AmBank Group

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Media Release

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AmBank Group 9MFY15 PAT up 7.9% to RM1,494.5 million

AMMB Holdings Berhad (AmBank Group or the Group) today announced financial results for nine months ending 31 March 2015 (9MFY15).

9MFY15 performance[1] highlights :

- PATMI (profit after tax and non-controlling interests) increased by 6.1%[2] to RM1,399.4 million due to non-interest income, expense management and lower allowances, which translates to a ROE of 13.5%[2]
- ROA (return on asset) rose by 0.13% to 1.56% and basic EPS (earnings per share) increased by 6.1% to 46.5 sen
- CTI (cost to income ratio) improved 1.7% to 45.0%2 with expense management supporting ongoing investments
- CASA (current account savings account) grew 6.8% and comprises 21% of total customer deposits
- Net lending rose by 1.1% to RM85.7 billion as the Group focused on growing in its target segments. Adjusted LDR (loans to deposits ratio) at 85.9%
- Asset quality remained stable with gross impaired loans ratio at 1.88% and loan loss coverage at 106.0%
- Capital of the aggregated banking entities are above regulatory minima with CET-1 (common equity tier-1) at 10.4%, tier-1 at 11.8% 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, "The Group's PAT increased 7.9% underpinned by non-interest income, expense management and lower allowances. Expenses remain well contained through continued emphasis on cost discipline, investing for the future and synergies from acquisitions.

"On a QoQ (quarter-on-quarter) basis, our balance sheet growth momentum has picked up. Customer deposits expanded 5.2% whilst net loans grew 1.2% driven by growth in wholesale and mortgages.

"Overall the Group's asset quality was stable with gross impaired loans at 1.88% and loan loss coverage above the 100% mark. We have adopted a more conservative risk appetite on selected segments, focused on acquisition of better risk grade customers as well as enhanced our collection efforts. These have led to improving asset quality in particular within Retail Banking.

"Our regulatory capital levels remain above the minima and at comfortable levels. We will continue to proactively manage our capital for future Financial Holding Company and Basel III

[1]All growth percentages computed on year-on-year (yoy) 9MFY15 vs 9MFY14 basis unless otherwise stated
[2] Includes one-off divestment gain of AmLife and AmFamily Takaful

requirements."

Senior Management transition plan

As part of the Group's ongoing succession planning, the Group has on 29 January 2015, confirmed that Mr Ramamurthy will be stepping down as Group Managing Director in due course to rejoin his family in Australia and resume his career in a senior executive role at Australia and New Zealand Banking Group Limited.

The Board has kicked off the process of identifying the Group's next Group Managing Director and in the meantime, Mr Ramamurthy remains in charge of AmBank Group until the transition to his replacement.

Divisional performance for 9MFY2015 compared to 9MFY2014

The Group's PAT (profit after tax) grew 7.9% to RM1,494.5 million underpinned largely by non-interest income. Divisional performance for 9MFY15 compared to 9MFY14:

Retail Banking: Auto Finance portfolio rebalancing and margin compression

Retail Banking PAT decreased by 35.4% to RM310.2 million due to: (i) loan contraction in line with the Group's policy of de-risking its auto finance portfolio; (ii) margin compression from portfolio rebalancing efforts to higher quality assets; and (iii) higher provisions in the first half of the financial year, which was followed by a significant 15% reduction in impaired loans in the third quarter from intensified collection efforts together with the progressive impact of the rebalancing benefits of auto finance portfolio.

Excluding the auto finance segment, PAT would have declined by a slower 6.5% from margin compression effect while gross loans grew 1.9% supported by strong mortgage growth. Customer deposits grew 5.5% YoY, in which the small business segment, soft launched in September this year, delivered good CASA growth of 6.6% sequentially for the quarter.

Expenses remain well contained from a continued emphasis on cost discipline, execution of investments and synergies from acquisitions.

On our Cards business, we are pleased to announce that AmBank Cards and MBF Cards are now operating on a Single IT Platform. This allows a more seamless experience and greater convenience to our customers. Additionally, to continue enhancing our customer experience, we have recently introduced a new dual function debit Mastercard for easy and cash-less transactions.

Our digital (internet and mobile) banking platform upgrades are in progress. We have recently launched Phase 1 of TRUE lab, Malaysia's first banking crowd-sourcing community platform. This online community platform allows customers to contribute and vote for ideas on banking solutions to promote engagement and ownership among customers.

Wholesale Banking: Momentum picked up in third quarter

Wholesale Banking PAT declined by 5.7% to RM712.5 million due to a weaker first half of corporate loans growth and capital market activities.

Third quarter momentum has since picked up with higher draw-downs of loans and execution of capital market deals.

Markets trading performed strongly in the first half but was impacted by fixed income sell-offs in the third quarter, leading to flat trading outcomes year-to-date. Markets sales experienced stronger demand in the third quarter for foreign exchange and derivative products amidst the strengthening US dollar, partly offset by compressed margins from increased competition.

Expenses were lower from right-sizing initiatives, while provisions improved despite a large well secured corporate impairment, partly offset by lower recoveries.

Low-cost deposits grew strongly, up 7.8% QoQ.

General Insurance: Delivered stronger investment income

General Insurance's PAT rose 47.6% to RM193.9 million from improved claims management, higher investment gains and lower management expenses.

During the quarter, the IT system integration for Kurnia Motor business was completed with progressive branch rollouts underway. Focus has now shifted to topline premium growth and improvements in supply chain management.

