Group Financial Review

Management Discussion and Analysis of Financial Statements. Fifth consecutive year of record performance for the Group.

Simplified Income Statement

RM Million	FY2012	FY2011	+/- RM Million		+/- %	
Net interest income	2,065.9	2,114.6	-	48.7	-	2.3
Net finance income from Islamic banking business*	673.8	628.2	+	45.6	+	7.3
Net fund income	**2,739.7**	**2,742.8**	**-**	**3.1**	**-**	**0.1**
Other income from Islamic banking business*	121.2	91.6	+	29.7	+	32.4
Net income from insurance business	193.0	172.0	+	21.0	+	12.2
Other income	1,163.6	906.7	+	257.0	+	28.3
Total income	**4,217.5**	**3,913.0**	**+**	**304.5**	**+**	**7.8**
Overheads	(1,694.6)	(1,561.9)	-	132.7	-	8.5
Operating profit	**2,522.9**	**2,351.1**	**+**	**171.8**	**+**	**7.3**
Allowance for impairment on loans and financing	(425.9)	(475.4)	+	49.6	+	10.4
Other (provisions)/writeback	1.5	20.4	-	18.9	-	92.6
Impairment loss	(16.8)	(30.9)	+	14.1	+	45.7
Profit before taxation and zakat	**2,081.7**	**1,865.1**	**+**	**216.6**	**+**	**11.6**
Taxation and zakat	(515.6)	(474.0)	-	41.6	-	8.8
Profit after taxation	**1,566.2**	**1,391.2**	**+**	**175.0**	**+**	**12.6**
Non-controlling interests	(55.3)	(48.3)	-	7.0	-	14.5
Profit attributable to shareholders	**1,510.8**	**1,342.8**	**+**	**168.0**	**+**	**12.5**

Islamic Banking Business*

RM Million	FY2012	FY2011	+/- RM Million		+/- %	
Net finance income	673.8	628.2	+	45.6	+	7.3
Investment income	32.3	12.9	+	19.4	+	149.6
Fee Income	88.9	78.6	+	10.3	+	13.1
Net income from Islamic banking business	**795.0**	**719.7**	**+**	**75.3**	**+**	**10.5**

Income Statement

For the year ending 31 March 2012 ("FY2012"), the Group registered another record performance with strong growth in both pre-tax profit and profit attributable to shareholders. It achieved a pre-tax profit of RM2,081.7 million (+11.6%), whilst profit attributable to shareholders grew by 12.5% to RM1,510.8 million. Earnings per share (basic) improved from 44.7 sen in FY2011 to 50.5 sen.

The growth in profits is mainly attributable to strong non-interest income growth, higher contributions from Islamic banking and insurance businesses coupled with lower allowances for impairment on loans, financing and securities.

Total Income – Revenue Growth

Total income grew 7.8% to RM4,217.5 million spurred by growth in other operating income, contribution from insurance business and Islamic banking business. This reflects the Group's strategic focus on increasing our share of wallet from existing customers, winning new clientele through product innovation and superior service delivery, and diversifying into new income streams. To support revenue generation, the Group continues to invest in operational improvement, delivery of quality service experience and expansion of distribution channels.

