AmBank Group

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Bank of the Year 2013 – Malaysia, The Banker

Media Release

17 February 2014

AmBank Group 9MFY14 PAT up 12.9% to RM1,399 million

Stronger earnings, integrations progressing well

AmBank Group (AMMB or the Group) today announced the financial results for nine months ended December 2013 (9MFY14).

9MFY14 performance[1] highlights :

- PATMI (profit after tax and non-controlling interests) increased 9% to RM1,330 million supported by stronger profit contribution from retail banking and insurance divisions
- ROE at 14.2% (+0.2%), ROA of 1.45% (+0.07%) and EPS of 44.2 sen (+8.8%)
- CTI (cost to income ratio) trended down to 46.4%
- Net lending grew 4.3% with growth focused on selective customer segments and economic sectors. Sound credit quality with gross impaired loans at 1.98%, loan loss coverage of 119.3% and loan loss charge of 0.01%
- CASA (low cost deposits) rose 12.4% to compose 20% of total customer deposits. Customer deposits grew 5.4%
- LDR (loans to deposit ratio) at 88.6%
- Capital of the aggregated banking entities are above regulatory minimum with CET-1 (common equity tier-1) at 9.2%, Tier 1 at 10.8% and total capital at 14.9%, when computed in compliance with Basel III requirements

Mr Ashok Ramamurthy, Group Managing Director, AMMB Holdings Berhad said, "We are pleased to report continued growth in profits on a year-on-year basis, supported by growth in Retail Banking (+15.2%), General Insurance (+54.8%) along with Life Assurance and Family Takaful (+>100%). We are progressively delivering on our strategic agenda for the medium term (FY14-16).

In ***(1) Integrate acquisitions and deliver synergies***, we are on track to complete most of the integration activities and deliver target cost synergies for Kurnia and MBf Cards by June this year. Additional focus will be placed during

[1] All growth percentages computed on year-on-year (yoy) 9MFY14 vs 9MFY13 basis unless otherwise stated

FY2015 and beyond on growing our top line via tapping the enlarged agency force, merchant base and customers.

As part of ***(2) Simplify business model and streamline processes***, we are in the midst of implementing a "Save to Invest" program with the objective of building both a customer centric organization and delivering greater operational efficiencies across the Group. We will complete restructuring our non-retail banking divisions by 31 March 2014 which involves the consolidation of five divisions, namely Business Banking, Corporate and Institutional Banking, Investment Banking, Markets, and Transaction Banking into two divisions under Wholesale Banking. The new wholesale banking model aims to enhance customer experience across sales, product solutions and servicing.

We have also successfully rolled out Phase 1 of our new core banking system in November last year. Built within two years, this is a large and complex implementation as it simultaneously replaces our core banking platform, teller front end system and a new Enterprise Data Warehouse. Its functionalities are anticipated to pave the way for operational improvements and enhanced customer experience in retail banking and enablement functions over time.

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. Customer value propositions are under development to enhance cross-selling to target segments in retail banking and small business.

To ***(4) Build scale in specialist business with partners*** we have recently chosen MetLife as our strategic partner in Life Assurance and Family Takaful. We are awaiting regulatory approvals and expect to launch this partnership in early FY2015. More details will be provided on this once approvals are obtained. We will also continue to leverage our existing strategic partners namely ANZ (Australia and New Zealand Banking Group Limited) in banking and IAG (Insurance Australia Group Limited) in general insurance.

Finally, ***(5) Optimise capital and holding company structures*** involves continuous capital management to balance capital for growth and to meet regulatory requirements. We are in the midst of streamlining our subsidiaries to release dormant capital, and have commenced a program to deliver on an Internal-Ratings-based (IRB) approach to manage risk over the next 18 months.

With our persistent focus on risk-adjusted returns and consistent profitability, RAM Ratings have upgraded the ratings[3] of AmBank (M), AmIslamic and AmInvestment Bank to AA_2 while the Group's ratings have also been upgraded to AA_3.

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[3] In November 2013, RAM Ratings upgraded the financial institution ratings of AmBank (M) Berhad, AmIslamic Bank Berhad and AmInvestment Bank Berhad, from AA_3/Positive/P1 to AA_2/Stable/P1. AMMB Holdings Berhad (together with its subsidiaries, known as the AmBank Group), has also been upgraded, from A_1/Positive/P1 to AA_3/Stable/P1

Divisional performance led by good growth in retail banking and insurance businesses

The Group's PAT increased 12.9% to RM1,399 million with growth contributions from Retail Banking (15.2%), General Insurance (+54.8%) as well as Life Assurance and Family Takaful (+>100%) while Wholesale Banking was 9.2% lower. Islamic Banking forms an integral part of the divisional profits.

Retail Banking: Higher profits from integrating MBF Cards and better asset quality

Retail Banking PAT rose 15.2% to RM504.6 million partly benefiting from integration of MBF Cards and better asset quality. The division had strong customer deposits and CASA growth underpinned by new integrated campaigns, segment based strategies and leveraging channels as well as alliances.

