Message from Group Managing Director

Our strategies continue to be well executed to deliver another year of sound profit growth.

Dear Valued Shareholders,

It gives me great pleasure to write to you again. It is over a year ago that I assumed the position of Group Managing Director of AmBank Group and what an exciting journey it has been! We have unveiled the Group's new Vision, Mission, Values and Employee Value Proposition, appointed a few new members to my leadership team, acquired and welcomed Kurnia and MBF Cards into our AmBank Group, and delivered our sixth consecutive year of record profit performance.

We delivered 10.2% increase in profit after tax and minority interest ("PATMI") to RM1,635 million for FY2013 with positive momentum across most divisions. Stronger performances across recurring non-interest income, interest income and contributions from recent acquisitions were partly offset by lower trading volumes and capital market activities. Nevertheless, non-interest income sources contributed 32% of total income, the result of disciplined execution of our strategic priorities.

Strong growth in current account savings account ("CASA") from targeted segments, outpacing the industry over the last few years, resulted in lifting CASA composition to 20% when compared with 11% five years ago. We are in the early stages of integrating our recent acquisitions to extract synergies and have continued to invest in our businesses to deliver sustainable shareholder value.

In FY2013, we set out four strategic priorities to achieve our Vision - **As Malaysia's preferred diversified, internationally connected financial solutions group, we take pride in growing your future with us:** accelerate growth and business mix changes; strengthen customer centricity and connectivity; increase productivity and efficiency; and acquire and integrate. We have made progress in each of these areas and I will share these in more detail with you.

Accelerate growth and business mix changes

FY2013 result was underpinned by higher contributions from commercial banking activities and recent acquisitions. Retail, Business, and Corporate & Institutional Banking divisions delivered double-digit profit growth underpinned by increases in sound lending and deposits and fee-based income. Islamic Banking asset growth was strong while Transaction Banking CASA growth and trade utilisation were higher. New analytics and segment strategies are in progress to reach our target segments and serve our customers more effectively. We are working to move away from product focus to customer segment focus, and meeting more of our customer needs across the Group.

On improving asset quality, gross impaired loans fell 47 basis points to 1.98% while allowance coverage of impaired loans rose to 129.3%, the highest on record. Credit cost at 0.21% was lower when compared with FY2012 at 0.50%. This reflects better recoveries but also our disciplined asset writing strategies and better risk management amidst tougher competition.

Recurring non-interest income was supported by premium growth in general insurance, growth from bancassurance, retail wealth propositions, securing new structured trade mandates, funds management and private banking.

A particular highlight is our funds management business that has won numerous awards attesting to its investment management expertise and fund performance. This business, rebranded AmInvest, grew assets under management by an impressive 20% annually on average over the last three years to RM33 billion and we have also launched our new private retirement scheme which is a longer term growth opportunity.

The ongoing retail banking reshaping programme is on-track, as we brought all products under one line of business to offer customer driven solutions. We aim to increase the depth of main bank relationships by providing segmented offerings that are customised to customers' needs as we help them transact, save, borrow and invest more smartly. Small businesses, a key part of Malaysia's national agenda, will receive greater attention going forward as we support them to set up and expand their businesses.

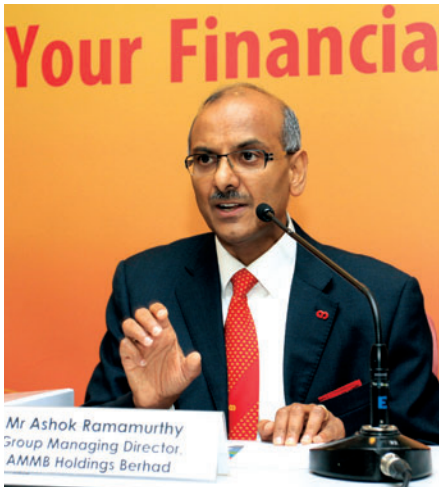
In non-retail, we continued outpacing the industry in loans growth at 13.2%, capitalising on opportunities provided by the Economic Transformation Programme ("ETP"). We expanded our customer base and value of business in preferred sectors and enhanced cross-selling of key products and solutions under the wholesale banking platform.

