AMMB Holdings Berhad

Press release, 18 February 2011

AmBank Group

- **9-month earnings exceeds FY2010**
- **PATMI up 34% for 9MFY11 to RM 1,026.5 mil**
- **Higher revenues and lower allowances, strong customer deposits growth**

Financial Results for 9-Months of Financial Year Ending 31 March 2011 (FY11)

Profitability	**9MFY11 (RM mil)**	**9MFY11 vs 9MFY10**
Profit before tax (PBT)	1,439.6	34.8% Δ
Profit after tax (PAT)	1,064.7	34.5% Δ
Profit after tax and minority interests (PATMI)	1,026.5	34.0% Δ
Operating Performance Ratios	**9MFY11**	**9MFY11 vs 9MFY10**
ROE (post-tax)	13.9%	2.0% Δ
ROA (post-tax)	1.43%	0.28% Δ
EPS (basic per share, annualised)	45.3 sen	28.0% Δ
Cost to income (CTI)	39.5%	-1.3% Δ
Asset Quality	**9MFY11**	
Gross impaired loans ratio	3.4%	
Allowance coverage	97.4%	
Lending and Deposit Ratios	**9MFY11**	
Net lending[1] growth (vs 9MFY10)	+8.2%	
Customer deposits[2] (vs 9MFY10)	+14.2%	
Loans to deposits ratio	90.5%	
Capital Ratios	**9MFY11**	**9MFY11 vs 9MFY10**
Tier-1 capital	9.4%	0.4% ∇
Risk-weighted capital adequacy ratio (RWCA)	15.1%	0.2% ∇

Key Performance Highlights (9MFY11 vs 9MFY10)

- ***Well diversified PATMI growth from Retail Banking (+12.7%), Business Banking (+18.2%), Corporate and Institutional Banking (+23.0%), Markets (+70.7%), Life Assurance (+>100%), and General Insurance (+22.9%).***
- ***ROE rose 2.0% to 13.9%, EPS up 28.0% to 45.3 sen.***
- ***Net loans expanded 8.2%, targeting viable and profitable segments.***
- ***Strong customer deposits growth (+14.2%), adjusted loan to deposit ratio improved 5% to 90.5%.***
- ***Gross impaired loans ratio at 3.4%, with higher allowance coverage of 97.4% and 0.69% loan loss charge.***
- ***Sound capital position with Tier-1 ratio at 9.4% and RWCA of 15.1%.***

Notes:
9MFY11 = 9-Months of Financial Year Ending 31 March 2011
Δ favourable ∇ unfavourable
[1] Includes Islamic loans sold with recourse : 9MFY10 = RM 365 mil and 9MFY11 = RM 1,582 mil
[2] Adjusted Customer Deposits : includes RM 3.39 bil Senior Notes, RM 0.17 bil credit-linked notes, loans sold with and without recourse

AMMB Holdings Berhad ("AHB" or "the Group") today announced another strong performance for 9-month financial year ending 31 March 2011 (9MFY11). PATMI rose 34% to RM 1,026.5 million, surpassing full FY2010 earnings of RM 1,008.6 million. This translates to an ROE of 13.9% and an annualised EPS of 45.3 sen.

"The Group posted a record 9MFY11 performance by staying focused on its strategies of profitable and sustainable growth, and income diversification. We remain on course to achieving faster non-interest income growth, with higher contributions from foreign exchange, derivatives, and assurance businesses." **Mr Cheah Tek Kuang**, Group CEO and Managing Director of AHB, said.

In recent December 2010, AmBank (M) Berhad (AmBank) and AmInvestment Bank Berhad (AmInvestment) ratings were upgraded one-notch[1] by Standard and Poor's (S&P). The ratings upgrade reflects AmBank Group's improved financial performance and asset quality, preserved capitalisation, and strong domestic franchise in investment banking.

