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Media Release

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AmBank Group H1FY15 PAT up 10.9% to RM1,048.6 million

Stronger QoQ performance reflecting ongoing transformation

AMMB Holdings Berhad (AmBank Group or the Group) today announced financial results for first half ending 31 March 2015 (H1FY15). PATMI increased 8.9% to RM982.8 million and ROE at 14.3%.

<u>H1FY15 performance[1] highlights :</u>

- PATMI (profit after tax and non-controlling interests) increased 8.9%[2] to RM982.8 million, ROE of 14.3%[2] underpinned by non-interest income
- ROA (return on asset) at 1.65% (+0.18%) and basic EPS (earnings per share) at 32.7 sen (+8.8%)
- CTI (cost to income ratio) improved 4.5% to 43.3%[2] with expense management supporting ongoing investments
- CASA (current account savings account) composition stable at 20%, CASA grew 3.6%
- Net lending at RM84.7 billion (+1.4%) as the Group focused growth on target segments. LDR (loans to deposits ratio) at 89.3%
- Asset quality within expected level with gross impaired loans ratio improving 16bps to 1.79% and loan loss coverage above industry average at 117.7%
- Capital of the aggregated banking entities are above regulatory minima with CET-1 (common equity tier-1) at 10.3%, tier-1 at 11.7% and total capital ratio at 16.1%, when computed in compliance with Basel III requirements

Mr Ashok Ramamurthy, Group Managing Director, AMMB Holdings Berhad said, "Our first half performance reflects ongoing transformation initiatives. PATMI increased 8.9% while ROE was 14.3%. Quarter-on-quarter (QoQ), momentum has picked up with underlying PATMI up 35.4% compared to Q1FY15.

"Our new consolidated wholesale banking model has been implemented and is gaining momentum in preferred sectors and segments. Our focus is on increasing our customers' share of wallet and building new relationship in targeted sectors.

"We are rebalancing our loans portfolio with stronger growth in targeted segments. Net loans grew 1.4% reflecting the impact of our cautious credit risk appetite in selected segments in Retail and as we reprioritise coverage by segment and sector in wholesale (non-retail loans).

"Our regulatory capital levels are being managed in line with our expectations on future

[1] All growth percentages computed on year-on-year (yoy) H1FY15 vs H1FY14 basis unless otherwise stated
[2] Includes one-off divestment gain of AmLife and AmFamily Takaful

Holding Company Basel III requirements. The Board has proposed an interim dividend of 12.0 sen."

Progressively delivering on our strategic agenda

Strategic priorities for FY2015 - 2017

Commenting on the Group's progress in executing to its Strategic Priorities for FY15 to FY17, **Mr Ramamurthy** said, "We are progressively delivering on our strategic agenda along the key themes of focused growth, leverage investments and optimise enablers.

1. Deliver on focused organic growth

"Firstly, **deliver on focused organic growth**. Under Retail Banking, we have recently rolled out our new Small Business Banking (SBB) solutions nationwide offering a refreshed and an extended suite of solutions for small business owners. SBB's tagline, "In Partnership, We Grow", aptly represents the heart of our value proposition to customers. We aim to be a 'partner' to our SBB customers, closely understanding their business as well as personal financial needs, and thereby matching these needs with tailored solutions.

"The consolidation of our wholesale banking operating model has been completed. Our aim is to (1) enhance customers' experience by referring to our Relationship Managers as a single point of contact across sales, product solutions and services; and (2) achieve product excellence through dedicated product specialist teams.

"We have also commenced Phase 2 of our core banking system implementation with target completion within 18 months.

2. Leverage strategic partnerships and deliver on acquisitions

"Secondly, **leverage strategic partnerships and deliver on acquisitions**. We are at the tail end of system integration for both MBF Cards and Kurnia, anticipating completion by end of this year. For H1FY15, with MBF Cards, we achieved cost synergies of RM13.8 million and revenue synergies of RM2.9 million while with Kurnia, we have fully delivered expected cost synergies.

"In General Insurance, a new CEO from our strategic partner in general insurance, IAG (Insurance Australia Group Limited), has been appointed while our partnership with MetLife has seen progress in the leadership space. We recently appointed a new CEO for life assurance, and made several other key appointments to the leadership team and the board.

3. Continue to optimise efficiency

"Thirdly, **continue to optimise efficiency**. We have issued a USD400 million senior notes programme to strengthen our funding position. We are rationalising our subsidiaries and non-core operations to release dormant capital. While, for greater operational efficiency, the streamlining of our internal organisation structure is ongoing.

4. Build sustainability

"Fourthly, **build sustainability**. Our focus is on governance and compliance, our customers and our people. We are investing in significant governance and compliance projects. For better customer experience, we are upgrading our digital (internet and mobile) banking platforms. Just yesterday, we launched an all new ambankgroup.com website which is more mobile and tablet responsive.

"Our people agenda is also being strengthened with various initiatives around building leadership and increasing talent mobility. More recently we embarked on a Total Target Remuneration Project to align and enhance rewards and recognition throughout the organisation."

Divisional performance YoY led by stronger profit growth in insurance division

The Group's PAT (profit after tax) grew 10.9% to RM1,048.6 million underpinned by non-interest income. Divisional performance for H1FY15 compared to H1FY14:

Retail Banking: Targeted growth

Retail Banking PAT contribution of RM232.3 million with margin compression and higher provisions, offset by lower expenses from cost management and productivity initiatives. Loans growth reflects more cautious credit appetite and targeted growth. Customer deposits growth was underpinned by segment led initiatives. The division remained focused on expanding fee based income via bancassurance and wealth management.

