



Message from Group Managing Director

Dear Valued Shareholders,

As I complete my second year as Group Managing Director of AmBank Group, I am excited about the Group's achievements, the progress we have made in strengthening customer centricity and organisational capabilities, as well as sealing our new strategic partnership with MetLife International Holdings, Inc. ("MetLife") in our life assurance and family takaful businesses.

CONSISTENT AND SUSTAINABLE GROWTH

Every year for the past seven (7) years, the Group has delivered record performances and consistently met the majority of our yearly financial aspirations. For FY2014, the Group's PATMI increased 10.0% to RM1,782 million and ROE continued to trend upwards to 14.1%. We had stronger performances across recurring non-interest income sources from higher cross-sell penetration and acquisitions which were partly offset by margin compression and softer financial market business performance. Non-interest income contribution increased to 34% of total income (FY2013: 31%).

Notwithstanding our various planned investments in improving customer centricity, core banking replacement as well as risk and governance enhancements, cost to income ratio at the Group level trended down to 45.5% (FY2013: 47.8%). This is a testament of our disciplined approach to cost management in balancing between investing for growth and improving efficiency.

Our consistent emphasis on growing low cost deposits, current account and saving account ("CASA") led to faster than industry CASA growth of 11.2%. CASA composition stood at 21% of total customer deposits. We continued to focus on risk-adjusted returns and were selective in managing our loans growth, seeking out sound opportunities in the non-retail space. We have successfully lifted non-retail loans to 44% of total loans (FY2008: 26%). Asset quality remains good with gross impaired loans at 1.86% and loan loss coverage better than industry at 127.4%.

We have achieved our financial aspirations for FY2014 whilst continuing to invest in technology, customer centricity and people for longer term sustainability of performance.

Message from Group Managing Director

DIVERSIFIED CONTRIBUTION ACROSS BUSINESS DIVISIONS

The Group's record performance was underpinned by diversified contributions across our business divisions.

Retail Banking's profit after tax ("PAT") rose 9.2% to RM646.2 million partly from benefits of integration of MBf Cards and higher recoveries. Loans growth was targeted in profitable segments while customer deposits, including low-cost deposits growth was underpinned by new thematic marketing campaigns coupled with leveraging both existing and new channels.

Business Banking's PAT grew 18.6% year-on-year ("yoy") to RM394.2 million underpinned by increased net interest income from higher loans growth and lower provisions. Low cost deposits registered strong growth.

Corporate & Institutional Banking delivered double digit lending growth and PAT of RM365.7 million supported by good fee income growth and lower expenses.

Investment Banking achieved a strong 52% yoy profit before provisions growth driven by notable deals and stock broking business in Malaysia which had higher trading volume. Income growth was partly offset by provisioning relating to AmFraser Securities Pte Ltd. The recovery efforts are progressing to expectations.

Markets delivered RM119.5 million PAT with stronger contribution from foreign exchange and lower expenses, offset by subdued fixed income business performance.

General Insurance's PAT increased 50.6% to RM175.0 million from enlarged merged business from the Kurnia acquisition as well as higher investment and trading income.

Life Assurance and Family Takaful's PAT rose to RM12.9 million with stronger gross written premiums through growing both agency force and bancassurance/bancatakaful.

DELIVERING ON OUR STRATEGIC AGENDA SET OUT IN FY2014

In FY2014, our strategic agenda set out five (5) priorities to achieve our Vision - **As Malaysia's preferred diversified, internationally connected financial solutions group, we take pride in growing your future with us.** (1) Integrate

acquisitions and deliver synergies; (2) Simplify business model and streamline processes; (3) Accelerate organic growth with focus on cross-sell, flow business, small business, and emerging affluent customers; (4) Build scale in specialist businesses with partners; (5) Optimise capital and holding company structures. Let me share with you our achievements.

In **(1) Integrate acquisitions and deliver synergies**, our niche acquisitions of Kurnia and MBf Cards in FY2013 complement the Group's business portfolio. We are on track to complete most of the integration activities within expectations.

For Kurnia, we achieved a total of RM63.7 million cost synergies to-date and our combined AmG-Kurnia business remains Malaysia's largest motor insurer. In MBf Cards, we achieved synergies of RM20.6 million in FY2014 (surpassing our initial target of RM19 million), and have maintained our position as Top 3 in merchant acquiring business with over 55,000 merchants in force.

