AmBank Group

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Media Release

22 August 2014

AmBank Group Q1FY15 PAT up 17.4% to RM567.8 million

Non-interest income growth and disciplined cost control underpinned results

AMMB Holdings Berhad ("AmBank Group" or "the Group") today reported financial results for first quarter ending 31 March 2015 (Q1FY15). PATMI increased 16.2% to RM536.9 million, ROE up 0.9% at 16.0% and EPS rose 16.1% to 17.9 sen.

Q1FY15 performance[1] highlights:

- PATMI (profit after tax and non-controlling interests) increased 16.2% to RM536.9 million supported by non-interest income growth
- ROE (return on equity) at 16.0% (+0.9%), ROA (return on assets) of 1.78% (+0.26%) and basic EPS (earnings per share) of 17.9 sen (+16.1%)
- CTI (cost to income ratio) improved 5.1% to 42.7%, maintained disciplined cost management to support ongoing investments
- CASA (current account savings account) grew 4.5% and makes up 22% of total customer deposits. LDR (loans to deposits ratio) at 90.0%[2]
- Net lending at RM85.6 billion (+1.5%) as the Group continued to focus growth in target segments
- Gross impaired loans ratio at 1.87% (-0.01%) and loan loss coverage above industry average at 120.5%. Loan loss charge of 0.38% is at expected level as recoveries normalised
- Capital of the aggregated banking entities is above regulatory minima with CET-1 (common equity tier-1) at 10.3%, 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 commented, "The Group's PATMI increased 16.2% and ROE rose to 16.0% underpinned by a one-time gain from sale of a circa 50% partnership stake in AmLife and AmFamily Takaful partly offset by higher provisions due to normalisation of recoveries. CASA grew 4.5% supporting our focused loans growth in target segments. CTI improved to 42.7%, notwithstanding ongoing investments to deliver growth, optimise efficiency and build sustainability.

[1] All growth percentages computed on year-on-year (yoy) Q1FY15 vs Q1FY14 basis unless otherwise stated
[2] Customer deposits includes stable funding sources

"We have prioritised a number of key initiatives to drive growth. In Retail Banking, plans are underway to deliver solutions to new target value segments particularly in emerging affluent and small business to drive deposits and fee based income growth. We are enabling and enhancing our digital platform as well as increasing our digital presence and social media via collaborations with business partners.

"Wholesale Banking's new operating model which became effective on 1 April 2014 is stabilising, with new coverage teams set up to focus on targeted sectors and segments.

"On General Insurance, we have achieved cumulative cost synergies of RM66.7 million to-date, and we are targeting to complete the Kurnia integration by this calendar year.

"Our strategic partnership with MetLife (MetLife International Holdings) was completed on 30 April 2014, with the aim of creating a modern, innovative, customer-centered insurer in Malaysia. Key areas of focus for the coming months include enhancing our brand; strengthening distribution channels; investing in information technology; aligning policies and procedures in human resources, risk/compliance, actuarial/finance; developing core organisational talents; and strengthening leadership teams.

"More recently, to diversify our funding base, AmBank (M) successfully completed its maiden US Dollar Senior Unsecured Notes issuance of USD400 million under its USD2.0 billion Euro Medium Term Note Programme. This transaction was a success, being more than 10 times oversubscribed with orders of over USD4.25 billion from 190 accounts. It demonstrates our strong reputation as one of the top tier banks in Malaysia and reflects the confidence that investors have in our credit profile, sound financial strategy and strength together with our solid business model."

Stronger profit growth in General Insurance

Divisional performance for Q1FY2015 compared to Q1FY2014:

Retail Banking: Targeted growth

Retail Banking PAT at RM132.7 million. Income was impacted by margin compression and loans growth remains under pressure in the short term reflecting tightening of credit policies. Loans growth was targeted in profitable segments with mortgage delivering good growth. Customer deposits growth was supported by on-going marketing campaigns and leveraging distribution channels.

Wholesale Banking: Diversified contribution across businesses

Wholesale Banking PAT at RM232.6 million underpinned by strong Corporate Finance performance (advisory and underwriting fees) and cost management initiatives across Wholesale Banking, partially offset by margin compression, lower broking volumes and lower foreign exchange and derivative performance. Moderate loans growth reflects large repayments. Good growth was recorded in low cost deposits and assets under management. New Wholesale Banking operating model commenced operations on 1 April 2014.

Insurance: General Insurance delivered stronger investment income, Life Assurance and Family Takaful sealed partnership with MetLife

General Insurance's PAT rose 47.6% to RM62.6 million from stronger investment income. The division continued to focus on both motor and niche general insurance segments.

Life Assurance and **Family Takaful** completed strategic partnership with MetLife International Holdings Inc on 30 April 2014.

CTI stable at 42.7%, disciplined cost management to support ongoing investments

Total income increased 22.6% to RM1,462.5 million supported by non-interest income growth (+87.0%) to RM767.3 million. Higher non-interest income contributions came from general insurance along with trading and investment gains which includes gross divestment gain on AmLife and AmFamily.

Margins remain a challenge

Net interest income was RM695.2 million (-11.2%), reflecting continued margin compression, moderate loans growth and divestment of our life assurance business. NIM (net interest margin) was 2.45% while COF (cost of funds) was at 3.13%.

Ongoing investments to deliver growth, optimise efficiency & build sustainability

The Group will continue its disciplined cost management for ongoing investments planned over the next 12 to 18 months to deliver growth, optimise efficiency and build sustainability. Key investments cover phase two of the Group's core banking system upgrade, retail application scorecards enhancement, Goods and Services Tax (GST) readiness, de-tariff risk selection and pricing engine, along with ongoing save-to-invest programme which intends to enhance organisational efficiency. CTI improved to 42.7% (Q1FY14: 47.7%).

Capital at preferred level

Adopted Basel III at banking entity level

The aggregated banking entities of the Group remained well capitalised and operated within internal target capital levels for FY2015 under the Basel III computation convention. CET-1 at 10.3%, Tier-1 of 11.8% and total capital ratio at 16.1%.

Prospects for financial year ending 31 March 2015

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.

Moderate domestic demand in 2H2014

Moving into 2H2014, exports is anticipated to remain healthy from improving demand from our major trading partners, stable prices, pick up in volume growth for selected export products and weak RM/USD. Whilst domestic demand is anticipated to moderate from slowing private consumption partly due to rising living costs from ongoing rationalisation of subsidy, rising interest rates and impact from GST. However, healthy labour market and sustained income growth will provide support to private consumption. Inflation is expected to remain above the historical long-term average given the cost-push pressures.

In the banking sector, loans growth is anticipated to moderate in line with moderating consumption growth and measures to address household debt concerns. Asset quality may come under pressure more from rising inflation and interest rates than potential capital flow risk.

Disciplined execution to our *strategic priorities for FY2015 - 2017*

For FY2015 - 2017, AmBank Group will be guided by four strategic priorities to achieve our Vision – (1) Deliver on focused organic growth; (2) Leverage strategic partnerships and deliver on acquisitions; (3) Continue to optimise efficiency; and (4) Build sustainability.

"Looking ahead, we anticipate some headwinds in the business environment with further industry consolidations, intensifying competition and rising compliance requirements. We will stay focused on our strategic priorities and disciplined execution to remain on course in delivering sustainable growth," **Mr Ramamurthy** concluded.

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