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Research Update:

AmBank And AmInvestment Ratings Raised To 'BBB+/A-2' On Revised Criteria; Outlook Stable

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Overview

- Following a review under Standard & Poor's revised bank criteria (published on Nov. 9, 2011), we have raised our ratings on AmBank (M) Bhd. and AmInvestment Bank Bhd. to 'BBB+' from 'BBB'. The outlook is stable.
- Our rating on AmBank reflects the bank's 'bbb' anchor, "adequate" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity.
- The rating on AmBank benefits from one notch of uplift for potential extraordinary government support in the event of financial distress.
- The rating on AmInvestment benefits from its status as the core member of the AmBank group and is equated with the supported group credit profile of AmBank.

Rating Action

On Dec. 8, 2011, Standard & Poor's Ratings Services took the following rating actions:

- Raised its long-term issuer credit rating on AmBank (M) Bhd. to 'BBB+' from 'BBB'. The outlook is stable.
- Raised its long-term issuer credit rating on AmInvestment Bank Bhd. to 'BBB+' from 'BBB'. The outlook is stable.

In addition, Standard & Poor's affirmed the 'A-2' short-term ratings on AmBank and AmInvestment. We also withdrew the bank fundamental strength ratings on the banks.

Rationale

Standard & Poor's bases its issuer credit rating (ICR) on AmBank on its "adequate" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as defined in our criteria. The rating on AmInvestment reflects its core status in the group, given its high integration within the group and close linkage with the group's brand. The stand-alone credit profiles (SACP) for AmBank and AmInvestment are 'bbb' and 'bbb-', respectively.

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. Our anchor for a bank operating only in Malaysia is 'bbb'. The BICRA score is based on our evaluation of economic risk, where we view Malaysia's moderately weak

economic structure and modest income levels to be mitigated by an open, diversified, and competitive economy with a low risk of economic imbalances. We believe private sector credit is high relative to income levels. Regarding our industry risk assessment, the high level of stable, core customer deposits support the Malaysian banking system. We consider its regulatory standards to be broadly in line with international norms and the risk appetite in the industry to be moderate.

We regard AmBank's business position as "adequate" overall. It is a mid-sized bank in Malaysia, the sixth largest by total assets, with market share of about 6% of system loans and 7% of deposits. It has traditionally focused on the consumer segment, especially in hire purchase and mortgage lending. The bank has gradually increased its penetration in the small and midsize enterprise (SME) businesses and corporate segment to achieve a more balanced portfolio. While interest margins from corporate clients tend to be lower, we believe AmBank will benefit from greater cross-selling of its services to boost fee income and achieve more diversified revenue streams. We consider AmBank's management team to be experienced and prudent. Following Australia and New Zealand Banking Group Ltd.'s acquisition of a stake in the AmBank Group (AMMB Holdings Bhd.), the bank improved earnings and asset quality. We believe that AmBank will continue reinforcing its strong franchise in the consumer market while organically growing its corporate and SME businesses.

We view AmBank's capital and earnings as "adequate." We expect AmBank's projected risk-adjusted capital (RAC) ratio before diversification adjustments to be maintained at about 8.5% in the next 12-24 months. Our expectation is based on the bank maintaining loans growth around the industry average. We believe AmBank will face margin pressure from the steep competitive environment in Malaysia, but this will be offset by higher fee income from cross-selling to its SME and corporate clients. We also expect AmBank to maintain a reasonable dividend payout and sufficient capital buffer.

Our risk position assessment for AmBank is "adequate." The bank's business model is relatively straightforward, with the bulk of its income derived domestically. AmBank has grown within the industry average, reflecting management's philosophy of targeting viable segments with reasonable returns. We believe that the entry of ANZ had strengthened the bank's risk management capabilities. Our "adequate" risk position assessment is based on our view that AmBank will balance its growth ambition with sensible risk management and sound underwriting controls.

AmBank's funding is "average" and liquidity is "adequate," in our opinion. The bank's funding profile is underpinned by its branch network and deposit franchise as a mid-sized bank in Malaysia. AmBank has improved its ability to tap retail funding through its enlarged bank network, expanded product and services offering, and marketing efforts. We believe the bank will continue growing its low-cost deposit and gradually close the gap with its peers. AmBank's liquid asset portfolio is sufficient to cover its short-term wholesale borrowings, reflecting its cautious balance sheet management. It is also not dependent on wholesale borrowings.

AmBank's ICR is one notch higher than the SACP, reflecting its "moderate systemic importance" in Malaysia and our assessment of the Malaysian government as "highly supportive." The ICR on AmInvestment reflects its status as a core operating entity of the AMMB Holdings Bhd. Group, of which AmBank is the key operating company. The group operates in an integrated fashion, underpinned by a common senior management team and common risk management philosophies and tools. As such, we believe that government support will accrue to all core entities.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's expectation that AmBank will maintain its satisfactory financial profile while executing its strategy of achieving a more balanced customer portfolio. We also expect AmBank to maintain its profitability by offsetting margin pressure from the competitive environment with higher fee income from cross-selling opportunities.

We could upgrade the bank if it further improves its capital and earnings by strengthening its business position and franchise in its core domestic market, especially in the SME and corporate segments, to complement its existing strengths in consumer lending.

We may lower the rating if AmBank's: (1) nonperforming loans increase sharply; (2) operating performance is poor; or (3) capitalization weakens substantially.

At the subsidiary level, the rating on AmInvestment will move along with the rating on AmBank, the main subsidiary of the group, given its high degree of reliance and integration within the AmBank Group. In addition, we may lower the rating on AmInvestment if it becomes less important to the group.

Ratings Score Snapshot

AmBank (M) Bhd.

Issuer Credit Rating	BBB+
SACP	bbb
Anchor	bbb
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and adequate (0)
Support	+1
GRE Support	0
Group Support	0
Sovereign Support	+1

Additional Factors	0
Ratings Score Snapshot	
AmInvestment Bank Bhd.	
Issuer Credit Rating	BBB+
SACP	bbb-
Anchor	bbb
Business Position	Moderate (-1)
Capital and Earnings	Very strong (+2)
Risk Position	Moderate (-1)
Funding and Liquidity	Below average and Adequate (-1)
Support	+2
GRE Support	0
Group Support	+2
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Upgraded; Ratings Affirmed

	To	From
AmBank (M) Bhd.		
Counterparty Credit Rating	BBB+/Stable/A-2	BBB/Stable/A-2
Certificate Of Deposit	BBB+	BBB
AmInvestment Bank Bhd.		
Counterparty Credit Rating	BBB+/Stable/A-2	BBB/Stable/A-2

Rating Withdrawn

	To	From
AmBank (M) Bhd.		
Bank Fundamental Strength Rating	NR	C+
AmInvestment Bank Bhd.		
Bank Fundamental Strength Rating	NR	C

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Ratings Affirmed

AMBB Capital (L) Ltd.

Preference Stock (1 issue)

BB+

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