



Message from Group Managing Director

Delivering consistent growth in shareholders' returns.

Dear Valued Shareholders,

It is my honour and pleasure to write to you all for the first time as the new Group Managing Director of AmBank Group.

As an 'AmBanker' since July 2007, I have had the privilege of participating in the Group's transformational journey towards achieving our Vision - **As Malaysia's preferred diversified, internationally connected financial solutions group, we take pride in growing your future with us**, guided by Tan Sri Azman's vision, Mr Cheah's leadership, committed senior management and with the hard work of the Group's employees.

This year, we stayed true to our strategic priorities for FY2012. We delivered solid growth with profit after tax and minority interest ("PATMI") increasing 12.5% to RM1,510.8 million, our 20th consecutive quarter of profit growth. Profit growth was supported by diversified income streams. Our non-interest income grew 26.3% and now constitutes 35% or RM1,477.8 million of total income. Our current account savings account ("CASA") continued to grow strongly this year at 25.9%, bringing CASA composition to 17% when compared with 11% four years ago.

We have continued to invest in our people and infrastructure to improve customer service. We are a well managed and efficient bank with a cost income ratio of 40.2%.

DIVERSIFICATION AND NEW BUSINESS DEVELOPMENTS: GOOD PROGRESS MADE

Our new business initiatives to boost income have made good progress. In Markets, we realigned our fixed income business and set up a new foreign exchange and derivative business three years ago. Markets division

now contributes about 19% of the Group's net profit, whilst the foreign exchange and derivatives business delivered 38% year-on-year ("YoY") growth.

Last year, we carved out Transaction Banking to focus on cash management and international trade. Cash management expanded 34.4% YoY to RM16.2 billion, whilst trade finance stood at RM4.6 billion, up 11.3%.

The new Family Takaful business ("AmTakaful") with Friends Life commenced operations in January 2012. We are working on leveraging business opportunities in the Malaysian family takaful space focusing on penetrating into a relatively large untapped market.

With the proposed acquisition of Kurnia Insurans (Malaysia) Berhad ("Kurnia") by AmG Insurance Berhad ("AmG"), we will be the largest general and motor insurer in Malaysia. There are substantive cost synergies and supply chain operational efficiencies from the enlarged scale, which will benefit our customers and business partners, as well as AmG. Additionally, the three (3) million policyholders of Kurnia is a ready pool of customers for cross-selling opportunities of AmBank Group's financial products and services, through our extensive distribution footprint.

CUSTOMER CENTRICITY

Serving our customers well is the cornerstone of our strategy and embedded into our operational objectives. We realise that simply providing you with good service today does not guarantee your business will stay with us. We face fierce competition in all of our markets and our customers' needs continue to evolve.



We continue investing into our infrastructure platforms to improve our customer service, but importantly deliver more innovative products to meet our customers' needs.

AmSignature Priority Banking was recently launched to provide our affluent retail customers preferential treatment and instant regional connectivity access. AmBank-ANZ Get Set is another new solution which makes it easy for customers to complete most of the formalities at any AmBank branch locally for opening an Australia and New Zealand Banking Group ("ANZ") account in Australia. Our customers enjoy low remittance fee, preferential foreign exchange rate, e-remittance and double AmBonus credit card points.

The strategic partnership with Western Union enhances our individual and business clients' banking experience, providing a fast, reliable and convenient way of sending money and making payments globally. At the same time, it creates another new revenue stream for us via enhancing our remittance capability at a low cost.

The Group had embarked on non-retail customer realignment initiatives and enhanced our customer segmentation focus. We have implemented a Customer Information and Analytics system, a tool that supports our relationship managers' drive on cross selling activities. Our new



Message from Group Managing Director

regional business centres, supported by commercial business centres are located throughout Malaysia to serve our non-retail customers better. We are in the process of executing on customer centric business model in retail.

AmBank@Work was officially launched in July 2011, offering our business and corporate clients comprehensive and cost-effective banking and payroll solutions, as well as cash management and business online banking services. Our client's employees are also eligible for privileges under AmBank@Work, including deposit account services and special rates for auto and home financing, investment in AmMutual equity funds and premiums for Comprehensive Personal Accident Policy.

REBALANCING LOANS PORTFOLIO, SUPERIOR ASSET QUALITY RATIOS

We maintained focus on rebalancing our loans portfolio, consciously targeting preferred segments in our campaigns and new product launches. We have grown our non-retail and Islamic loans faster, whilst achieving a better mix of variable rate loans. This will enable us to better manage our balance sheet mismatch risks and deliver more consistent interest income in volatile interest environments.

Gross loans, including Islamic financing sold to Cagamas, rose 5.7% to RM77.7 billion as we focused on the more profitable segments. Business loans grew 14.9% to RM15.8 billion from a broad asset base while corporate and institutional loans expanded 13.5% to RM14.6 billion from focus on growing share-of-wallet in key segments. Retail loans grew slower at 1.7% in line with our expectations.

Asset quality continued to improve with a smaller gross impaired loans ratio of 2.45%. This compares with the 3.81% gross impaired loans ratio on 1 April 2010, when we first adopted the new financial reporting standard, FRS139, in accordance with Bank Negara Malaysia's ("BNM") transitional provisions. Allowance coverage, representing individual and collective provisions set aside for impaired loans,



Mr Ashok Ramamurthy addressing journalists at a media briefing.

continued to improve to 112.6% from 102.3% in FY2011.