Mr Cheah added, *"With our robust nine-month results, we are on track to deliver the fourth consecutive year of record performance, and in line with our aspirations for full FY2011. This is a testimony to the quality and strength of AHB's management team and its people."*

Well diversified Divisional contributions

The Group's PAT (profit after tax) rose 34.5% on the back of higher profit across most Divisions, as well as lower individual and collective impairments. Islamic Banking, which is an integral part of each banking division within the Group, contributed 17.7% to the Group's PAT.

Compared to 9MFY10 :

Retail Banking : Improved asset quality main contributor to higher profits

- PAT increased 12.7% to RM 450.1 million attributed to lower impairments. Income growth was driven by staying focused on profitable segments and pricing for risk despite the industry continues to experience uneconomic pricing in selected segments such as mortgage.

Business Banking : Good income growth partly offset by higher impairments

- PAT improved 18.2% to RM 148.8 million backed by good income growth from lending to stable sectors, trade and transactional businesses and strong customer focus.

Corporate and Institutional Banking : Good income growth, lower impairments

- PAT grew 23.0% to RM 153.5 million with higher contributions from international business and lower allowances.

Investment Banking : Subdued debt market but other sub-segments did well

- PAT down 13.1% at RM 90.5 million amidst a subdued debt market, and a higher income reported during 9MFY10 partly due to a one-time gain on disposal of a bond holding. Nevertheless, contributions from the asset management and corporate finance segments have been good.

Markets : Income diversification and good momentum

- PAT rose 70.7% to RM 151.2 million. Foreign exchange (FX) and derivatives business delivered greater income contribution, with the Division continuing to expand its product offerings.

Notes:
[1] AmBank (M) Berhad and AmInvestment Bank Berhad upgraded to BBB/A-2/Stable by S&P on 15 December 2010

Life Assurance : Stronger contribution to shareholders, sound capital adequacy

- PAT transferred to the Group's shareholders surged above 100% to RM 51.6 million. Higher income was supported by larger fund assets from an enhanced agency network, better product bundling and higher cross-selling activities.

General Insurance : Higher income and improved efficiencies

- PAT increased 22.9% to RM 46.2 million as gross written premium grew from enhanced up- and cross-selling initiatives, and an established distribution network.

Moderating NIM and improving efficiency

Total income increased by 10.5% with greater growth contribution coming from insurance business (+46.5%), and fees and commissions (+9.4%). Following the Group's income diversification strategy, non-interest income now constitutes 30.4% of total income, higher than full FY10 of 29.6%.

Year to date net interest margin (NIM) moderated only slightly to 2.97% (Half year to September 2010 : 3.00%) from the lagged impact of term deposit re-pricing. Cost-of-funds however remained at 2.89%, similar to September 2010 position, a clear demonstration of the Group's success in managing its balance sheet mismatch profiles.

Positive JAWS, with cost-to-income ratio improving by 1.3% to 39.5%, was in line with the Group's medium-term aspirations of circa 40%.

Balancing loans and strong customer deposits growth

Gross loans grew 8.4% to RM 71.9 billion as the Group successfully expanded its scale in business and corporate loans, and in preferred retail segments. Since the Group embarked on its portfolio rebalancing and diversification strategy in 2008, business and corporate loans have expanded 11% to now represent 37% of total loans (FY08 : 26%) while variable rate loans now make up 49% of total loans (FY08 : 38%).

Retail lending continued to concentrate on viable and profitable segments. Business loans grew 27.2% targeting small and medium enterprises (SME), and stable and preferred growth sectors, whilst corporate loans increased 17.9% centering on project financing with government support, government linked companies (GLC's) and large multinational companies (MNC's).

The loans expansion was backed by faster adjusted customer deposits growth of 14.2%. This has resulted in a 5% improvement in loans to deposit (LD) ratio to 90.5%.

