Group Financial Review

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

INCOME STATEMENT

For the year ended 31 March 2014 ("FY2014"), the Group delivered a seventh consecutive year of record performance. It posted a pre-tax profit of RM2,448.2 million (+14.5%), whilst profit attributable to shareholders grew by 10.0% to RM1,782.4 million. Return on equity improved by 0.2% to 14.1% and earnings per share (basic) lifted from 54.0 sen in FY2013 to 59.3 sen.

The growth in profit is mainly attributable to growth in net fund income, higher contributions from insurance business coupled with lower allowances for impairment on loans and financing.

Simplified Income Statement

RM Million	FY2014	FY2013	+/- RM Million	+/- %
Net interest income	2,271.9	2,218.4	+ 53.5	+ 2.4
Net finance income from Islamic banking business*	856.7	800.8	+ 55.9	+ 7.0
Net fund income	**3,128.6**	**3,019.2**	**+ 109.4**	**+ 3.6**
Other income from Islamic banking business*	83.3	83.1	+ 0.2	+ 0.2
Net income from insurance business	471.9	250.2	+ 221.7	+ 88.6
Other income	1,047.5	1,016.7	+ 30.8	+ 3.0
Total income	**4,731.4**	**4,369.3**	**+ 362.1**	**+ 8.3**
Overheads	(2,121.6)	(2,041.6)	- 80.1	- 3.9
Acquisition and business efficiency expenses	(29.3)	(45.4)	+ 16.1	+ 35.5
Operating profit	**2,580.4**	**2,282.3**	**+ 298.1**	**+ 13.1**
Allowance for impairment on loans and financing	(67.8)	(173.3)	+ 105.5	+ 60.9
Writeback of other provisions	19.8	42.1	- 22.4	- 53.1
Other impairment loss	(84.2)	(12.2)	- 72.1	>- 100.0
Profit before taxation and zakat	**2,448.2**	**2,139.0**	**+ 309.3**	**+ 14.5**
Taxation and zakat	(577.2)	(475.5)	- 101.7	- 21.4
Profit after taxation	**1,871.1**	**1,663.5**	**+ 207.6**	**+ 12.5**
Non-controlling interests	(88.7)	(42.8)	- 45.9	>- 100.0
Profit attributable to shareholders	**1,782.4**	**1,620.7**	**+ 161.7**	**+ 10.0**

Islamic Banking Business*

RM Million	FY2014	FY2013	+/- RM Million	+/- %
Net finance income	856.7	800.8	+ 55.9	+ 7.0
Other income	83.3	83.1	+ 0.2	+ 0.2
Net income from Islamic banking business	**940.0**	**883.9**	**+ 56.1**	**+ 6.3**

TOTAL INCOME – REVENUE GROWTH

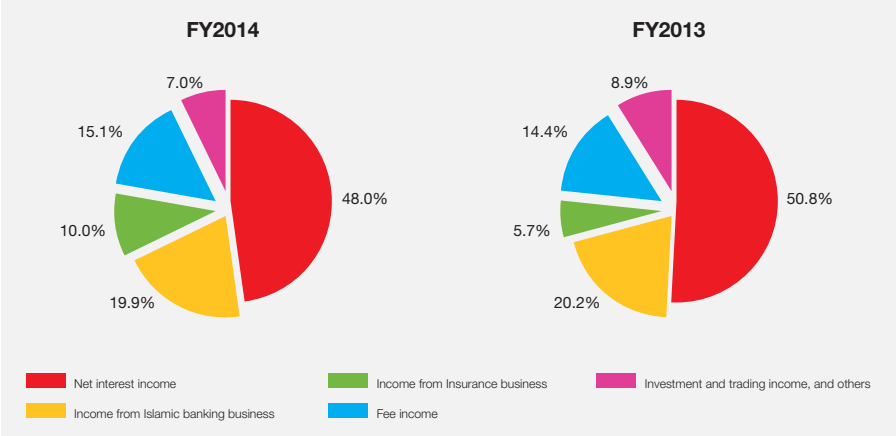
The major components of revenue are net fund income (net interest income and net finance income from Islamic banking business), other income from Islamic banking business, net income from insurance business and other operating income.