EFFICIENT AND WELL POSITIONED CAPITAL LEVELS

Our capital plan takes into account business as usual regulatory capital requirements and under various stressed scenarios, targeting a BBB+ credit rating. Capital and risk management activities are managed centrally at Group level to ensure that we have an optimum mix of different components of capital. Considering the uncertain economic environment and evolving global regulatory debate on banking institutions' capital structures, our approach is to remain capitalised at the higher end of our target ranges. For FY2012, the aggregated banking entities' risk weighted capital adequacy ratio ("RWCAR") was 15.7% (up 1.3%), tier-1 capital adequacy at 11.3% (up 1.1%) and common equity tier-1 at 9.2% (up 1.2%).

The Group's common equity ratio as above is well in excess of BNM's proposed minimum requirements under Basel III and we will manage this proactively if any regulatory changes emerge.

STABLE FUNDING

In our approach towards liquidity risk management, we have been effectively working towards the Basel III ratios, emphasising behaviourally more stable and longer term funding of the balance sheet.

To supplement the Group's funding stability, maturity gap and liquidity ratios, we issued senior notes, subordinated sukuk and medium term notes, as well as increased our loans sold with recourse.

To-date, RM2.92 billion senior notes were in issuance as part of a RM7 billion Senior Notes programme and RM550 million senior sukuk were in issuance under a 30-year RM3 billion Senior Sukuk Musyarakah Programme. Both are rated AA3 by RAM ("Rating Agency Malaysia"). In addition, RM800 million of subordinated sukuk has been raised to-date, as part of a RM2 billion Subordinated Sukuk Musyarakah Programme. The Group has recently obtained the approval from Securities Commission to raise another RM2 billion senior medium term notes and/or subordinated medium term notes. Total conventional and Islamic loans sold with recourse stood at RM2.8 billion as at FY2012.

DEVELOPING LEADERSHIP ATTRIBUTES AND STRATEGIC PRIORITIES FOR FY2013 – 2015

We recognise that the market has become even more competitive and the pace of economy dependent on a confluence of domestic and international factors. Since my appointment three months ago, together with my management team, we are working on defining the organisational values, required leadership behaviours, and value propositions to our customers and

employees that will enable us to deliver sustainable growth to our stakeholders. You will see us communicate more on this going forward. Our strategic focus for FY2013 - 2015 is to accelerate growth and business mix changes; strengthen customer centricity and connectivity; increase productivity and efficiency; and acquire and integrate.

Firstly, to **Accelerate Growth and Business Mix Changes**, we will accelerate reshaping of Retail Banking and grow main bank relationships. We will aggressively grow Transaction Banking and Markets businesses for greater non-interest income. AmLife's transformation will be enhanced to deliver growth, complemented by AmTakaful. ANZ International Connectivity will be uplifted through joint account planning, and aligned pricing and propositions to customers. We are targeting higher investment in growth, productivity and infrastructure to support our Vision.

Secondly, to **Strengthen Customer Centricity and Connectivity**, we are in the process of executing a series of programmes to strengthen our brand positioning particularly in the affluent segments. We will develop core 'customer centric' capabilities across the Group and centralise functions to improve customer experience through re-engineering and process automation.

Thirdly, to **Increase Productivity and Efficiency**, we are optimising operating and support segments to deliver productivity and efficiency gains, to maintain top tier cost-to-income ratio. Our people agenda aims to continue building an 'outperformance culture', retaining and attracting the best talent.

Fourthly, to **Acquire and Integrate**, AmG-Kurnia and deliver on identified synergies.

VALUE ADDING THROUGH STRATEGIC PARTNERSHIPS

FY2012 marks our fifth year of strategic partnership with ANZ. In the initial three years of this partnership, greater emphasis

was placed on repositioning and building new business growth options. Over the last two years, our emphasis has been around delivering better returns to our shareholders via leveraging the foundations built in the initial years, whilst continuing to invest for medium term growth.

A year ago, we have widened our collaboration initiatives with ANZ and commenced activities to leverage ANZ for international connectivity to boost the Group's position in achieving our Vision - **As Malaysia's preferred diversified, internationally connected financial solutions group, we take pride in growing your future with us.**

Key initiatives during the year include signing of a Business Principles Agreement ("BPA") which enables us to have access to resources and opportunities with ANZ in the areas of banking, capital markets, project finance and international trade transactions spanning 27 countries. Our transaction and correspondent banking has instituted various initiatives including customer referrals, platform integration and cross border solutions to increase transaction flows. We also signed a memorandum of understanding with ANZ to establish Signature Priority Banking for affluent customers and develop new products such as the AmBank-ANZ Get Set solution. An AMMB-ANZ Joint International Connectivity Committee was established and meets quarterly to monitor the progress of international connectivity initiatives.

In general insurance, our AmG-IAG ("Insurance Australia Group Limited") partnership is making good headway, with general insurance contributing 6% of the Group's net profit in FY2012. A major highlight during the year was the proposed acquisition of Kurnia, jointly driven by AmG and IAG. AmG-IAG will commence integration of the AmG-Kurnia business and we look forward to becoming the leading general and motor insurer in Malaysia.

In life assurance, we are working closely with Friends Life in refining our business model to emphasise on Bancaassurance

and better performing agency force, as well as improve our compliance and infrastructure platforms. Our partnership with Friends Life was further strengthened with the commencement of Family Takaful business during the year.

CONCLUSION

I am indeed honoured by the confidence that Tan Sri Azman Hashim as the Chairman with the support of the full Board has placed on me by appointing me as the new Group Managing Director. I am excited to have the opportunity of leading AmBank Group "As Malaysia's preferred diversified, internationally connected financial solutions group, we take pride in growing your future with us". I remain optimistic on the domestic economic growth and recognise that there are challenges in the global economic and banking sectors ahead. I am confident that we will rise to these challenges, and deliver growth and sustainable value to all our stakeholders.

yours sincerely

Ashok

Ashok Ramamurthy
Group Managing Director

Kuala Lumpur
3 July 2012