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

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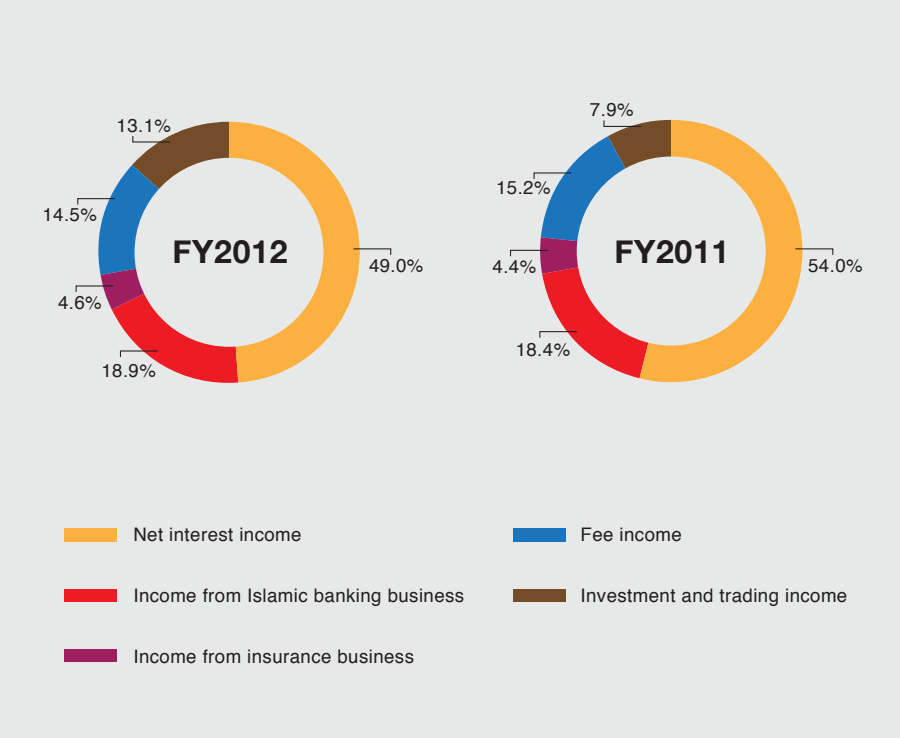
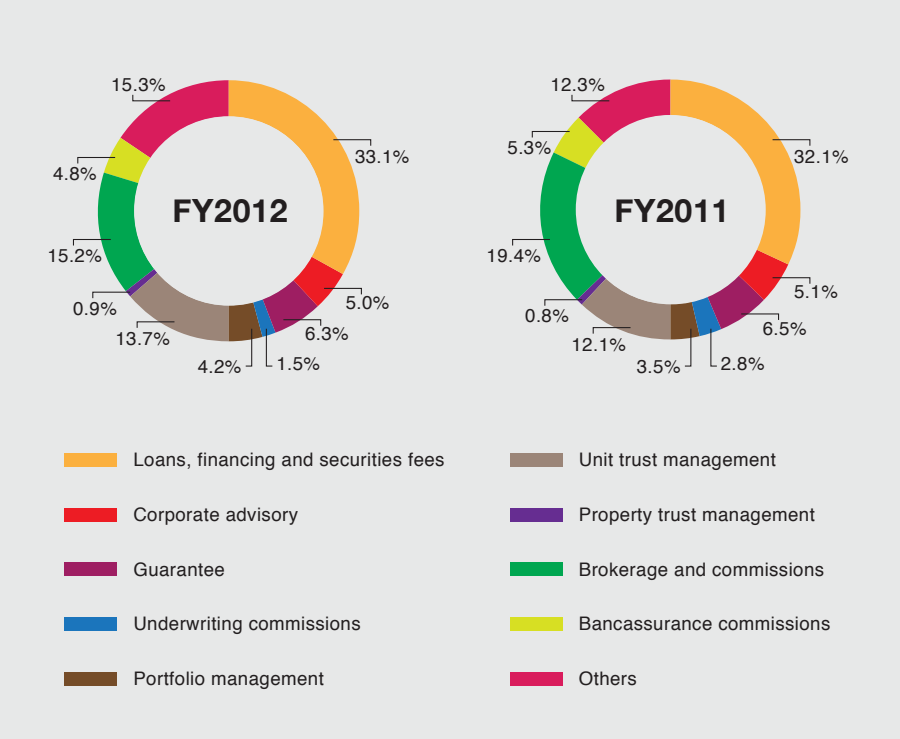
Composition of Income



Fee Income



Net fund income: RM2,739.7million (-0.1% or -RM3.1 million)

* Net fund income dipped by RM3.1million (-0.1%) mainly attributable to compression in net interest/fund margin ("NIM") mitigated by fund assets growth.

* The compression in NIM is attributable to increase in cost of funds from upward revisions in Bank Negara Malaysia's ("BNM") overnight policy rate ("OPR") and statutory reserve requirement ("SRR") mitigated by increase in base lending/financing rate.

* Growth in fund assets was driven by increase in net loans and financing (+RM4.5 billion or 6.6%). Expansion in loans and financing was mainly driven by growth in financing to the wholesale, retail, restaurant and hotel sector, real estate sector and manufacturing sector.

