

# Message from Group Managing Director



*Jean Shueh-Telem*

I take pride in communicating that AmBank Group has delivered a profit result in excess of one billion ringgit for the financial year ended 31 March 2010.

This best ever financial performance in our history caps what has undoubtedly been a year of successes, as despite the uncertainties and volatility from the global financial crisis impacting on the Malaysian economy, we have achieved rating and regulatory upgrades, better than industry asset quality, sound capital positions and continued investments in order to deliver our Medium Term Aspirations (“MTA”).

The Group’s sound performance today is attributed to the collective hard work, teamwork and professionalism of the people in AmBank Group. On behalf of the senior management, I would like to thank all the staff and management for their unwavering dedication and commitment. I would also like to take this opportunity to thank our various strategic partners for their invaluable guidance and continued support.

## OPERATING ENVIRONMENT

The Malaysian banking sector remains resilient notwithstanding the contractions of the domestic and global

economy with strong capitalisation and improving asset quality for the financial year ended 31 March 2010. The banking industry recorded robust lending growth of 9.8% year-on-year (“YoY”), mainly driven by the household segment whilst the business segment grew 4.7% YoY. Industry deposits grew by 8.4% YoY, underpinned by strong YoY growth in demand deposits of 11.0% and savings deposits of 6.5%.

The industry asset quality remains healthy with gross non performing loan (“NPL”) ratio at a low level of 3.5% and net NPL ratio at 1.8% respectively. The capital position of the banking industry also appeared sound with core capital ratio and risk weighted capital ratio at 13.2% and 14.9% respectively. Given the improved economic outlook, Bank Negara Malaysia (“BNM”) indicated its intent to normalise monetary conditions by raising the overnight policy rate (“OPR”) by 25 basis points (“bps”) each in March and May 2010 to 2.50% and hinted at further hikes in OPR over the coming 12 months.

## ROBUST FINANCIAL PERFORMANCE AND FOCUS FOR FY2011

Our goal is to be Malaysia’s **Preferred Banking Group with International Connectivity**. This is reflected in our Medium Term Aspirations to become Malaysia’s top four banking group as measured by customer satisfaction, sound financial performance and well diversified and sustainable growth. The Group broadly operates in seven business divisions, with *Islamic Banking* being a key component operating within and across all the business divisions.

### Retail Banking

*Retail Banking* remained the largest contributor to the Group’s profit after tax and minority interest (“PATMI”), recording RM679.0 million, up 8.1% over the preceding year.

Low cost deposits, a major focus for Retail Banking, grew 17.4% YoY underpinned by the Group’s expanding distribution footprint. Loans grew modestly focused on profitable and

viable segments and with high vigilance placed on asset quality via enhanced credit risk management, collections and recoveries.

The *Retail Banking* focus moving forward will be on developing a liability-led business complemented by asset growth in targeted profitable segments and products, and to grow scale in the wealth management business in the mass and mass affluent segments. For FY2011, we envisage stable profit supported by accelerated CASA and deposit growth, profitable asset growth and lower net provision charge.

### **Business Banking**

*Business Banking* registered a YoY net lending growth of 19.0% with the division targeting lending towards stable sectors and customers with good credit profile. Customer deposits grew at a much faster rate of 85.2% underpinned by cross-selling efforts. The division recorded a PATMI of RM124.0 million due to strong loans growth and lower provisions.

Moving forward, *Business Banking* strategic priorities are to develop a well diversified, profitable and sustainable client base emphasising deposit growth, cash management, quality loans, and international trade finance, and increase its non-interest income. Better profit growth in FY2011 is expected underpinned by income growth from larger asset base and increase in non-interest income via proactive management of existing accounts and enhanced cross-selling efforts.

### **Investment Banking**

*Investment Banking's* PATMI surged 142.3% over the preceding year to RM100.8 million supported by the rebound in capital and equity markets.

*Investment Banking* aims to maintain its market leadership position in capital markets, fund management and stock broking. The division will continue to develop comprehensive end-to-end solutions and strengthen its regional and cross-border business through our strategic partnership with Australia and New Zealand Banking Group ("ANZ").