Total income for FY2014 grew 8.3% to RM4,731.4 million, spurred by higher net fund income (+3.6%) to RM3,128.6 million and growth in non-interest income (+18.7%) to RM1,602.7 million. This reflects the Group's ability to execute its strategy in a disciplined manner, namely on increasing our share of wallet from existing customers, winning new clientele through product innovation and superior service delivery, diversifying into new income streams and cross selling across the Group's diversified portfolio.

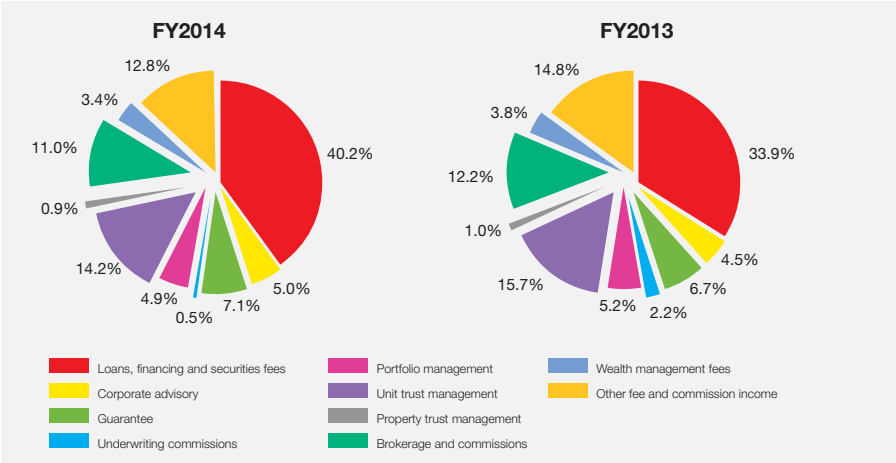
To support revenue generation, the Group continues to invest in operational efficiency, delivery of quality service experience and expansion of our distribution footprint.

The Group's distribution network comprises 179 commercial bank branches, 4 regional business centres, 14 investment bank offices, 50 insurance offices, 26 MBF Cards branches, 884 automated teller machines and 167 electronic banking centres nationwide. Of these, 401 ATM's are placed at 7-Eleven stores to provide customers with 24-hour banking convenience.

Composition of Income



Fee Income



Net fund income: RM3,128.6 million (+3.6% or +RM109.4 million)

- Net Interest income grew by RM53.5 million (+2.4%) to RM2,271.9 million whilst net finance income from Islamic banking grew 7.0% to RM856.7 million. This reflects moderating funds asset growth and continued margin compression.

- Growth in fund assets was driven by increase in net loans and financing (+RM4.6 billion or 5.6%). Expansion in loans and financing was mainly driven by growth in lending to the household sector, mining and quarrying sector, electricity, gas and water sector and construction sector.

Net income from insurance business: RM471.9 million (+88.6% or +RM221.7 million)

- During the second half year of FY2013, the Group completed the acquisition of AmGeneral Insurance Berhad ("AGIB"), formerly known as Kurnia Insurans (Malaysia) Berhad. With this acquisition, the Group is now Malaysia's leading motor and general insurer.

- Premium income from the combined general, life and takaful insurance businesses increased by RM554.0 million to RM2,290.0 million. This was offset by increases in insurance commissions and claims of RM355.4 million.

- Contribution from insurance business made up 10.0% of total income and 29.4% of non-interest income respectively.

Other Income: RM1,047.5 million (+3.0% or +RM30.8 million)

Other income, which comprises mainly income from investment and trading activities, share in results of associates as well as ancillary services connected to the Group's lending activities, was partly affected by slower equity market activities and lack of significant primary issuance in the bond market.

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For FY2014:

- Fee income increased by RM83.0 million (+13.2%) mainly attributable to higher fees from financing and securities, corporate advisory services, provision of guarantees and unit trust management. The higher fee income is partly attributed to contributions from MBF Cards (M'sia) Sdn. Bhd. ("MBF Cards") which was acquired towards the last quarter of FY2013.

- Investment and trading activities recorded a lower contribution of RM238.1 million compared to RM341.3 million in the preceding year. This was mainly due to losses from trading of securities and net loss on revaluation of financial assets held-for trading, attributable to tough trading environment arising from uncertainties in the local and global financial markets.