Other income from Islamic banking operations: RM121.2 million (+32.4% or +RM29.7 million)

* Increases comprises growth in investment income of RM19.4 million mainly attributable to gain on disposal of investments held for trading and increase in fee income by RM10.3 million mainly from financing activities.

Net income from insurance business: RM193.0 million (+12.2% or +RM21.0 million)

* Net income from insurance business grew by RM21.0 million (+12.2%). Premium income from general insurance increased by RM24.1 million coupled with lower insurance claims and commissions of RM13.4 million. This was mitigated by RM16.5 million lower surplus transferred from life insurance.

Other Income: RM1,163.6 million (+28.3% or +RM257.0 million)

Other income, which comprises mainly income from investment and trading activities as well as ancillary services connected to the Group's lending activities, grew 28.3% mainly due to strong contributions from asset management, trading, foreign exchange and derivatives activities. This is in line with the Group's efforts to diversify and develop new business streams.

For FY2012:

* Fee income increased by RM17.0 million (+2.9%) mainly attributable to higher fees from unit trust management, portfolio management and fees from financing and securities but mitigated by lower brokerage and underwriting commissions.

* Investment and trading activities recorded strong growth of RM239.8 million, up 82.9% to RM529.2 million from RM289.4 million in the previous year. The main contributors are higher gains from trading of securities, improved foreign exchange and derivatives contributions, partly riding on favourable market conditions.

Operating Expenses

To stay competitive, the Group needs to focus on productivity and efficiency. The Group will continuously strengthen its capabilities and address strategic issues whilst prudently manage its costs. The cost-to-income ratio expresses the Group's operating expenses as a percentage of income and is one of the most widely used measures of efficiency in the banking industry.

In FY2012, the cost-to-income ratio remained well contained at 40.2% (FY2011: 39.9%). The increase was mainly attributable to increased investment in human capital and infrastructure to support growth plans.

Operating expenses

RM Million	FY2012	FY2011	+/- RM Million		%
Personnel/staff	1,049.8	946.3	+	103.4	+ 10.9%
Establishment	362.6	346.8	+	15.8	+ 4.6%
Marketing and communication	127.7	134.7	-	6.9	- 5.1%
Administration and general	159.3	134.2	+	25.1	+ 18.7%
Expenses capitalised	(4.7)	-	-	4.7	-
Total	**1,694.6**	**1,561.9**	**+**	**132.7**	**+ 8.5%**

Overheads: RM1,694.6 million (+8.5% or +RM132.7 million)

* Personnel expenses were 10.9% or RM103.4 million higher, attributable to recruitment of staff to support higher business volumes coupled with the annual salary adjustments and bonuses as well as the cost of shares and options granted under the Group Executives' Share Scheme. As at 31 March 2012, the number of employees of the Group stood at 10,936 (FY2011:10,552).

* Establishment expenses were RM15.8 million higher due to increase in amortisation of computer software and higher computerisation costs from operating lease under the open infrastructure programme and increased rentals and utilities of branch premises.

* Marketing and communication expenses decreased by RM6.9 million largely due to lower sales commissions and promotional expenses incurred.

* Administration expenses increased by RM25.1 million mainly attributable to consultancy fees for spend management and core banking projects, establishment of Asia Water Fund and provision for expenses relating to investment advisory services.

* Expenses capitalised RM4.7 million relates to internal resources incurred in the development of core banking system in accordance with FRS 138, Intangible Assets. Phase 1 of core banking system is targeted to roll out in FY2013.

