a higher pre-tax profit of RM75.2 million for the current financial quarter as compared to RM69.9 million for the preceding quarter ended 31 March 2006. This was mainly attributable to higher operating income and lower loan loss provision of RM19.3 million and RM3.4 million respectively, partially offset by the increase in both overhead expenses and impairment loss on securities of RM9.1 million and RM8.0 million for the period under review.

**B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR**

Barring any unforeseen circumstances, the Group is expected to achieve satisfactory results for year 2006.

**B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT**

There were no profit forecast and profit guarantee issued by the Company for the financial quarter under review.

**B5. TAXATION**

	Group			
	Current financial quarter ended	Preceding year corresponding quarter ended	Current year- to-date	Preceding year- to-date
	30/06/2006 RM'000	30/06/2005 RM'000	30/06/2006 RM'000	30/06/2005 RM'000
Malaysian Taxation:				
- Income tax based on profit for the period	1,291	3,238	3,358	11,917
Deferred tax relating to net originating temporary differences	21,663	30,020	40,988	62,954
(Over)/Underprovision in previous year:				
- Current taxation	402	8,220	(4,201)	8,220
- Deferred taxation	(23)	5,991	2,017	5,991
	<b>23,333</b>	<b>47,469</b>	<b>42,162</b>	<b>89,082</b>

The effective tax rate of the Group for the financial period under review is higher than the prevailing statutory tax rate, mainly due to certain expenses being disallowed for tax purposes.

**B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no material gains or losses on disposal of investments or properties other than in the ordinary course of business of the Group.

**B7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

There were no purchases or disposals of quoted securities for the financial period other than in the ordinary course of business of the Group.

## **B8. STATUS OF CORPORATE PROPOSALS**

### **a) Proposed private placement of up to 10% of the issued and paid-up share capital of the Company**

On 5 October 2004, the Company announced that it proposes to undertake a proposed private placement of new ordinary shares of RM1.00 each ('Placement Shares') representing up to 10% of issued and paid-up share capital of AHB to selected investors to be identified later. The issue price of the placement shares will be determined by the Board, based on market based principles and at a level which is in the best interests of the company and would take into account the interests of its shareholders. In any event, the issue price of the placement shares shall not be less than the par value of RM1.00. On 26 November 2004, the Company announced that the SC has approved the proposed private placement, subject to the following conditions:-

- i) The Company is required to inform SC when the proposed private placement is implemented.
- ii) The Company is required to fully comply with other requirements as stipulated in the SC Issues Guidelines in relation to the Proposed Private Placement.

On 9 May 2006, AFFIN Investment Bank Berhad (f.k.a. AFFIN Merchant Bank Berhad) had on behalf of the Company announced that SC had vide its letter dated 30 May 2006 granted a final extension of time to 24 November 2006 for the Company to implement the private placement.

### **b) Proposed acquisition by Boustead Holdings Berhad (Boustead) of the London Assurance Shareholdings in Royal & Sun Alliance Insurance (M) Bhd and Proposed transfer of Boustead's entire shareholdings in Royal & Sun Alliance Insurance (M) Bhd to AXA AFFIN Assurance Berhad**

On 25 July 2005, the Board of Directors of AHB announced that Bank Negara Malaysia had vide its letter dated 21 July 2005 stated that it has no objection in principle for Boustead (a company related to AHB by virtue of LTAT being a common major shareholder in AHB and Boustead) to commence negotiations to acquire the entire 45.0% equity interest held by the London Assurance ('London Assurance') in Royal & Sun Alliance Insurance (M) Bhd ('RoyalSun').

Boustead intends to rationalise its shareholdings in RoyalSun and consolidate its interests in RoyalSun into AXA AFFIN Assurance Berhad, a 40.0% associated company of AFFIN Holdings Berhad thereafter.

Further announcement on the development will be made to Bursa Malaysia Securities Berhad at the appropriate time.