Higher profits are expected for FY2011 leveraging the upturn in capital and equity markets and increasing cross border business underpinned by closer collaboration with ANZ.

### **Corporate & Institutional Banking**

*Relationship Banking and Regional Business* has been renamed *Corporate & Institutional Banking* during the year to better reflect its identity and key objectives. The division posted PATMI growth of 21.9% to RM104.1 million supported by its diversified loan portfolio. Net loans grew at 81.0% YoY driven by syndication and bridging facilities to government-linked corporations ("GLC") and multinational corporations ("MNC"), as well as project financing with government support and investment banking associated activities.

*Corporate & Institutional Banking* will maintain its strategic agenda to provide innovative, quality products and solutions targeting high net worth clients, MNCs and GLCs. The division will continue to enhance its cross-sell and deposit



L-R: Datuk Bazlan Osman, Chief Financial Officer, TM Group, Dato' Zamzamzairani Mohd Isa, Chief Executive Officer, TM Group, Cheah Tek Kuang, Group Managing Director, AmBank Group and T C Kok, Managing Director, AmInvestment Bank Berhad at the signing ceremony of the Sale and Purchase Agreement with AmMortgage One Berhad, a wholly owned subsidiary of AmBank (M) Berhad for the acquisition of residential loans of TM employees by AmMortgage One.



Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia officiating the launch of the Malaysia Corporate Bond Handbook published by AmBank Group, accompanied by Tan Sri Dato' Azman Hashim, Chairman, AmBank Group and Mr Cheah Tek Kuang, Group Managing Director, AmBank Group.

growth efforts and it expects improved income growth from a larger asset base and fees for the year ahead.

### Treasury & Markets

The Group entered into a Technical Services Agreement in 2008 with ANZ, our strategic partner, in order to accelerate the expansion and development of the Group's foreign exchange, interest rate and commodities businesses. ANZ has since provided AmBank Group with technical, technology and resourcing support to implement and operationalise these businesses. The foreign exchange business, implemented in late 2008, contributed over RM40 million in FY2010. The Derivative business was implemented in late 2009 and is expected to contribute to rising revenues over FY2011.

*Treasury & Markets* moving forward will focus on developing an integrated and substantive client led business and offer the full suite of products/services in foreign exchange, rates, commodities and fixed income instruments. The division expects higher profits in FY2011, particularly from foreign exchange and derivative businesses which are gaining momentum.

### Life Assurance

*Life Assurance* recorded a PATMI of RM32.1 million, up over 100% based on Life Assurance shareholder's fund accounts at AmBank Group. This

is underpinned by growth in fund assets from our enhanced agency network, and focus on cross-selling and product bundling. Life business assets stood at RM2.4 billion, up 17.3% from FY2009.

*Life Assurance* anticipates premium and profit growth in FY2011 via streamlining its processes to improve operational efficiency and leveraging the partnership with Friends Provident Fund plc to diversify its product lines and deliver premium products and customer proposition to selected segments.

I am also pleased to welcome Friends Provident Fund plc, our strategic partner in Life Insurance with a 30% stake in this business.

### General Insurance

*General Insurance's* PATMI contribution to AmBank Group was RM48.6 million, up 27.9%, was attributed to higher gross written premiums supported by our established distribution channels and cross-selling efforts. General insurance fund assets under management amounted to RM1.0 billion.

*General Insurance* aims to become a scale specialist in motor insurance and niche specialist in the commercial and non-motor personal lines with support from Insurance Australia Group ("IAG"), our strategic partner. Rising profits are expected with the launch of new products and increase in share of customer

wallet. We anticipate delivering good synergies from the proposed acquisition of the general insurance business from Malaysian Assurance Alliance Berhad ("MAA"), should we proceed with it.

I would also like to welcome Mr Duncan Brain, our newly appointed CEO of AmG Insurance. Duncan is an experienced professional in general insurance and served as the previous Head of General Insurance of South East Asia businesses for IAG, our strategic partner.

### Best in Class "Key Enablers" in Malaysia

The Group's enablement functions are critical to our MTA. We continue to progress "best in class" practices focusing on the development of leadership and talent management across the Group, implementation of sound risk management and financial governance frameworks, and integrated technology and operations as supporting infrastructure, in order to deliver quality customer service and efficiency.