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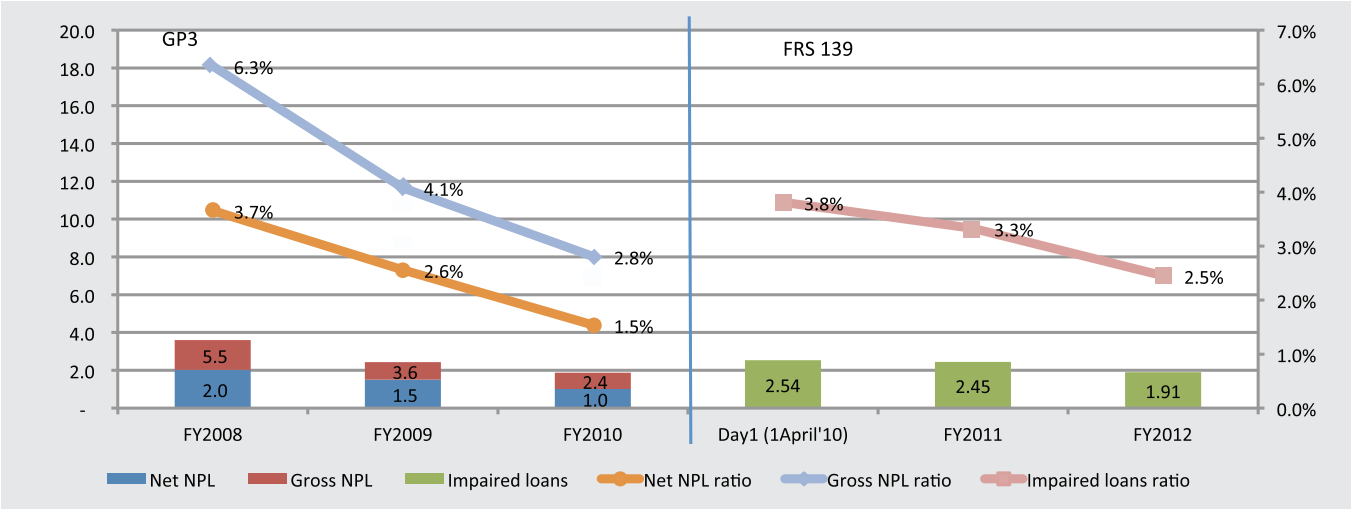
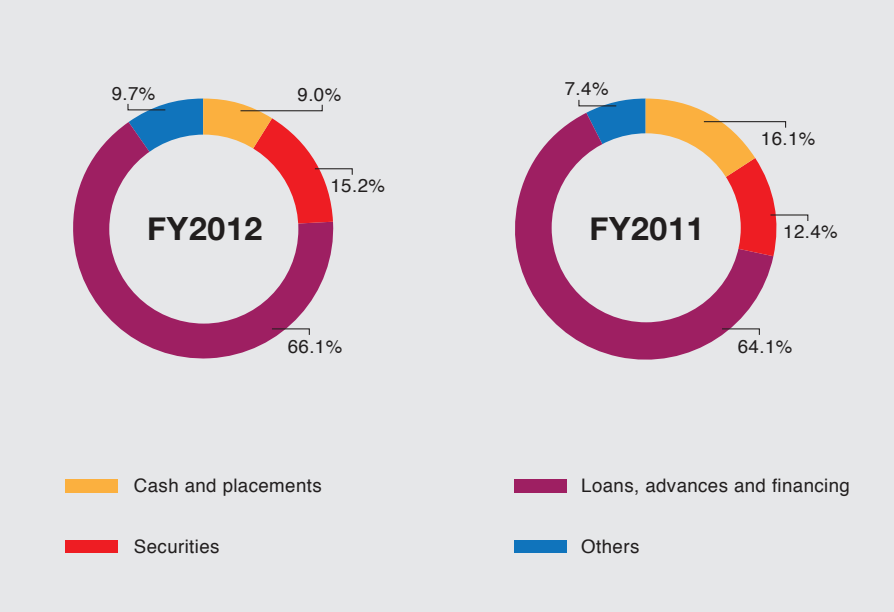
Asset Quality



Loan/Financing Impairment Allowance

RM Million	FY2012	FY2011	FY2012 vs FY2011	
Individual allowance - net	323.7	103.9	+	219.8
Collective allowance - net	613.8	808.8	-	195.0
Bad debts recovered - net	(511.6)	(437.2)	-	74.4
Total	**425.9**	**475.4**	**-**	**49.6**

Asset Mix Analysis



Asset Quality and Loan/Financing Impairment Allowance

Since 1 April 2010 ("Day 1"), the loan/financing impairment assessment and allowance computation complies with the requirements of FRS139, subject to the transitional provisions of BNM Guideline-Classification and Impairment Provisions for Loans/Financing issued in December 2010. Impaired loan/financing is classified based on evidence of impairment instead of the previous time based classification.