Improving funding profile

Adjusted customer deposits of RM 76.9 billion reflects a more diversified and stable funding profile, supported by AHB's recent initiatives including senior notes and sukuk issuances, and sale of loans both recourse (conventional) and without recourse (Islamic) basis totalling RM 2.6 billion. To date, RM 2.84 billion senior notes have been issued as part of a RM 7 billion Senior Notes programme while RM 550 million senior sukuk have been issued under a 30-year RM 3 billion Senior Sukuk Musyarakah Programme.

In addition, deposits growth was driven by enhanced products and services including new deposit products, payroll services, cash management and transactional services, as well as footprint expansion. As at quarter end, the Group had a footprint of 190 branches with 5 more in progress, 143 electronic banking centers, 804 ATMs including 402 machines strategically placed at 7-Eleven stores, 15 AmInvestment offices and 74 assurance offices.

Asset quality benefitting from differentiated product growth strategies

AHB has adopted FRS 139 under BNM transitional arrangements since April 2010. As at 31 December 2010, gross impaired loans stood at 3.4%, representing a 0.4% improvement from day-1 adjustment of 3.8%. Allowance coverage was elevated to 97.4% (from day-1 of 89.1%) while loan loss charge was 0.69%.

The Group will continue to proactively manage its asset quality via enhancing its collections systems, credit and risk tools, supported by specialist risk and impaired loans management team.

Improved risk and financial disciplines

As we continue to improve our risk and financial disciplines through our Advanced Risk Recognition Program initiatives, the Group has implemented best-in-class third generation retail credit scorecards that support the application of risk-based pricing. The Group will be progressively rolling out probability-of-default (PD), loss-given-default (LGD) and earnings-at-default models for both retail and non-retail portfolios, and a new Asset and Liability System over the next 12 months.

On 1 April 2010, a new Funds Transfer Pricing (FTP) mechanism was implemented to complement the Group's initiative to improve product pricing and balance sheet risk management in a rising rate environment. This enables centralised management of interest rate and liquidity risk, and more stable net interest margin over the medium term.

Strong capital position

Overall capital ratios remained strong with common equity composition (CEC) at 7.3% and Tier-1 at 9.4%. The Group has a comprehensive Capital Management Plan that encompasses optimizing capital profile and buffer, increasing scenario modeling, streamlining corporate structures, developing dynamic dividend policy and managing Basel III requirements appropriately.

Stable Malaysian economy with emerging industry opportunities and challenges

The outlook for calendar year 2011 remains positive but is not immune to possible global shocks. Domestically, the economic recovery is expected to continue, driven by higher retail consumption. The Group projects a 5% to 5.5% gross domestic product (GDP) growth, inflation of 3% and rising interest rates this year.

Continued trade surplus, rising domestic demands, the Economic Transformation Programme (ETP) and the recently announced entry point projects (EPPs) are anticipated to mitigate global risk and the moderating external demand. Positive impacts arising from the ETP and EPPs for the banking sector include loans growth in working capital and bridging financing, private debt market boost with higher private debt securities issuances, and greater income growth.

Nevertheless, system lending growth may moderate in calendar year 2011 with the likely overnight policy rate (OPR) hike of around 50 basis points. Basel III is expected to impose higher common equity and stable funding requirements, but with a longer transition period.

Medium Term Aspirations (MTA) and key strategic thrusts for FY11

AHB's Medium Term Aspiration is to be Malaysia's Preferred Banking Group with International Connectivity as measured by customer satisfaction, sound financial performances, and well diversified and sustainable growth. The Group has identified, and has been executing, to three strategic thrusts for FY11.

The first thrust, strategic business transformation, focuses on structural customer segment realignments, development of customer centric retail business models, implementation of account plans for business customers, and expansion of product offering and capability building in the Markets division.

The second thrust revolves around growth initiatives. This includes leveraging ANZ's international connectivity, developing new wealth management strategies, enhancing international trade and cash management business, as well as developing new family Takaful business with Friends Provident.