OPERATING EXPENSES

The Group will continuously invest to sustainably grow our business whilst prudently managing its cost via improving productivity and efficiency. 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 FY2014, the cost-to-income ratio, including business efficiency expenses, stood at 45.5% (FY2013: 47.8%). The decrease reflects a disciplined approach to cost management with income growing at a faster pace than expenses despite acquisition related expenses and planned investment in infrastructure to support growth plans and deliver synergies.

Operating expenses

RM Million	FY2014	FY2013	+ / - RM Million		%
Personnel	1,255.5	1,216.9	+	38.6	3.2
Establishment	513.2	499.2	+	14.0	2.8
Marketing and communication	179.6	164.8	+	14.8	9.0
Administration and general	215.4	187.3	+	28.1	15.0
Expenses capitalised	(42.0)	(26.6)	-	15.5	58.3
Total	**2,121.6**	**2,041.6**	**+**	**80.1**	**3.9**

Overheads: RM2,121.6 million (+3.9% or +RM80.1 million)

- Personnel expenses were 3.2% or RM38.6 million higher, partly attributable to the full year staff costs impact of AGIB and MBf Cards acquired last year, as well as mutual separation scheme payments under the "Save to Invest" programme to achieve cost synergies. As at 31 March 2014, the number of employees of the Group stood at 12,270 (FY2013:12,770).

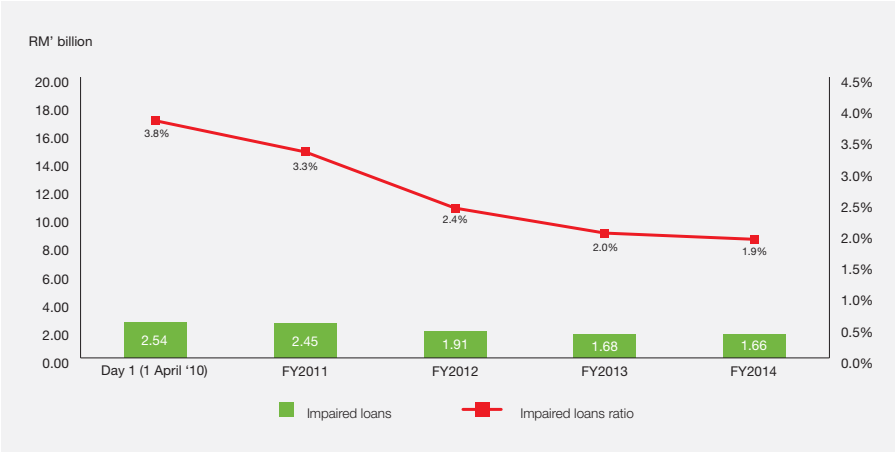
- Establishment expenses were 2.8% or RM14.0 million higher due to full year impact of costs attributable to AGIB and MBF Cards with increase in depreciation of property and equipment and increased rentals and utilities of branch premises.

- Marketing and communication expenses increased by RM14.8 million largely due to higher advertising and promotional costs coupled with higher commission and sales incentive expenses.

- Administration expenses increased by RM28.1 million largely due to full year impact of costs attributable to AGIB and MBF Cards coupled with higher donations from increased corporate social responsibility activities, and professional fees to support various strategic and compliance initiatives such as Save to Invest programme, GST programme, Talent Management profiling, outsourced ATM replenishment,etc.

- Expenses capitalised RM42.0 million relates to internal resources incurred in the development of core banking system in accordance with MFRS 138, Intangible Assets. Phase 1 of core banking system was successfully rolled out in November 2013 and it won the Asian Banker Award for best single country core banking implementation.

Asset Quality



Loan/Financing Impairment Allowance

RM Million	FY2014	FY2013	FY2014 vs FY2013
Individual allowance - net	216.7	287.7	- 71.0
Collective allowance - net	602.5	455.2	+ 147.3
Bad debts recovered - net	(751.4)	(569.7)	- 181.8
Total	**67.8**	**173.2**	**- 105.5**

ASSET QUALITY AND LOAN/FINANCING IMPAIRMENT ALLOWANCE

In accordance with MFRS 139, a loan/financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more incurred loss event(s) that has occurred and the incurred loss event has an impact on the estimated future cash flows of the loan/financing that can be reliably measured. Collective impairment allowance is made based on estimated loan loss rates arising from the shortfall between the discounted value of the collateral and the exposure at default.

Loan/financing quality continued to improve throughout the year with gross impaired loan/financing ratio trending down to 1.9% (FY2013: 2.0%).