As part of **(2) Simplify business model and streamline processes**, we initiated a "Save to Invest" programme with the objective of building both a customer centric organisation and delivering greater operational efficiencies across the Group. We consolidated five (5) non-retail business divisions (Business Banking, Corporate & Institutional Banking, Investment Banking, Markets, and Transaction Banking) into two (2) divisions under a new Wholesale Banking operating model which commenced operations on 1 April 2014. This model aims to increase customer centricity through new coverage and segmentation models, as well as deliver products and solutions excellence in a more cost effective manner. We will continue to identify new opportunities to simplify operating models.

Additionally, in November last year, Phase 1 of our core banking system replacement which simultaneously replaces our core banking platform, teller front end system and a new Enterprise Data Warehouse successfully went live. Built over two (2) years, this large and complex implementation involved group-wide participation from front, middle, to back offices and support departments across various locations nationwide. Its functionalities are anticipated to pave the way for operational improvements and enhanced customer experience in retail banking and enablement functions over time. Our effort was recognised when we won the Best Single Country Core Banking Implementation 2014 Award by The Asian Banker. Concurrently, we upgraded our network infrastructure to improve bandwidth and connectivity, especially across our branches.



Mr Ashok Ramamurthy, Group Managing Director, AmBank Group (centre) with the award for Bank of the Year in Malaysia 2013, with Ms Jane Cooper, Asia Editor of The Banker (left) and former BBC journalist Mr Michael Buerk, the host of The Banker Awards 2013.

Our third priority on **(3) Accelerate organic growth with focus on cross-sell, flow business, small business, and emerging affluent customers** has enabled the delivery of consistent non-interest income growth particularly in foreign exchange, rates and transaction banking. Development of customer value propositions are underway to enhance cross-selling to target segments in retail banking while in small business, we have commenced testing of our new business model via a pilot programme.

To **(4) Build scale in specialist businesses with partners** we have recently welcomed MetLife as our strategic partner in Life Assurance and Family Takaful. The share sale agreement was completed on 30 April 2014 for an aggregate cash consideration of RM812 million, subject to customary adjustments. This partnership reaffirms the Group's commitment and focus on delivering our strategic agenda to accelerate recurring non-interest income, enhance cross-selling leveraging on our banking platform and build scale in specialist businesses with our international strategic partners.

The creation of our new master brand, 'AmMetLife', together with our partner MetLife marks an exciting new chapter for our life assurance and family takaful businesses. Takaful will exist as a sub-brand within this AmMetlife master brand. These unified brands reflect the coming together of two (2) renowned and strong organisations with shared core values of integrity, partnership and innovation. We will leverage on our combined strengths to offer customer-centric and modern life assurance/family takaful solutions to Malaysians and at the same time strengthen our bancassurance/bancatakaful offering across all touch points.

Finally, **(5) Optimise capital and holding company structures** involves continuous capital management to balance capital needed for growth and to meet regulatory requirements. As at FY2014, under Basel III, the Group's aggregated banking entities' common equity tier-1 ("CET-1") was at 10.1% before proposed dividend, well above our internal targeted level of 8.5% ± 1%. Tier-1 capital ratio was at 11.6% and total capital ratio at 15.9%. During the year, we issued Malaysia's first capital market Basel III compliant Tier 2 Subordinated Sukuk Murabahah Programme of up to RM3 billion under a Tawarruq arrangement.

INVESTING IN CUSTOMER CENTRICITY

Our commitment to our customers remains unchanged and we continued to make significant investments towards building a customer centric operating model.

Our new brand chapter – **"Your Bank. Malaysia's Bank. AmBank."** expresses our emphasis to reposition AmBank Group as a modern Malaysian diversified financial solutions partner that understands and meets the diverse needs of modern Malaysians. We have also created a new dedicated retail banking website, www.ambank.com.my, with a fresh new look and user friendly navigation.

Additionally, the new core banking system aims to enhance our customers' banking experience through an integrated customer view and faster time to market for new products and services. Many of the functionalities will allow us to progressively improve and expand offerings especially in the digital and mobile space, and hence increase accessibility, simplify processes and improve the efficiency of delivery. We have just commenced Phase 2 of our core banking system replacement and target completion within approximately 15 months, subject to impacts arising from other group-wide key initiatives such as goods and services tax ("GST") project, Infrastructure Modernisation, Multi-Channel Switch Solution and National Bill Payment Services.