Wholesale Banking: Diversified contribution across businesses

Wholesale Banking PAT contribution of RM470.6 million supported by diversified contributions and cost management initiatives, partially offset by moderate loans growth focused on preferred sectors and normalised recoveries. Broking, fixed income, funds management and private banking delivered improved performance while assets under management had good growth.

General Insurance: Delivered stronger investment income

General Insurance's PAT rose 57.8% to RM132.5 million from stronger investment income, lower expenses and improved claims management. With integration activities at a tail end, focus is shifting towards business acquisition activities using a dual brand strategy.

Life Assurance and Family Takaful : New corporate website launched

Life Assurance and **Family Takaful's** strategic partnership with MetLife International Holdings Inc was completed on 30 April 2014. A new corporate website has since been launched together with a series of 'Live Ready' campaigns. Moving forward, key focus will be placed on strengthening distribution channels; investing in IT to support growth; aligning policies and processes in human resources, risk management / compliance and actuarial / finance; developing core organisational talents; and strengthening leadership teams.

Islamic Banking : Strong financing growth

Islamic Banking, which forms an integral part of the Group's business divisions, had PAT of RM120.6 million. Profits were impacted by lower income and higher provision, partly offset by lower expenses from continued cost management initiatives. Income reflects realignment of loans portfolio and continued margin compression. Islamic Banking delivered double-digit strong wholesale financing growth while retail financing remained focused on targeted growth.

Stronger income contributions from trading and general insurance

Total income increased 9.2% to RM2,590.3 million supported by non-interest income growth (+41.6%) to RM1,178.1 million. Higher non-interest income contributions came from General Insurance (+10.8%) along with trading and investment gains (+100%) which includes gross divestment gain on AmLife and AmFamily Takaful.

Net interest income was RM1,412.1 million (-8.3%), impacted by moderate loans growth. NIM (net interest margin) was 2.49% while COF (cost of funds) increased to 3.14% as deposits were re-priced on the back of OPR (overnight policy rate) hike.

Disciplined cost management to support ongoing investment

CTI improved to 43.3% as the Group maintains disciplined cost management to support ongoing investments. Over the next 12 to 18 months, key investments underway to deliver growth, optimise efficiency and build sustainability include Phase Two of the Group's core banking system upgrade, retail application scorecards enhancement, branch investment and network expansion, GST readiness, de-tariff risk selection and pricing engine, along with ongoing "Save-to-Invest" programme to enhance organisational efficiency.

Modest loans growth reflects realignment of portfolios and segments

Net loans growth moderated to 1.4% with total loans portfolio of RM84.7 billion supported by expansion in wholesale loans and mortgage.

Total loans is now composed of 55% retail loans and 45% non-retail loans.

Asset quality within expected level

Asset quality remains within expected levels. Gross impaired loans was 1.79%, loan loss charge at 0.20% while loan loss coverage of 117.7% is above industry average.

Stable CASA composition

Customer deposits was RM94.8 billion supported by CASA growth (+3.6%) to RM17.1 billion. CASA constitutes 20% of total customer deposits.

The Group set up a USD2 billion Euro Medium Term Note (EMTN) programme and issued at RM400 million post Q1FY15. This programme diversifies the Group's funding base and provides ability to raise term funding at competitive rates regionally.

Capital within internal targeted range

Capital levels within Basel III levels

The Group's capital levels for the aggregated banking entities are above Basel III requirements and internal targeted range. CET-1 at 10.3%, Tier-1 of 11.7% and total capital ratio at 16.1%. Overall Group capital levels are being managed in line with our expectations of Basel III Holding Company requirements by 2020.

Key measures underway to optimise capital structure and efficiency include rationalising subsidiaries and non-core operations, releasing dormant capital, streamlining internal organisation structure for greater efficiency and building advanced internal rating based (AIRB) capabilities.

Prospects for financial year ending 31 March 2015

Malaysia's GDP to grow circa 5.9% in 2014

The Malaysian economy registered a strong growth of 6.3% year-on-year in first half 2014 (4.4% year-on-year growth in first half 2013), mainly supported by trade. For full year 2014, the Group expects Malaysia's gross domestic product to grow circa 5.9%.

Moving into 2H2014, trade will continue to support Malaysian economic growth, spurred by demand from our major trading partners and new markets. Domestic economic activities will further support growth.

In the banking sector, lending growth is anticipated to be driven by a broader base of both consumer and corporate demand. Moving forward, rising cost from the ongoing rationalisation of subsidy, impact of the goods and services tax and further upward pressure on borrowing costs are expected to weigh down household spending while some pressure on asset quality is anticipated.

"The business and economic environment is becoming increasingly challenging, while compliance requirements continue to rise. Looking ahead, we will remain dynamic and responsive to drive growth. We are committed to our FY15-17 strategic agenda," **Mr Ramamurthy** concluded.

For investor and analyst enquiries, contact: Mandy Simpson Chief Financial Officer, AmBank Group Tel: 603 – 2036 2633 ext 6521 Email: mandy-simpson@ambankgroup.com Website: http://www.ambankgroup.com	***For media enquiries, contact*:** Syed Anuar Syed Ali Senior Vice President / Head, Group Corporate Communications & Marketing, AmBank Group Tel: 603 – 2036 1703 Email: sasa@ambankgroup.com