### **c) Proposed establishment of AFFIN Investment Banking Group**

On 25 April 2006, the Company announced that the Minister of Finance, vide the letter dated 20 April 2006 issued by Bank Negara Malaysia ("BNM") and the Securities Commission ("SC"), had approved the establishment of the AFFIN investment banking group ("Proposal") pursuant to the Banking and Financial Institutions Act, 1989 and the Securities Commission Act, 1993, subject to certain conditions therein.

The establishment of the AFFIN investment banking group would involve the three wholly-owned subsidiaries of AFFIN Holdings Berhad ("AHB"), namely AFFIN Merchant Bank Berhad ("AMBB"), AFFIN Securities Sdn Bhd ("ASSB") and AFFIN Discount Berhad ("ADB").

The approval from BNM was also obtained for inter alia, the proposed acquisition by AMBB from AHB of 100% equity interest in AFFIN Fund Management Sdn Bhd ("AFM") and its subsidiary AFFIN Trust Management Berhad ("ATM").

The approval of the SC on behalf of the Foreign Investment Committee ("FIC") was also obtained for the Proposal, under the FIC's Guidelines on Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests.

On 14 June 2006, AFFIN Merchant entered into the Business Transfer Agreement ("BTA") with ADB to acquire certain assets and liabilities of ADB for a purchase consideration to be determined based on the adjusted net tangible assets of ADB as at the day immediately preceding the Transfer Date.



## B8. STATUS OF CORPORATE PROPOSALS (continued)

### c) Proposed Establishment of AFFIN Investment Banking Group (continued)

On 28 June 2006, the Kuala Lumpur High Court of Malaya had given the Order under Section 50 of the Banking and Financial Institutions Act, 1989 confirming the scheme of transfer involving the sale and transfer of the discount house business ("Discount Business") of ADB to AMBB. Pursuant to the Order, the Discount Business was transferred to AMBB on 1 July 2006 ("Transfer Date").

On 30 June 2006, AMBB had also entered into a Sale and Purchase Agreement ("SPA") with AHB to acquire the entire issued and paid-up share capital of AFM for a cash consideration of RM13,740,826 based on the audited consolidated net tangible assets of AFM as at 31 December 2005 ("Acquisition").

All the requisite approvals required for the transfer of Discount Business and AFM Acquisition had been obtained.

The transfer of Discount Business was made pursuant to the Guidelines on Investment Banks jointly issued by Bank Negara Malaysia and the Securities Commission on 1 July 2005, that provide for, amongst others, the creation of investment banks.

### f) Proposed Bank Guaranteed Commercial Papers and/or Medium Term Notes issuance programme of up to RM300.0 Million in nominal value by the Company

On 27 April 2006, the Company announced that it proposes to undertake a Bank Guaranteed Commercial Papers and/or Medium Term Notes (CP/MTN) issuance programme of up to RM300.0 million in nominal value. The Programme will have a tenure of 7 years from the date of first issuance and has been accorded an indicative short term rating of P1 (bg) and long term rating of AAA(bg) by Rating Agency Malaysia Berhad in respect of the RM200 million portion of the programme which is guaranteed by DBS Bank Ltd, Labuan branch.

The proceeds from the Programme will be utilized to refinance the Company's existing borrowings and to finance its general investments and working capital requirements. The Programme had been approved by the Securities Commission vide their letter dated 15 February 2006.

On 11 July 2006, the Company announced the first issuance of the MTNs of RM200 million nominal value under the Programme. Proceeds from the MTNs which were issued for a tenure of 2 years, were utilised to refinance AFFIN's existing term loan facilities maturing on 21 February 2007.