The net loan/financing impairment charge fell by RM105.5 million to RM67.8 million, with improvement in bad debt recoveries of RM181.8 million and lower individual allowances by RM71.0 million, offset by RM147.3 million increases in collective allowances.

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.

OTHER PROVISIONS AND IMPAIRMENT LOSS

Other provisions recorded a net write back of RM19.8 million arising mainly from write back of provision for commitment and contingencies. The write back is attributable to reduction in exposures and improvement in borrowers' ratings.

Other impairment loss increased by RM72.1 million mainly due to impairment charge for trade receivables from exposure to margin and contra losses of the Group's Singapore stock-broking arm.

BALANCE SHEET

As at 31 March 2014, the Group's total assets stood at RM132.3 billion, an increase of RM4.8 billion (+3.7%), represented by 5.6% growth in net loans and financing focusing on our targeted segments.

The increase is funded mainly by growth in customer deposits and shareholders' funds.

Following Bank Negara Malaysia's approval for the Group to dispose approximately 50% interest each in AmLife Insurance Berhad ("AmLife") and AmFamily Takaful Berhad ("AmTakaful"), the assets and liabilities of both companies (part of the insurance segment) have been presented as assets held for sale RM3.1 billion and liabilities associated with assets held for sale RM2.8 billion.

Under the strategic partnership arrangement with MetLife International Holdings Inc. ("MetLife"):

- MetLife will own 50% plus one share in AmLife, remaining shares owned by AMAB Holdings Sdn Bhd ("AMAB"), a wholly-owned subsidiary of the Company.
- AMAB to own 50% plus one share in AmTakaful, remaining shares owned by MetLife.

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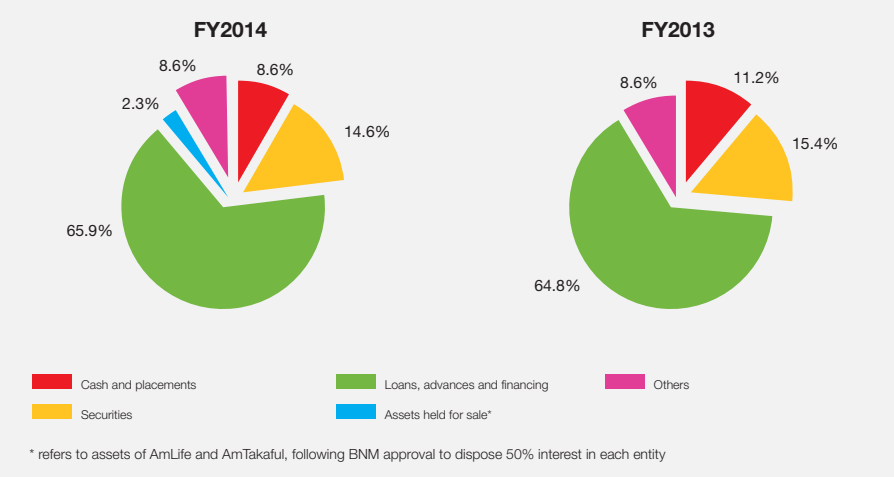
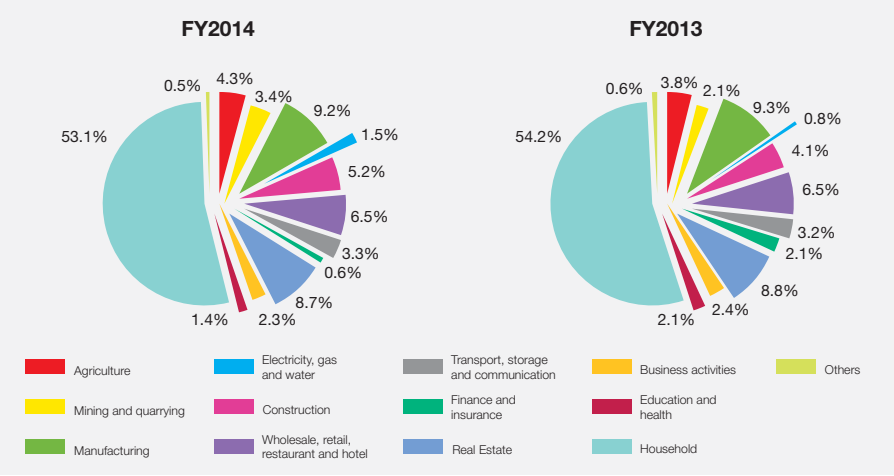
Asset Mix Analysis