Loan/financing quality has improved throughout the year with gross impaired loan/financing ratio trending down from 3.3% to 2.5%.

The net loan/financing impairment charge fell by RM49.6 million (-10.4%) to RM425.9 million, with improvement in bad debt recoveries of RM74.4 million, lower collective allowance by RM195.0 million mitigated by increase in individual allowance of RM219.8 million.

The Group continues to proactively manage its asset quality by enhancing its asset writing and collection strategies, investing in new and enhanced risk models and infrastructure supported by the Group's specialist risk management team.

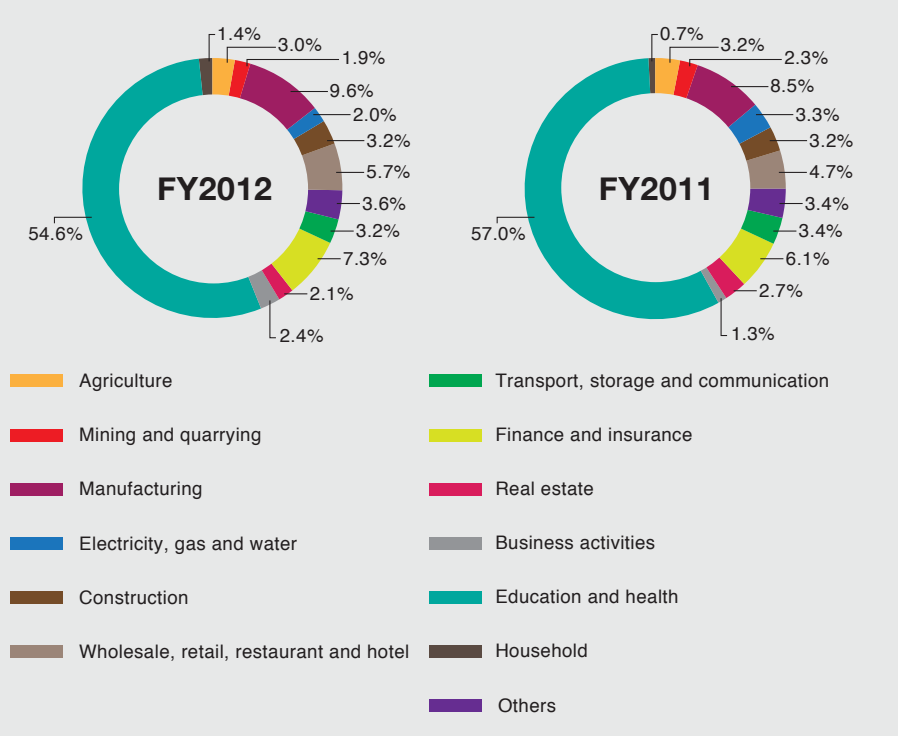
Impairment Loss

Impairment loss decreased by RM14.1 million (-45.7%) mainly due to write back of impairment provision no longer required on financial investments compared to charge for the year before, coupled with lower impairment for foreclosed properties.

Loans By Type Of Customers

	FY2012		FY2011	
	RM Million	%	RM Million	%
Individuals	40,772.3	53.6%	40,233.1	56.0%
SME	8,824.4	11.6%	7,474.1	10.4%
Corporate	22,451.9	29.5%	20,851.3	29.0%
Others	4,055.5	5.3%	3,326.9	4.6%
Total	**76,104.1**	**100.0%**	**71,885.4**	**100.0%**

Gross loans - Sectors



Balance Sheet

As at 31 March 2012, the Group's total assets stood at RM111.9 billion, an increase of RM3.6 billion (+3.3%) represented by healthy growth in loans and financing, securities portfolio and increase in statutory deposit with BNM. The increase is funded mainly by growth in customer deposits.

Loans and Financing

* The Group's net loans and financing expanded RM4.5 billion (+6.6%) to reach RM73.9 billion compared to RM69.4 billion for the preceding year. The Group continues its loans portfolio rebalancing strategy to focus on profitable segments, increasing the composition of variable rate loans mix and composition of corporate loans mix.