## B9. GROUP BORROWINGS AND DEBT SECURITIES

### (i) Deposits from Customers

	Group	
	As at 30/06/2006 RM'000	As at 31/12/2005 RM'000
<u>By Type of Deposits:-</u>		
Demand Deposits	3,125,404	3,206,455
Savings Deposits	920,371	1,086,355
Fixed / Investment Deposits	17,089,091	14,632,992
Negotiable Instruments of Deposits ('NIDs')	3,235,584	2,538,742
	24,370,450	21,464,544
Maturity structure of fixed deposits and NIDs are as follows:		
Due within six months	17,703,818	14,887,109
Six months to one year	2,472,723	1,726,243
One year to three years	144,525	100,799
Three years to five years	3,609	457,583
	20,324,675	17,171,734
<u>By Type of Customers:-</u>		
Government and statutory bodies	3,909,097	3,614,972
Business enterprises	7,951,948	7,527,096
Individuals	3,705,343	4,310,609
Others	8,804,062	6,011,867
	24,370,450	21,464,544

**B9. GROUP BORROWINGS AND DEBT SECURITIES (cont.)**

**(ii) Deposits and Placements of Banks and Other Financial Institution:**

<u>By Type of Institutions:-</u>	Group	
	As at 30/06/2006 RM'000	As at 31/12/2005 RM'000
Licensed banks	637,335	742,298
Licensed finance companies	40,000	55,975
Licensed merchant banks	17,442	46,880
Bank Negara Malaysia	-	107,814
Other financial institutions	82,044	221,303
	776,821	1,174,270
 <u>By Maturity Structure:-</u>		
Due within six months	776,821	1,174,270

**(iii) Borrowings**

Unsecured		
- One year or less (short-term)	663,491	474,931
- More than one year (medium/long-term)	500,000	748,530
	1,163,491	1,223,461

**B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

Value of contract classified by remaining period to maturity/repricing date (whichever is earlier) as at reporting date are as follows:-

RM'000

Items	Principal Amount	> 1 - 3 months	> 3 - 6 months	> 6 - 12 months	> 1 - 5 years	> 5 years	Margin requirement
<b>Foreign Exchange related contract</b>	<b>1,860,368</b>	<b>1,776,356</b>	<b>73,912</b>	<b>10,100</b>	-	-	-
- Forwards	823,932	780,419	33,413	10,100	-	-	-
- Swaps	1,035,700	995,937	39,763	-	-	-	-
- Options	736	-	736	-	-	-	-
<b>Interest Rate related contract</b>	<b>3,872,070</b>	<b>916,000</b>	<b>744,000</b>	<b>1,529,000</b>	<b>598,070</b>	<b>85,000</b>	<b>94</b>
- Futures purchase	1,400,000	315,000	324,000	568,000	193,000	-	-
- Futures sale	1,491,000	305,000	350,000	676,000	160,000	-	94
- Swaps	981,070	296,000	70,000	285,000	245,070	85,000	-
<b>Total</b>	<b>5,732,438</b>	<b>2,692,356</b>	<b>817,912</b>	<b>1,539,100</b>	<b>598,070</b>	<b>85,000</b>	<b>94</b>

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

## **B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

### **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 amount 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 year, the notional amount of foreign exchange exposure which was not hedged and hence, exposed to market risk was RM3.1 million (FYE 31/12/2005: RM 3.3 million), while the notional amount of interest rate contract was RM680.1 million (FYE 31/12/2005: RM 831.0 million).

### **Credit risk**

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the bank has a gain position. As at the reporting date, the amounts of foreign exchange and interest rate credit risk, measured in term of the cost to replace the profitable contracts, was RM13.8 million (FYE 31/12/2005: RM28.0 million) and RM32.2 million (FYE 31/12/2005: RM12.2 million) respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

### **Related accounting policies**

#### **i. Derivative financial instruments**

Derivatives are initially recognised at fair values at inception and are subsequently remeasured at their fair values. Fair values are obtained from quoted market price in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either : (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flow attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### **a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method used is amortised to income statement over the period to maturity. The adjustments to the carrying amount of a hedged equity security remain in retained earnings until the disposal of the equity securities.