Finally, the third thrust relates to governance and enablement functions. This involves the implementation of new retail and non-retail risk management tools such as PD / LGD models, security indicators, collateral management and market risk systems (VIPER), in addition to Basel III, capital allocations and a new asset liability management system. The Group will progressively consolidate operations into a new Centre of Excellence, and commence replacing the core banking system which is likely to take up to 3 years.

Whilst strengthening our operational fundamentals and responding to our customers expectations, the Group is investing in human capital appropriately.

Strategic partnership with global partners

Since AHB inked its strategic partnership with the Australia and New Zealand Banking Group (ANZ) (one of the 10 AA rated global banks) in May 2007, the Group has worked closely with ANZ to improve our risk and financial governance, expand our products offerings and develop new businesses. Moving forward, the Group will enhance the partnership initiatives by leveraging on ANZ's expanding presence in the Asia region to increase cross border deals, transactions and customer referrals, and export niche AmBank products to ANZ's offices.

In Life Assurance, on-going technical support and knowledge exchange from our insurance partner, Friends Provident Fund plc (FP) has added value in the areas of asset-liability and distribution management, as well as products and service enhancements. Our partnership with FP was further strengthened with the new family takaful licence awarded by Bank Negara Malaysia recently. The new family takaful business is expected to complement the Group's Islamic finance activities and widen our insurance services.

Additionally, the Group has benefited in terms of expertise transfer on business operations, risk management, product development and distribution network through our partnership with Insurance Australia Group Limited (IAG).

Mr Cheah concluded, *"Through disciplined execution of our strategic themes and leveraging international connectivity via ANZ, we are positive on achieving our aspirations despite the challenges ahead, and delivering sustainable values to our shareholders."*

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Annexure: Division aspirations & FY11 expectations *(Conventional + Islamic)*

Retail Banking Division

- The division aspires to develop a liability-led business, complemented with asset growth in certain segments and products, and grow scale in wealth management in both Mass and Mass Affluent segments.
- For FY2011, the division plans to accelerate growth in customer deposits and profitable assets. Investment for medium term outcomes will continue while focus will be placed on reducing credit costs.

Business Banking Division

- The division aspires to develop a well diversified, profitable and sustainable client base and grow deposit and cash management, quality loans, international trade finance via leveraging ANZ connectivity, non-interest incomes and "share of wallet".
- For FY2011, the division's income growth will come from larger asset base and growth in fees. The division will proactively manage existing accounts for cross-sell and transactional deposits.

Corporate and Institutional Banking Division

- The division aspires to provide innovative and quality solutions (including syndication and cross-selling) both domestic and cross-border via ANZ, targeting high-impact and high-value clients, MNCs and GLCs.
- For FY2011, the division will focus on income growth from larger asset base and fees, and increase focus on cross-selling and growing deposits.

Investment Banking Division

- The division aspires to develop complete, end-to-end, comprehensive solutions and lead in capital markets, funds management, and stock broking underpinned by strong domestic and overseas distribution capability via ANZ.
- For FY2011, the division plans to leverage on upturn in capital markets and increase regional business through closer collaboration with ANZ.

Markets

- The division aspires to provide substantive, integrated and client-led business underpinned by a full suite of foreign exchange, rates, commodities and fixed income offerings, with ANZ collaborations.
- For FY2011, the division expects increasing momentum from foreign exchange and derivatives.

Life Assurance

- The division aspires to deliver premium product and customer propositions to target segments, streamline process to improve efficiencies, and leverage its strategic partner Friends Provident.
- For FY2011, the division plans to launch new products, improve new business internal rate of return and leverage strategic partnership with FP.

General Insurance

- The division aspires to deliver competitive customer propositions via becoming a scale specialist in motor and niche specialist in commercial and non-motor personal lines, and leverage its strategic partner IAG.
- For FY2011, the division focuses on increasing contribution from new products and increasing share of wallet from retail and business customers.