* Specifically, retail lending focuses on good quality and profitable segments, business and SME lending target stable and preferred growth sectors while corporate and institutional lending focuses on project financing with government support, government-linked corporations and large multi-national corporations particularly in prime sectors of the Government's Economic Transformation Programme.

* The expansion in loans and advances was mainly attributed to strong loans demand in the SME and corporate segments which grew by RM1.4 billion and RM1.6 billion respectively. Both these segments accounted for 41.1% of total loans by type of customers compared to 39.4% the year before. Loans to individuals accounted for 53.6% of total loans by type of customers.

* Variable rate loans portfolio continues to grow at a faster pace relative to our fixed rate loans portfolio, making up 54.2% of total gross loans compared to 51.0% for the year before.

Securities

* Securities held for trading are acquired for purpose of benefitting from short term price movements or to lock in arbitrage profits. Securities held for trading increased by RM5.4 billion to RM10.6 billion due to increased holdings of Malaysian Government securities, BNM Monetary Notes, and private debt securities. This is in line with the repositioning to increase holding of highly liquid assets.

* Securities available for sale are acquired for yield and liquidity purposes. Securities available for sale contracted RM2.6 billion to RM5.5 billion mainly from decreases in money market securities and private debt securities.

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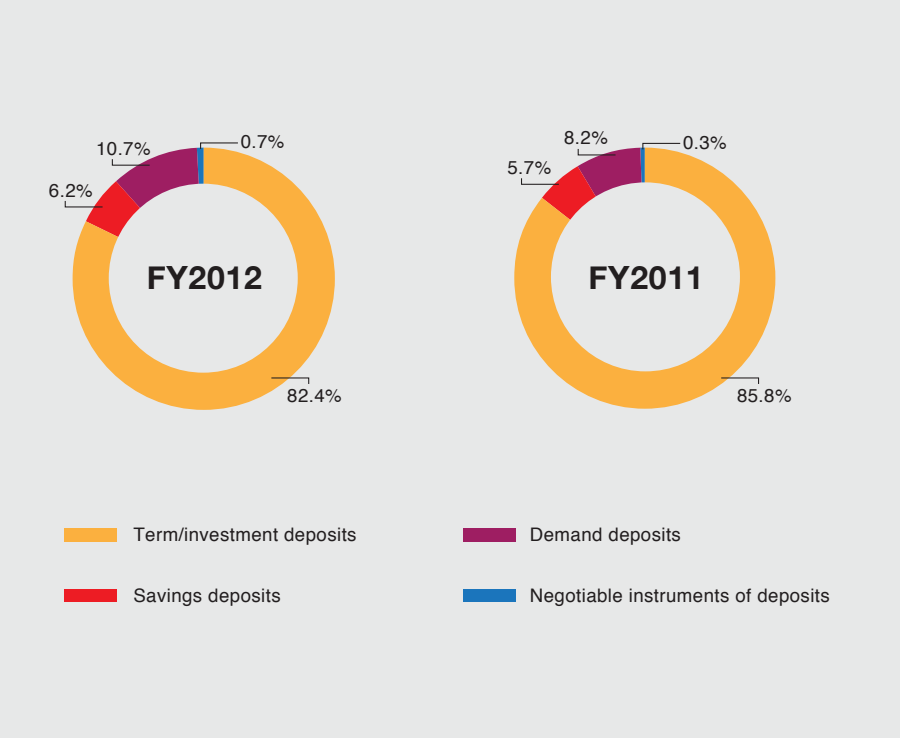
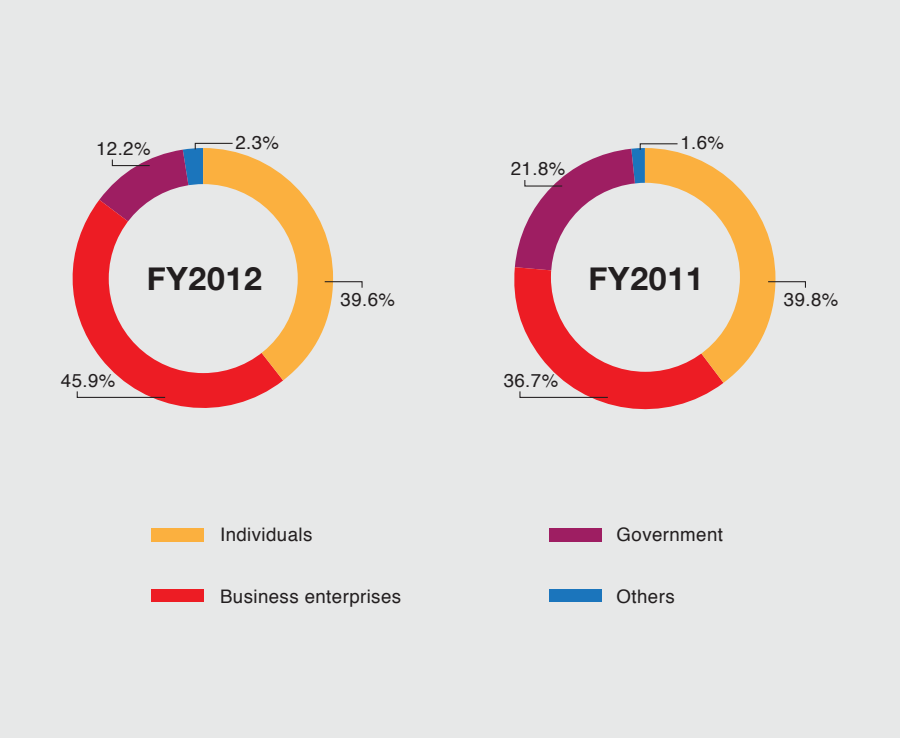
Deposits From Customers - Type