#### **b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income statement (for example, when the projected hedged transaction crystallised). When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

i. **Derivative financial instruments (continued)**

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

ii. **Forward exchange related contracts**

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date applicable to their respective dates of maturity and unrealised losses and gains are recognised in the income statement for the period.

**B11. MATERIAL LITIGATION**

At the date of this report, there were no pending material litigations, which would have materially affected the Group's financial position.

**B12. PROPOSED DIVIDENDS**

No dividend has been declared or paid during the financial period ended 30 June 2006.

**B13. EARNINGS PER SHARE**

	<b>Current Financial Quarter ended 30/06/2006</b>	<b>Group Preceding Year Financial Quarter ended 30/06/2005</b>	<b>Current Year- to-date 30/06/2006</b>	<b>Preceding Year- to-date 30/06/2005</b>
Net profit attributable to equity holders of the parent (RM'000)	<b>51,857</b>	49,293	<b>102,940</b>	130,457
Weighted average number of ordinary share in issue	<b>1,223,979,614</b>	1,206,186,844	<b>1,218,274,653</b>	1,181,639,727
Adjustment for share options	<b>14,558,024</b>	10,766,920	<b>14,558,024</b>	10,766,920
Adjusted weighted average number of ordinary shares for diluted earnings per share	<b>1,238,537,637</b>	1,216,953,764	<b>1,232,832,677</b>	1,192,406,647
Basic earning per share (sen)	<b>4.24</b>	4.09	<b>8.45</b>	11.04
Diluted earnings per share (sen)	<b>4.19</b>	4.05	<b>8.35</b>	10.94

**Basic earnings per share**

The basic earnings per share of the Group for the three months ended 30 June 2006 has been calculated based on the net profit attributable to the equity holders of the parent of RM51,857,000 (30 June 2005: RM49,293,000) divided by the weighted average number of ordinary shares in issue during the financial quarter of 1,223,979,614 (30 June 2005: 1,206,186,844).

The basic earnings per share of the Group for the six months ended 30 June 2006 has been calculated based on the net profit attributable to the equity holders of the parent of RM102,940,000 (30 June 2005: RM130,457,000) divided by the weighted average number of ordinary shares in issue during the financial quarter of 1,218,274,653 (30 June 2005: 1,181,639,727).

### B13. EARNINGS PER SHARE (cont.)

#### Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two categories of dilutive potential ordinary shares: share options granted to employees and warrants convertible into ordinary shares.

The shares option is assumed to be converted into ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the shares options. The difference added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to the net profit for the financial period for the share options calculation.

The conversion of warrants is considered dilutive when they would result in the issue of new ordinary shares for less than market value of the shares. As the current exercise price of the warrants is higher than the market value of the ordinary shares, there is no impact of dilution to the earnings per share. Hence, the warrants are not taken into the computation of diluted earnings per share.

### B14. ECONOMIC PROFIT

	Group			
	Current Financial Quarter ended 30/06/2006 RM'000	Preceding Year Financial Quarter ended 30/06/2005 RM'000	Current Year- to-date 30/06/2006 RM'000	Preceding Year- to-date 30/06/2005 RM'000
Net profit for the financial period	51,857	54,007	102,940	143,519
Less: Economic charge	(100,112)	(86,061)	(198,767)	(168,316)
Economic profit/(loss) for the financial period	<u>(48,255)</u>	<u>(32,054)</u>	<u>(95,827)</u>	<u>(24,797)</u>

#### Formula for calculation of economic charge:

- (i) Economic charge = Cost of equity x Average total equity for the financial period
- (ii) Cost of equity = Beta x Market risk premium + Risk-free rate

Beta = 5-year adjusted Bloomberg Beta

Market risk premium = the market return in excess of the return earned on risk-free assets.

Risk-free rate = the rate of return of a 10-year Malaysian Government Securities at the closing of the reporting period