Wholesale Banking consists of Business Banking, Corporate and Institutional Banking, Investment Banking, Markets, and Transaction Banking.

Business Banking: Improved asset quality, stronger deposits growth

Corporate and Institutional Banking: Sustained loans growth

Investment Banking: Diversified contribution across businesses

Markets: Performance impacted by continued volatility in market

Business Banking contributed PAT of RM281.6 million with stronger loans and CASA growth, and lower provisions. ***Corporate and Institutional Banking*** PAT was RM277.8 million with lower deposits as a by-product of management efforts to reduce depositors concentration. ***Investment Banking*** PAT of RM31.4 million reflects diversified contributions across all businesses, offset by provisioning relating to AmFraser. ***Markets*** PAT was RM111.7 million contributed by healthy volumes from foreign exchange and derivatives sales.

General Insurance: Higher premium from integration of Kurnia

General Insurance PAT rose 54.8% to RM137.4 million from enlarged scale with the integration of Kurnia as well as stronger investment and trading income. Post integration later this year, additional focus will be placed on growing the top line in both motor and niche general insurance segments.

Life Assurance & Family Takaful: Stronger gross written premiums growth

Life Assurance & Family Takaful PAT rose to RM40.3 million with stronger gross written premiums from both agency and corporate channels.

Strong non-interest income growth, expenses reflect investments for growth

Total income increased 12% to RM3,608 million driven by non-interest income growth (+33.7%) to RM1,349 million and net interest income growth (+2.1%) to RM2,259 million.

Non-interest income growth from cross-selling and collaborative efforts

The consistent non-interest income growth reflects cross-selling and collaborative efforts across the Group's diversified portfolio with higher contributions from general insurance (+69.4%), life and takaful (+>100%) coupled with fee income (+6.8%). Non-interest income makes up 37% of total income compared to 31% a year ago.

Improved cost of funds

Net interest income growth reflects moderating loans growth and continued margin pressure. NIM (net interest margin) was 2.58%. Cost of funds continued to improve to 3.09% as increased CASA composition enhanced the Group's funding mix.

CTI improved to 46.4% notwithstanding our ongoing strategic investments for growth and acquisitions.

<u>Being selective in loans growth, asset quality remains sound</u>

Gross loans grew at 4.1% to RM86.8 billion as the Group focuses on risk-adjusted returns and executes its strategy to grow in selected customer segments and economic sectors.

Faster non-retail loans growth

Retail loans increased 1.5% to RM49.5 billion supported by growth in selected preferred segments. Non-retail loans consisting business and corporate loans expanded faster than retail loans at 7.8% to RM37.3 billion. Non-retail loans growth focused on preferred sectors like construction, manufacturing as well as oil and gas.

Larger composition of non-retail loans at 43%

The Group's loans portfolio now constitutes 43% non-retail and 57% retail with a conventional to Islamic loans mix of 73:27.

Asset quality remains sound with impaired loans ratio at 1.98%, loan loss coverage at 119.3% and loan loss charge (loan loss allowance as a proportion of average net loans) at 0.01%.

<u>Diversified funding sources, customer base and maturity profile</u>

CASA composition at 20%

Customer deposits rose 5.4% to RM95.8 billion. CASA grew 12.4% to RM17.3 billion and makes up almost 20% of total customer deposits.

LDR is within our targeted range at 88.6% and reflects improving funding composition. The Group's funding is supplemented by medium term notes, subordinated musyarakah sukuk, senior notes, senior sukuk and loans sold with recourse to Cagamas.

Adopted Basel III, in progress to optimise capital and holding company structure

Capital ratios of the aggregated banking entities were 9.2% CET-1 (common equity tier-1), 10.8% tier-1 and 14.9% total capital, post implementation of Basel III. These ratios were well above the regulatory minima.

Prospects for financial year ending 31 March 2014

For calendar year 2014, the Group expects the domestic economy to grow 4.8% yoy depending on private investment and exports while private consumption is anticipated to soften.

Moderate growth expected in 2014

The focal point in 2014 and 2015 will be inflation, driven by on-going rationalisation of subsidy, pre-GST and GST impacts, as well as public debt. We anticipate the authorities to continue to adopt prudent and pragmatic macroeconomic policies, reining in the fiscal deficit and public debt. Monetary policy will remain prudent to support economic growth and contain inflationary pressures.

"We see some headwinds in the banking environment, with loans growth moderating in line with economic outlook and measures to address high household debts whilst margin remains under pressure from stiff price-based competition. We will continue to remain agile and responsive to the environment.

The Group was recently awarded Bank of the Year in Malaysia 2013 from the UK-based magazine, *The Banker.* This reflects the Group's continued strive to improve and break new grounds in a customer centric way, with a sound business model, and commitment to optimise shareholder value. Our strategic agenda remains unchanged and we will stay disciplined in our execution in order to deliver on our full year FY2014 guidance," **Mr Ramamurthy** concluded.

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