Deposits From Customers - Source



Deposits and Funding

* The Group's primary source of funding is from customer deposits, comprising term/investment deposits, savings account deposits, current account deposits, and negotiable instruments of deposits. Other major sources of funds include shareholders' funds, debt capital, term funding. interbank and other borrowings.

* Greater emphasis was placed to improve the Group's funding stability, low cost deposits and liquidity ratios during the year. The Group stresses the importance of customer deposits as a source of funds to finance lending/financing to customers.

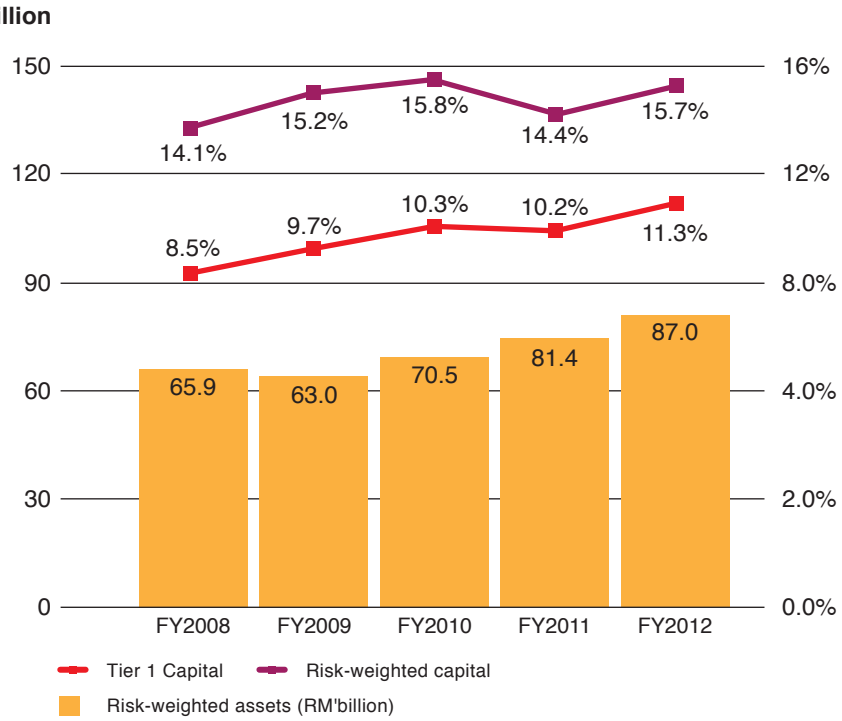
* As at 31 March 2012, deposits from customers increased by RM2.5 billion (+3.5%) to RM77.1 billion, whilst low cost deposits comprising current accounts and savings accounts ("CASA") grew 36% and 12% respectively. CASA as a proportion to total customer deposits stood at 16.9% compared to 13.9% a year ago.