Loans By Type Of Customers

	FY2014		FY2013	
	RM Million	%	RM Million	%
Individuals	46,823.4	52.5	45,592.2	53.8
SME	12,358.8	13.8	10,890.4	12.8
Corporate	28,386.5	31.8	25,179.0	29.7
Others	1,719.9	1.9	3,097.6	3.7
Total	**89,288.5**	**100.0**	**84,759.2**	**100.0**

Gross loans - Sectors



LOANS AND FINANCING

- The Group's net loans and financing expanded RM4.6 billion (+5.6%) to reach RM87.2 billion compared to RM82.6 billion for the preceding year. The Group continues its strategy to grow in preferred customer segments and economic sectors.

- Retail lending focuses on good quality and profitable segments. Business and small and medium enterprise ("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 ("ETP").

- The expansion in loans and advances was mainly attributed to strong loans demand in the SME segment which grew RM1.5 billion or 13.5% followed by lending to the corporate segment which grew RM3.2 billion or 12.7% through acquisition of new customers and capitalizing on opportunities provided by the ETP. Both these segments now make up 45.6% (FY2013: 42.6%) of the total loan/financing portfolio.

- Loans to individuals grew 2.7% to reach RM46.8 billion, driven by lending for purchase of residential properties.

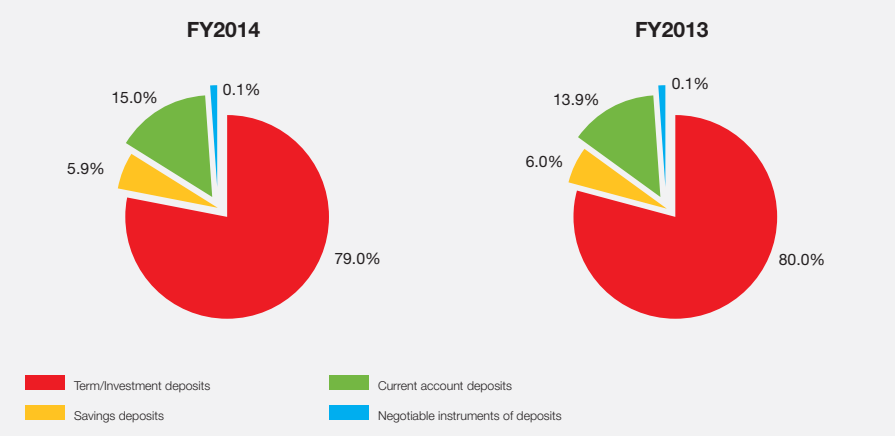
SECURITIES

- Securities held for trading ("HFT") are acquired for purpose of benefitting from short term price movements or to lock in arbitrage profits. HFT contracted by RM3.5 billion to settle at RM3.8 billion at end of FY2014.
  - Holdings of unquoted securities decreased by RM2.6 billion mainly in private debt securities ("PDS"). The sell down is driven mainly by defensive strategy in response to global sell down following announcements of US Quantitative Easing tapering.
  - Holdings of Money Market instruments drop RM0.8 billion mainly in BNM Monetary Notes. The Group's banking subsidiaries as Principal Dealers for issuances of Malaysian Government and BNM securities will subscribe and sell down these securities in the secondary market. Movement in these securities is dependent on the timing of issuances by BNM.

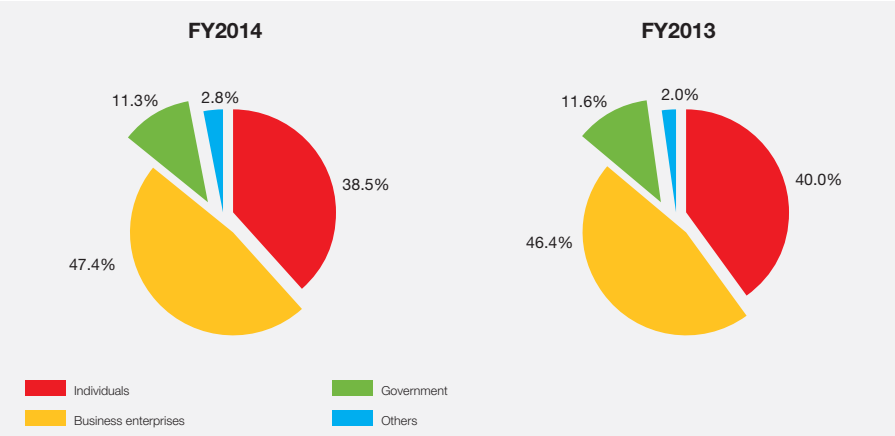
- Securities available for sale ("AFS") are acquired for yield and liquidity purposes. AFS increased by RM5.5 billion mainly in shorter tenor Money Market instruments. In line with the Group's defensive strategy, proceeds from disposal of HFT and maturity of HTM securities are reinvested in AFS securities for income generation.

