STANDARD & POOR'S

Press Release

AmBank (M) Bhd. Upgraded To 'BBB/A-2' On Improved Profitability And Asset Quality; Outlook Stable

MUMBAI (Standard & Poor's) Dec. 15, 2010--Standard & Poor's Rating Services said today that it had raised its foreign currency long-term counterparty credit rating on AmBank (M) Bhd. to 'BBB' from 'BBB-' and the short-term rating to 'A-2' from 'A-3'. The outlook on the long-term rating is stable. At the same time, we raised the bank fundamental strength rating on AmBank to 'C+' from 'C'. We also raised the issue rating on the preference shares of AMMB Capital (L) Ltd. to 'BB+' from 'BB'. AmBank guarantees these shares.

"We upgraded AmBank to reflect the sustained improvement in the bank's earnings and asset quality since Australia and New Zealand Banking Group Ltd. (ANZ; AA/Stable/A-1+) acquired a stake in the AmBank Group (AMMB Holdings Bhd.) in May 2007. AmBank's business profile has also strengthened. The bank is reinforcing its strong franchise in the consumer market while organically growing its corporate and small and midsize enterprise businesses, leveraging on its strong investment banking franchise," said Standard & Poor's credit analyst Geeta Chugh.

AmBank's asset quality has consistently improved in recent years, driven by strengthened risk management, higher loan diversification, and the write-off of legacy nonperforming loans (NPLs). The bank's ratio of gross nonperforming assets (NPAs; these include NPLs, restructured loans, and foreclosed assets) has improved to 3.9% as of September 2010 from 10.7% as at March 2007. The ratio has, however, increased from 3% in March 2010, due primarily to the adoption of Financial Reporting Standard 139. We expect AmBank's asset quality to improve further but to remain constrained because auto loans, which are inherently riskier than other consumer loans, constitute 35.6% of the loan book.

AmBank's earnings have benefited from a sustained increase in margins, improvement in fee income, and reduced credit costs. Its margins benefited from lower non-accrual drag, improved funding profile, and recently from lagged repricing of time deposits in a rising interest rate scenario. The bank's return on average assets (ROAA) was 1.3% in the first half of fiscal 2011. We expect the ROAA to come under some pressure because of a margin squeeze in the second half of fiscal 2011 and fiscal 2012 due to lagged repricing of term deposits and intense competition. Nevertheless, we expect its ROAA to stay above 1%.

AmBank's capitalization is satisfactory relative to its risk profile, in our view. Its ratio of adjusted total equity to adjusted assets was 8.1%, as at Sept. 30, 2010. Meanwhile, the Tier 1 capital ratio (8.9%) as at Sept. 30, 2010 was comfortably above the regulatory minimum; the bank aims to maintain the ratio at 8% at least.

The bank's funding profile has improved, with customer deposits forming 86% of the total funding base as at Sept. 30, 2010, from 67% as at March 31, 2007. Its ratio of loans to customer deposits is high at 98.2% (124.2% as at March 31, 2007), but loans to customer deposits plus long-term funds is a little more comfortable at 91% at of Sept. 30, 2010 (107.9% as of March 31, 2007). AmBank's low-cost funding base (current and savings accounts) has grown over the years but remained at just 12% of total deposits as at Sept. 30, 2010.

"The stable outlook on the rating reflects our opinion that the bank will be able to sustain its financial profile at the current levels. We may raise the rating if the bank is able to further improve its funding profile and asset quality. Downward pressure on the rating will arise from any significant asset-quality slippage, with consequential adverse impact on the financial profile of the company," said Ms. Chugh.

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• Financial Institutions Criteria, published as a PDF book in July 2008

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