* Term/Investment deposits continued to make up the majority of customer deposits by type constituting 82.4% (FY2011: 85.8%) of total customer deposits.

* Term funding initiatives included senior notes, sukuk and credit-link notes issuances. As at 31 March 2012, the Group has issued RM2.9 billion senior notes as part of its RM7 billion Senior Notes programme and RM550 million senior sukuk under its RM3 billion Senior Sukuk Musyarakah programme. Together with loans and Islamic financing sold to Cagamas with recourse, the adjusted loans/financing to customer deposit ratio stood at 89.6%.

* The Group's distribution network comprises 190 commercial bank branches, 14 investment bank offices, 42 insurance offices, 849 automated teller machines and 148 electronic banking centres nationwide. Of these, 403 ATM's are placed at 7-Eleven stores to accord customers with 24-hour and more secure banking convenience.

Capital Ratios



Efficient Capital Levels

Our capital levels remain sound, with the Group's aggregated banking entities' risk weighted capital ratio as at 31 March 2012 at 15.7% (FY2011: 14.4%) and Tier 1 capital ratio of 11.3% (FY2011: 10.2%).

The Group's Capital Management Plan is driven by its desire to maintain strong capital base to support the development of its businesses, to meet regulatory capital requirements at all times and to maintain good credit ratings. This encompasses optimising capital profile and buffer, enhancing scenario modelling, streamlining corporate structures, developing dynamic dividend policy and proactively managing Basel III requirements.

During the year, AmIslamic Bank Berhad implemented a new Subordinated Sukuk Musharakah programme of RM2.0 billion of which RM800 million was raised by 31 March 2012. The Subordinated Sukuk Musharakah qualifies as Tier 2 capital of AmIslamic Bank Berhad.

Credit Ratings

During the financial year, Standard & Poor's Rating Services raised both AmBank (M) Berhad's ("AmBank") and AmInvestment Bank Berhad's ("AmInvestment Bank") international ratings to "BBB+", based on its revised criteria. This was complemented by Moody's Investor Service revised bank financial strength outlook of AmBank to "positive". Ratings by Fitch Ratings and Ram Rating Services Berhad were affirmed.

The credit ratings of the principal subsidiaries, AmBank, AmInvestment Bank and AmIslamic Bank Berhad ("AmIslamic Bank") are as follows:

Dividend

Reflecting the better financial performance in FY2012, the Directors are recommending a final dividend payment of 13.5%, which together with the interim dividend of 6.6% amounts to a cumulative total dividend of 20.1%, up 2.1% compared to FY2011.

Rating Agency	Rating Classification	Ratings
AmBank (M) Berhad		
Standard & Poor's Rating Services ("S&P")	Long-term counterparty	BBB+/Stable
	Short-term counterparty	A-2
Fitch Ratings Ltd ("Fitch")	Long-term foreign currency Issuer Default Rating	BBB/Stable
	Short-term foreign currency Issuer Default Rating	F3/Stable
Moody's Investors Service ("Moody's")	Long-term foreign currency bank deposit	Baa2/Stable
	Short-term foreign currency bank deposit	P-3/Stable
	Bank financial strength rating	D/Positive
Rating Agency Malaysia Berhad ("RAM")	Long-term financial institution rating	AA3/Stable
	Short-term financial institution rating	P1
AmInvestment Bank Berhad		
Standard & Poor's Rating Services ("S&P")	Long-term counterparty	BBB+/Stable
	Short-term counterparty	A-2
Fitch Ratings Ltd ("Fitch")	Long-term foreign currency Issuer Default Rating	BBB/Stable
	Short-term foreign currency Issuer Default Rating	F3/Stable
Rating Agency Malaysia Berhad ("RAM")	Long-term financial institution rating	AA3/Stable
	Short-term financial institution rating	P1
AmIslamic Bank Berhad		
Rating Agency Malaysia Berhad ("RAM")	Long-term financial institution rating	AA3/Stable
	Short-term financial institution rating	P1