- Securities held to maturity ("HTM") are securities with fixed or determinable payments and fixed maturity that the Group has positive intent and ability to hold to maturity. HTM decreased by RM2.3 billion to hit RM3.9 billion as at 31 March 2014, mainly from maturity of BNM Monetary Notes.

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.

- As at 31 March 2014, deposits from customers increased by RM4.9 billion (+5.7 %) to reach RM89.7 billion, whilst low cost deposits comprising current accounts and savings accounts ("CASA") grew 11.2%. CASA as a proportion to total customer deposits is now at 20.9% compared to 19.9% a year ago. Term/Investment deposits continued to make up the majority of customer deposits by type constituting 79.0% (FY2013: 80.0%) of total customer deposits.

- Term funding initiatives included senior notes, sukuk and credit-link notes issuances. As at 31 March 2014, term funding of the Group stood at RM6.6 billion (+6.2%), comprising term loans and revolving credit of RM1.6 billion, senior notes and sukuk of RM4.7 billion and credit-link notes of RM0.3 billion.

- Loans sold to Cagamas Berhad with recourse remained stable at RM3.3 billion compared to last year.

- The Group stresses the importance of customer deposits as a source of funds to finance lending /financing to customers. They are monitored using adjusted loan/financing to deposit ratio ("LDR") which compares net loans/financing to customers as a percentage of adjusted customer deposits (inclusive of loans/financing sold to Cagamas Berhad and term funding with original maturity of 3 years and above). The Group aims for a LDR of approximately 90% with emphasis placed on supporting loans growth through stable funding sources. As at 31 March 2014, the LDR of the Group remained stable at 88.7% compared to last year.

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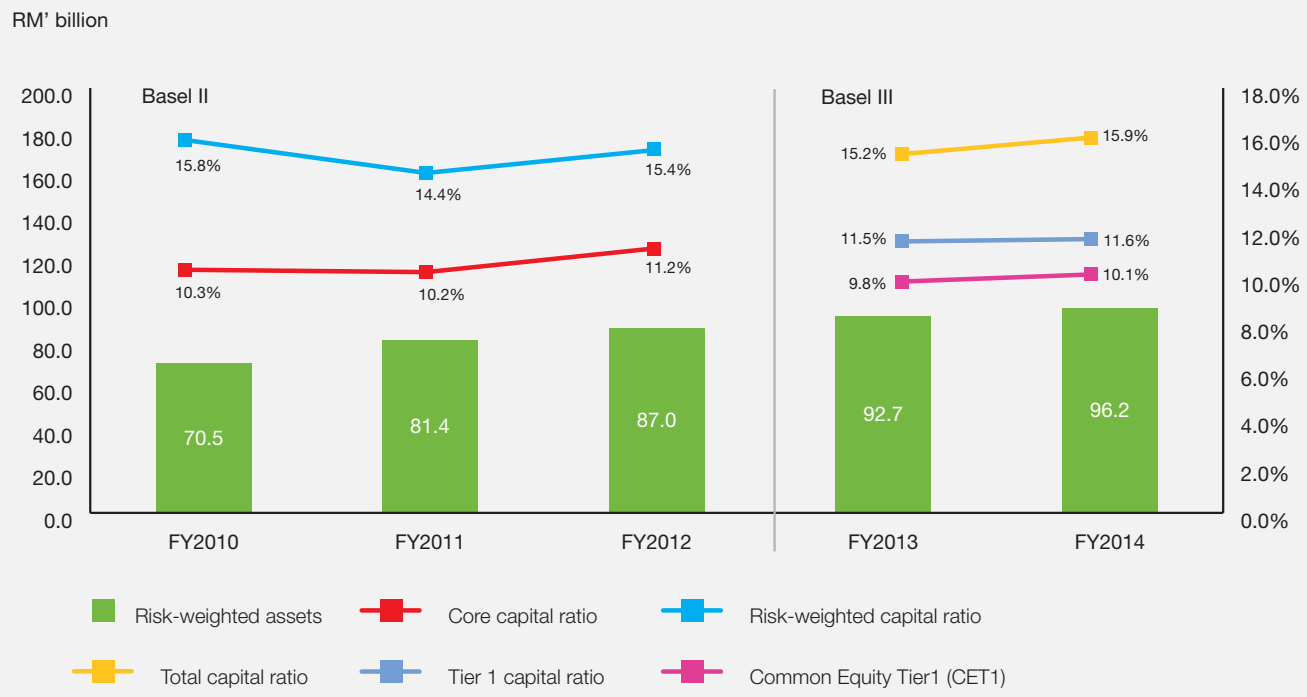
Capital Ratios*