Life Assurance and Family Takaful : Formed strategic partnership with MetLife

Life Assurance and **Family Takaful** completed their strategic partnerships with MetLife International Holdings Inc on 30 April 2014, and their results were equity accounted effective 1 May 2014.

Medium term investment plans to drive future growth are (i) brand enhancement, (ii) strengthening distribution channels, (iii) investing in information technology, (iv) aligning policies and processes, as well as (v) developing talents and leadership teams. Since the partnership, the new brand AmMetLife was rolled out, and several key appointments were made including the new CEO for AmMetLife.

Islamic Banking : Strong financing growth

Islamic Banking, which forms an integral part of the Group's business divisions, registered a PAT growth of 2.6% to RM184.3 million supported by lower allowances from stronger corporate recoveries and continuous collection efforts. Income was lower due to continued margin compression and realignment of Retail's financing portfolio. Islamic Banking delivered double-digit growth for wholesale financing while retail financing was stable as focus remained on targeted segments.

QoQ balance sheet momentum picking up, Retail asset quality improving

Net loans growth picking up

QoQ, net loans grew 1.2% driven by non-retail loans (+4.4%) and mortgages (+1.7%), partially offset by auto finance (-3.2%) in line with the Group's portfolio rebalancing strategy and emphasis on variable-rate loans. Variable-rate loans now accounted for 67% (up from 59% a year ago) of total loans. Retail and wholesale customers account for 54% and 46% respectively of the loan portfolio.

Low-cost deposits, which comprised of current accounts and savings accounts, expanded 7.8% QoQ and 6.8% YoY, which was faster than industry, driven by initiatives focussed on targeted segments and campaigns catered to young professionals and small businesses. CASA constitutes 21% of total customer deposits.

Stable asset quality

The Group's asset quality stabilised with gross impaired loan ratio at

1.88%. Annualised loan loss charge of 0.04% was in line with better credit quality underwriting while loan loss coverage was at 106%.

Retail Banking's gross impaired loans demonstrated improving trends across auto finance and mortgage portfolios, supported by close monitoring of portfolios and stepped-up collection efforts.

Wholesale Banking's higher gross impaired loans as at 4QFY2015 were mainly impacted by a large well secured corporate impairment.

Stronger non-interest income, expenses well contained

Total income was up 0.3% to RM3,601.7 million, supported by non-interest income which rose 19.0% to RM1,511.1 million. Higher non-interest income contributions stemmed from assets under management (+4.2%) together with trading and investment gains (+100%), which includes the gross divestment gain on AmLife and AmFamily Takaful.

Excluding the one-off divestment gain, operating performance moderated reflecting ongoing portfolio rebalancing, cautious risk appetite and volatile capital market activities.

Margins continued to be under pressure from the group's portfolio rebalancing strategy targeting better risk-grade customers and market intensity for deposits.

CTI improved to 45.0% as the Group continued to emphasise cost discipline through our Save-to-Invest program to enhance organisational efficiency, investing for the future and integration synergies from our earlier acquisitions.

Capital levels at comfortable levels

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 10.4%, Tier-1 of 11.8% and total capital ratio at 16.1%. The Group proactively manages the capital in line with our expectations of Basel III Financial Holding Company requirements.

Key measures are underway to optimise capital structure and efficiency, including the rationalisation of subsidiaries and non-core operations, release of dormant capital, streamlining of internal organisation structure and building of advanced internal rating based (AIRB) capabilities.

Prospects for financial year ending 31 March 2015

External sentiment deteriorating

The second half calendar year 2014 experienced the sharp decline of commodity prices and depreciation of Ringgit Malaysia. Coupled with the upcoming implementation of GST (Goods and Services Tax), business and consumer sentiment has turned cautious. We have completed the thematic reviews on specific sectors/segments in the light of recent market events and revalidated our risk appetite settings across all sectors. We have continued to stay short and risk averse on rates in the financial markets.

CSR engagement in flood relief

On the flood that affected many families across Peninsular Malaysia, we do not expect material impact to our insurance business. We are cautious on potential asset quality deterioration and will closely monitor flood-affected portfolios.

Mr Ramamurthy said, "We are committed to our communities and customers we serve. Recognising that our customers may be experiencing difficulties as a result of this natural disaster, we took rapid actions to set up various flood assistance programmes.

"We have offered a moratorium of up to six months on affected customers' instalments/repayments as well as waivers on all incidental and replacement charges on passbooks, certificates and cards. Customers may contact our hotlines or branches should they require assistance. We have also donated essential and monetary items for the families affected by the flood."

Malaysia's GDP to grow 4.7% - 5.0% in 2015

For 2015, the Group expects economic growth to moderate to 4.7% - 5.0% due to declining global crude oil price, slower increase in government spending and dampened exports contribution. Domestic consumption in the near term is expected to be soft, weighed down by high household debt levels amidst rising cost of living.

Business and economic conditions are expected to remain challenging while compliance requirements increase over the longer term. In the near to medium-term, the banking sector is expected to experience slower loans growth and narrower net interest spreads while asset quality may come under pressure.

Focus on managing cost, credit quality & liquidity

"At AmBank Group, we will remain dynamic and responsive with key measures in place to drive growth, supported by ongoing investments to improve our capabilities and customer experience. We are focussed on managing cost, credit quality and liquidity to deliver on our FY2015-17 aspirations," **Mr Ramamurthy** concluded.

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