Progressing into our next phase of building customer centricity, greater emphasis will be placed on expanding our digital and customer touch points to improve our visibility and connectivity with customers. We will leverage on our growing retail customer database and focus investments in customer analytics along with segmentation capabilities to enable tailoring of solutions suitable for our customers' evolving lifestyle needs and build main-bank relationships. In non-retail, we adopted a sector and segment focus approach with relevant new industry-focused portfolios created. Under our new coverage and segmentation models, the Relationship Management teams will be the single point of contact to enhance customer connectivity and convenience across sales, product solutions and servicing.

SETTING OUT STRATEGIC PRIORITIES FOR FY2015 – FY2017

As we close this year and move forward to FY2015, I am focused on the good growth opportunities ahead of us. For FY2015, AmBank Group will be guided by four (4) strategic priorities to achieve our Vision.

Message from Group Managing Director

Mr Ashok Ramamurthy, Group Managing Director, AmBank Group (centre) and members of the Senior Management of AmBank Group at the Eighth Asian Banker Technology Implementation Awards where AmBank Group received the Best Single Country Core Banking Implementation Award.



Our first priority, **(1) Deliver on focused organic growth**, encapsulates the Group's organic plans with emphasis on the following divisions:

Retail Banking will focus on building emerging affluent and small business customers while leveraging existing strength to grow in mass market.

Wholesale Banking will grow franchise value by targeting value segments and continuing to deepen relationships to increase share-of-wallet of existing and new to bank customers. Additionally, emphasis will be placed on growing CASA, cross selling and innovation to accelerate non-interest income growth.

General Insurance aims to maintain No. 1 position in motor through bancassurance and synergies from the Kurnia acquisition at the same time expand its non-motor segments.

Islamic Banking will focus on expanding main bank relationships which will drive growth in low cost deposits and capital efficient investment accounts.

Secondly, **(2) Leverage strategic partnerships and deliver on acquisitions**. The integrations of Kurnia and MBf Cards are expected to be completed within this financial year. The Group is now shifting focus to top line growth with the acquisitions. In Life Assurance and Family Takaful, we are working together with MetLife to identify best practices and standards to better serve customers. We aim to create a modern, innovated and customer centered insurance company.

Thirdly, **(3) Continue to optimise efficiency**. We are building a lean and scalable customer service delivery capability, streamlining operating layers along with simplifying business and operating models. For capital management, we are progressively optimising our holding company structure and capital allocation. We have commenced building our advanced internal rating based ("AIRB") capabilities for improved portfolio risk management.

Finally, **(4) Build sustainability** in the areas of compliance and governance, human capital and customer experience. We are continuously strengthening our corporate governance, controls and compliance culture, given the increasing regulatory requirements and emphasis on compliance. Compliance is now embedded and tracked within the performance measures of the senior management team, while its importance is communicated to all AmBankers through training and internal communications.

We are also investing in processes and systems in preparation for GST which will come live in April 2015 and in insurance, we are getting ready for the anticipated de-tariffication in 2016.

Initiatives are progressively being rolled out to enhance employee engagement, talent management and to achieve a connected team culture. We are in the midst of a Total Target Remuneration Review initiative as part of efforts to align total pay, including rewards and benefits, to performance while remaining competitive with the industry. Our objective is to attract, retain, reward and develop talent.

We are also investing in next wave technologies and branding agendas to enable us to deliver on superior customer experience in target value segments.

CONCLUSION

We have built a track record of sustainable growth, and I am thankful to our team of more than 12,000 AmBankers. Their continuing hard work and commitment has been the key to our success. We have a great team, a sound strategy and a unique platform as Malaysia's internationally connected bank.

I would like to encourage shareholders to access our Investor Relations section in our corporate website at www.ambankgroup.com. Here, you will find updated information on past performances, business outlook and performance guidance throughout the year.

We are committed to continually delivering sustainable growth whilst increasing returns for our shareholders. We look forward to continue being **Your Bank. Malaysia's Bank. AmBank.**

Yours sincerely,

Ashok Ramamurthy
Group Managing Director

Kuala Lumpur
30 June 2014

The Jewels of Muslim World Award 2013

Awarded to Tan Sri Azman Hashim, Chairman, AmBank Group

Instituted by OIC Today Magazine, the award honours and acknowledges the roles played by 10 distinguished Muslim leaders throughout the world in their capacity to lead the Islamic economy towards major achievements. Tan Sri Azman Hashim, Chairman, AmBank Group was awarded for his contributions and leadership in global Islamic banking and finance.



Tan Sri Azman Hashim, Chairman, AmBank Group (right) receiving the award from Dato' Sri Mustapa Mohamed, the then-Minister of International Trade and Industry, Malaysia

AMMB Holdings Berhad (231035-V)