Strengthen Customer Centricity & Connectivity

Customers remain our number one focus. Our constant interactions with customers have enabled us to better understand their needs: a desire for convenience while having easier access to strategically located branches; obtaining consistent service quality across the various customer touch points; and receiving quality advice that helps them achieve their financial goals.

During the year, we have initiated various agenda centred on delivering superior customer experience. We are upgrading our channels and refining our value proposition for a refreshed customer experience. At the same time, to extend customers' control over their transactions and maintain tangible presence, we are expanding footprints physically and virtually in addition to placing more self-service machines at strategic locations. We have continued to invest in our people skills through

Message from Group Managing Director (Cont'd.)



Mr Ashok Ramamurthy addressing journalists at a media briefing.

structured training programmes and targeted recruitments.

We rolled out a new internal culture programme called "AmConnective", focusing on our core values of "P²ACE" – Principled, Proactive, Appreciative, Connected and Evolving. We are beginning to see our employees behave in more collaborative ways in order to serve our customers better. We have implemented new branch designs at selected locations with Service Ambassadors to deliver improved services to our customers. Customers will have experienced more varied approaches to our marketing practices being trialled in FY2013. There is more to come as we plan to launch our refined brand propositions externally in FY2014.

The AMMB-ANZ Joint International Connectivity Committee meets quarterly to monitor the progress of international connectivity initiatives as we leverage ANZ connectivity to progressively expand our regional platforms. Since our soft launch a year ago AmSignature Priority Banking's (a partnership with ANZ Signature Priority Banking) customer base has almost doubled. We are currently expanding our Priority Banking channels and product solutions to reach out to a wider customer pool.

Our foreign exchange and derivatives businesses within the Markets division were also success stories. You may recall that AmBank Group entered into a Technical Services Agreement with ANZ to establish foreign exchange, interest rate and commodities derivatives in 2008. For FY2013, these businesses have delivered a profit of over RM71 million. Similarly our transaction banking flows via ANZ has increased 46% from a year ago.

Additionally, our partnerships with Travelex and Western Union enable customers to manage their foreign exchange needs at targeted branches conveniently.

Increase Productivity & Efficiency

Our cost to income ("CTI") ratio at the Group level of 46.9% and 43.3% for the Banking entities reflect front loaded acquisition, investments and costs to deliver synergies, along with ongoing medium term investments in infrastructure for growth. We are making significant technology investments, the largest of which is replacing our core banking platform which will enable us to accelerate income growth by gaining a deeper understanding of our customers and serving them better. Phase 1 is targeted to go live towards end CY2013 and Phase 2 by end CY2014, with a total investment of circa RM400 million. We also expect our efficiency ratios to improve when we deliver on the planned acquisition cost and revenue synergies, and proactively executing our efficiency and productivity agenda. These initiatives are important for us to maintain our capability to reinvest and sustainably grow our business over the medium term.

We have also put stronger emphasis on more progressive reward systems for employees to recognise performance and encourage desired leadership qualities to drive a culture of outperformance aligned to our Mission. Existing leadership development programmes are being enhanced to provide more career options and fulfil the Group's leadership pipeline and succession needs.

Completed transformational acquisitions in General Insurance and Retail Banking

We completed two acquisitions in FY2013: Kurnia in General Insurance and MBF Cards in Retail Banking. The acquisitions are compelling both strategically and financially. The underlying operations of both acquisitions are solid and performing as expected, and the talent and passion of the teams continue to impress us. We remain on track to deliver the targeted financial benefits of these acquisitions.

With the Kurnia acquisition, we are now Malaysia's leading motor and general insurer. With combined gross written premiums in excess of RM1.7 billion, leading to a market share of about 12%, the acquisition clearly provides us scale benefits, extends the geographical coverage of our branch network and creates a larger combined dealers/ agency force.

We have embarked on a dual branding strategy, maintaining two strong and well-known brands, "AmAssurance" and "Kurnia" to cater for different market segments. Four dual branded pilot branches have been launched and we remain on track to complete the remainder of branch consolidations and various other integration activities by Q2 CY2014. To-date, we have achieved run-rate cost synergies of approximately RM25 million and expect to realise additional synergies in FY2014.