### Human Resources

The Group aspires to be recognised as an 'Employer of Choice' and will place emphasis on attracting, developing, motivating and retaining the best performing and talented employees. We will continue to enhance our investment in training and performance improvement programmes with focus on technical and managerial areas to further strengthen and enhance our employees' skills and performance. We embrace a merit-based culture that rewards efforts and results. Since FY2008, Short-Term Incentives and Long Term Incentives, comprising Options and Scheme Shares, were introduced aligned to the Group's absolute and relative peer group performances.

### Information Technology

The Group remains focused on improved business alignment, risk and financial governance, and driving operational efficiency via optimizing IT applications and systems. This will require continual focus on realigning technology with business strategies and supporting risk return tradeoffs whilst delivering infrastructure optimisation and rationalisation. In addition, the Group acknowledges the importance of data integrity and information security as evidenced in the Group's continuous investment in security management.



## Risk and Financial Governance

The Group adopts a proactive approach in the area of risk management and financial governance. We continue to develop best in class scorecards, pricing models, funds transfer pricing and asset liability management systems, financial and performance management systems and governance infrastructure required to manage the risk-reward trade-offs. Given the uncertainties and volatility in the financial markets during the year, the Group has reinforced its risk management disciplines via tighter asset writing business strategies, framework and policies to effectively identify, assess/measure, control/mitigate and monitor/review risk.

## Operations

The Group consistently reviews its business operating model and re-engineers its business processes with the aim of improving operational effectiveness, efficiency and cost optimisation. This includes centralising operations and shared services in order to deliver operational efficiencies, specialisation in operational functions and streamlining business flows to improve turnaround time and customer services.

I would also like to welcome Mr Ross Foden, our newly appointed Chief Operations Officer. Ross brings over 30 years of wealth of experience in Operations and Shared Services, mostly with HSBC around the world but also in Malaysia, and also more recently as the COO for ANZ in Asia.

## Customer Centricity and Branding

The Group remains committed to delivering excellent customer service as a key differentiating factor. Our enlarged branch network and distribution footprint plays a pivotal role in providing an accessible, affordable and convenient banking experience to our customers. At present, the Group operates 190 branches throughout Malaysia, including three dedicated Islamic bank branches. With over 780 ATMs located across 12 states and three Federal Territories, the Group has the third largest ATM network coverage in Malaysia.

We plan to open new additional branches in the coming year and have over 200 branches by 2012. Further, we will continue to improve our internet



L-R: Mr Ismitz Matthew De Alwis, Senior Vice President and Head of Business Development, ING Funds Berhad, Mr Cheah Tek Kuang, Group Managing Director, AmBank Group, Tan Sri Tay Ah Lek, Managing Director, Public Bank Berhad and Dato' Steve Ong, Chief Executive Officer, ING Funds Berhad at the launch of the ING Structured Income Fund.

and mobile banking solutions to provide greater convenience to our customers and attract device savvy customers.

Driving AmBank's brand preference and affinity is a key priority to the Group. On-going brand awareness initiatives are carried out with the aim of improving AmBank's top-of-mind recall and its brand value. AmBank Group is ranked No. 14 in Malaysia's 30 Most Valuable Brands 2009, an improvement of three places as compared to the previous year. Our brand value grew by 8.0%, and was one of the only two out of the seven banking brands which managed to grow brand value during 2009.

## AmBANK GROUP'S WINNING STRATEGY

An essential ingredient of AmBank Group's winning formula is having a clear defined Group aspiration underpinned by our universal business model, operating on a fully integrated platform and leveraging the support of our specialist business partners across banking and insurance. We will dynamically re-evaluate and reorganise the business strategies and support

functions to enable delivery of best in class customer centric solutions.

Through accelerating our well diversified growth, customer centric business models and leveraging regional connectivity via ANZ, and access to world class "IP" and skilled resources via our strategic partners, I am confident that we will achieve our Medium Term Aspirations and deliver value to all our stakeholders.

**Cheah Tek Kuang**  
Group Managing Director

Kuala Lumpur  
30 June 2010