* Based on aggregation of the consolidated capital positions (before proposed dividends) and risk-weighted assets of the regulated banking subsidiaries.

EFFICIENT CAPITAL LEVELS

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.

The Group's banking subsidiaries to which BNM's Risk Weighted Capital Adequacy Framework apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("AmInvestment Bank") and AmIslamic Bank Berhad ("AmIslamic Bank"). With effect from 1 January 2013, the capital adequacy ratios are computed in accordance with BNM's guideline on Capital Adequacy Framework (Capital Components), which is based on the Basel III capital accord.

During the year, the following debt capital was raised:

- AmIslamic Bank implemented a new Subordinated Sukuk Murabahah programme of RM3.0 billion of which RM350 million was raised by 31 March 2014.
- AmBank established a Subordinated Notes programme of RM4.0 billion of which RM400 million was raised by 31 March 2014.

The securities issued under these programmes are fully Basel III compliant and qualified for recognition as Tier 2 Capital for capital adequacy computation purposes.

Our capital levels remain sound, with the Group's aggregated banking entities' total capital ratio, before proposed dividend, at 15.9% (FY2013: 15.2%) and Tier 1 capital ratio of 11.6% (FY2013: 11.5%). Our CET1 levels continue to strengthen organically through capital retention strategies, and remain significantly in excess of minimum regulatory requirements at 10.1% before proposed dividends (FY 2013: 9.8%).

CREDIT RATINGS

During the year, RAM Rating Services upgraded the ratings of the Company to AA3 and its banking subsidiaries to AA2 premised on the continued strengthening of the Group's credit metrics, underscored by its asset quality, balance sheet strength and profitability.

As a consequence of Standards and Poor's revision of its view of Malaysia's economic trend on its "Banking Industry Country Risk Assessment" to Negative, AmBank's credit rating outlook was also revised to Negative. Nevertheless, its credit ratings were reaffirmed.

Moody's rating on AmBank was reaffirmed.

The credit ratings of the Company and its principal subsidiaries are as follows:

Rating Agency	Rating Classification	Ratings
AmBank (M) Berhad		
Moody's Investors Service ("Moody's")	Long-term foreign currency deposit rating	Baa1/Stable
	Short-term foreign currency deposit rating	P-2/Stable
	Bank financial strength rating	D+
Standard & Poor's Ratings Services ("S&P")	Foreign long-term issuer credit rating	BBB+/Negative
	Foreign short-term issuer credit rating	A-2
RAM Rating Services ("RAM")	Long-term financial institution rating	AA2/Stable
	Short-term financial institution rating	P1
AmInvestment Bank Berhad		
RAM	Long-term financial institution rating	AA2/Stable
	Short-term financial institution rating	P1
AmIslamic Bank Berhad		
RAM	Long-term financial institution rating	AA2/Stable
	Short-term financial institution rating	P1
AMMB Holdings Berhad		
RAM	Long-term corporate credit rating	AA3/Stable
	Short-term corporate credit rating	P1

DIVIDEND

Reflecting the better financial performance in FY2014, the Directors are recommending a final single-tier dividend payment of 16.9%, which together with the interim dividend of 7.2% amounts to a cumulative total dividend of 24.1%, up 2.1% compared to FY2013.

Note: The totals of the components in the tables in this section are based on actual summation method and then rounded up to the nearest million.