The acquisition of MBF Cards captures a Top Three position (from 11th) in the merchant acquiring business and strengthens our market position in cards receivables (from 10th to sixth position). The acquisition enhances overall Group profitability by adding an attractive ROE business to our mix, generates scale benefits through an enlarged issuance business and merchant network, and provides growth opportunities for cross-selling opportunities to an enlarged customer and merchant pool.

The integration of MBF Cards business into Retail Banking is underway. We recently passed the 100th day integration milestone. Initiatives to realise projected synergies have kick started and IT system integration is expected to be completed by Q1 CY2014. Branding activities will be progressively realigned to AmBank Group's. We have added 3,000 new merchants since the acquisition was completed in December 2012 which clearly demonstrates the growth potential of this business.

We also acquired the minority stakes in our Life Assurance and Family Takaful businesses in January 2013 from Friends

Life. We are in discussions to bring in a new equity partner into these businesses in order to build scale, operational efficiencies and greater business momentum. We aim to complete this by end CY2013.

Efficient and well positioned capital levels

Our capital plan takes into account business as usual regulatory capital requirements and is stress tested under various scenarios. 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 internal target ranges. Following the adoption of Basel III in FY2013, the aggregated banking entities remain well capitalised and operated within internal target capital levels with total capital ratio at 14.3%, tier-1 capital adequacy at 10.6% and common equity tier-1 at 8.9%.

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 our capital levels proactively in light of future regulatory developments.

Setting out strategic agenda for FY2014 – FY2016

Our strategies place continued emphasis on organic growth via building diversified and sustainable income streams, complemented by opportunistic acquisitions/partnerships where there is longer term value. Looking forward to FY2014, the Group will be guided by our Vision and five strategic themes.

Firstly, **integrate acquisitions and deliver synergies**. Our focus is on realising operational efficiencies from economies of scale from our recent acquisitions and capitalising the expanded customer base for cross-selling opportunities and strengthening our competitive positioning to grow income.

Secondly, **simplify business model and streamline processes**. With focus on customer centricity, we are simplifying business structures and processes to enhance customer experience, and provide financial solutions that match customers' lifestyle and lifecycle needs. In addition, various process improvement programmes in business and support functions are underway to improve efficiency and productivity across the Group. This will enable us to reinvest what we save into future growth initiatives.

Thirdly, **accelerate organic growth with focus on cross-sell, flow business, small business, and emerging affluent customers**. In retail, the Group's focus is on building main bank relationships in preferred customer segments including growing market share by attracting new customers and via supporting SMEs to invest and expand their businesses. In non-retail, we will focus on deepening our existing relationships with customers via new product rollouts in Markets, foreign currency service propositions, and delivering our enhanced trade and cash capabilities.

Fourthly, **build scale in specialist businesses with strategic partners**. Our strategic partnership with ANZ in banking will continue to support development of new customer solutions and provide greater cross-border linkages for our customers. In general insurance, our partner IAG continues to play a key role in the integration of Kurnia and building international best practices into our business.

We are in the midst of finding a new equity partner for Life Assurance and Family Takaful businesses. This will enable us to accelerate our planned build-out of scale by leveraging their international expertise and skilled resources, along with our Group's distribution and customer franchises.

Fifthly, **optimise capital and holding company structures**. The Group remains proactive in managing capital according to evolving regulatory requirements and evaluating business opportunities on a risk adjusted basis for optimum returns on capital.

Conclusion

As the banking landscape and customer requirements evolve, we will need to remain agile, adaptive and responsive. With the collective talents and determination of our people, and focused execution on our strategic agenda, we believe that we can deliver growth for all stakeholders in the years ahead.

Yours sincerely,

RASHOK

Ashok Ramamurthy
Group Managing Director

Kuala Lumpur
27 June 2013

Mr Ashok Ramamurthy, Tan Sri Azman Hashim, Madam Chong Yoke Har, Deputy Director General, Ministry of Tourism, Malaysia, Mr Peter Jackson, Chief Executive Officer, Travelex Global and Tan Sri A.P. Arumugam, Chairman, Travelex Malaysia launching the official AmBank-Travelex tie-up.