AMMB Holdings Berhad

Media Release, 18 May 2011

AMMB RECORD FY2011 RESULTS

- **Full year PATMI up 33.1% to a record RM 1,342.8 mil**
- **Well diversified divisional contributions**
- **The Board recommends a final dividend of 12.0 sen per share**

Financial Results for Financial Year Ended 31 March 2011 ("FY11")

Profitability	FY11 (RM mil)	FY11 vs FY10
Profit before tax ("PBT")	1,865.1	35.5% Δ
Profit after tax ("PAT")	1,391.1	33.4% Δ
Profit after tax and minority interests ("PATMI")	1,342.8	33.1% Δ
Operating Performance Ratios	**FY11**	**FY11 vs FY10**
ROE (post-tax)	13.6%	2.1% Δ
ROA (post-tax)	1.39%	0.26% Δ
EPS (basic per share)	44.7 sen	28.8% Δ
Cost to income ("CTI")	39.9%	-2.1% Δ
Asset Quality	**FY11**	
Gross impaired loans ratio	3.3%	
Allowance coverage	102.3%	
Lending and Deposit Ratios	**FY11**	
Gross lending growth (vs FY10)	+10.4%	
Net lending[1] growth (vs FY10)	+9.7%	
Customer deposits[2] growth (vs FY10)	+15.1%	
Loans to deposits ratio	87.4%	
Capital Ratios	**FY11**	**FY11 vs FY10**
Tier 1 capital adequacy ratio ("Tier 1 CAR")[3]	10.2%	0.1% ▽
Risk-weighted capital adequacy ratio ("RWCAR")[3]	14.4%	1.4% ▽

Key Performance Highlights (FY11 vs FY10)

- Well diversified PATMI growth from Retail Banking (+14.4%), Business Banking (+27.0%), Corporate and Institutional Banking (+17.2%), Investment Banking (+17.6%), Markets (+4.2%), Life Assurance (+92.4%), and General Insurance (+23.8%).
- ROE up 2.1% to 13.6%, EPS up 28.8% to 44.7 sen.
- Net loans expanded 9.7%, targeting viable and profitable segments.
- Strong customer deposits growth (+15.1%), adjusted loan to deposit ratio improved to 87.4%.
- Gross impaired loans ratio at 3.3%, with higher allowance coverage of 102.3% and 0.67% loan loss charge.
- Sound capital position with Tier 1 CAR at 10.2% and RWCAR of 14.4%.

Notes :
Δ favourable ▽ unfavourable
[1] Includes Islamic financing sold with recourse
[2] Adjusted Customer Deposits includes loans and financing sold with recourse, and term funding
[3] Aggregated banking entities

AMMB Holdings Berhad ("AHB" or "the Group") today reports a 33.1% PATMI increase to a record high of RM 1,342.8 million. This represents an ROE of 13.6% and an earnings-per-share ("EPS") of 44.7 sen.

Mr Cheah Tek Kuang, Group Managing Director of AHB, said, "This fourth consecutive year of record performance reflects success and momentum towards achieving our Medium Term Aspirations ("MTA") of becoming Malaysia's Preferred Banking Group with International Connectivity and our focus on serving our customer needs.

The results are slightly higher than our guidance and were underpinned by our diversified portfolios, growth in profitable and viable segments, new business initiatives, and higher non-interest incomes. Business loans growth was healthy, supported by faster deposits growth and a more stable funding position. The Group remains well capitalised.

In December 2010, the ratings for both AmBank (M) Berhad ("AmBank") and AmInvestment Bank Berhad ("AmInvestment") were upgraded one-notch[1] by Standard & Poor's ("S&P"). This bears testament to the Group's improved financial performance and asset quality, preserved capitalisation, and strong domestic banking franchise.

For the year ahead, we will capitalise on the various opportunities in the domestic economic growth plans namely the Economic Transformation Programme ("ETP"), Second Capital Market Master Plan ("CMP2") and the National Budget. We will continue to execute our initiatives in line with our strategic themes and strengthen market positions as we develop initiatives to leverage on the Australia and New Zealand Banking Group's ("ANZ") international connectivity and two-way regional trade and investment flows.

With clear and focused execution of our strategic priorities and leveraging international connectivity through ANZ, we are positive on achieving our aspirations and delivering sustainable value to our shareholders.

The Board has proposed a final dividend of 12.0 sen per share. Accounting for the maiden interim dividend of 6.0 sen per share, paid on 15 December 2010, FY11 payout totals 18.0 sen per share or a payout ratio of 40%."

Well diversified Divisional contributions

The Group's PAT grew 33.4% from broad based earnings growth and lower impairments. Islamic Banking, which is an integral part of the banking divisions within the Group, contributed 12.3% to the Group's PAT. Compared to FY10 :

Retail Banking: Improved asset quality main contributor

- PAT increased 14.4% to RM 603.3 million as the division accelerated deposits growth (up 13.9%), and expanded assets focusing on profitable segments and pricing for risk.

Business Banking: Good profit growth

- PAT expanded 27.0% to RM 203.7 million backed by good income growth from lending to stable sectors, trade and transactional businesses and strong customer focus.

Notes :

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

Corporate and Institutional Banking: Strong profit growth and lower impairments

- PAT rose 17.2% to RM 209.8 million with a diversified loans portfolio providing good support for income growth and higher contribution from international businesses.

Investment Banking: Most segments did well

- PAT grew 17.6% to RM 126.8 million supported by good contributions from asset management, corporate finance and equities. New initiatives and product offerings will include structured finance, equity and derivatives solution suite, and Global Fundamental Islamic Funds series.

Markets: Good growth momentum in FX and derivatives

- PAT increased 4.2% to RM 177.0 million. Foreign exchange ("FX") and derivatives business delivered greater income contribution while impairments for available for sale ("AFS") declined.

Life Assurance: Stronger contribution to shareholders

- PAT transferred to the Group's shareholders advanced 92.4% to RM 61.8 million. Higher income came from larger fund assets, an enhanced agency network, better product bundling and higher cross-selling activities.

General Insurance: Higher income and improved efficiencies

- PAT increased 23.8% to RM 60.3 million as gross written premium grew from cross-selling initiatives via an established distribution network.

Growing non-interest income, lower net interest margin ("NIM") within expectations

Total income for FY11 was RM 3,913.0 million, 9.4% higher year-on-year. Following the Group's income diversification initiatives, non-interest income rose 12.5% to RM 1,170.3 million, representing 30.0% of total income. The growth was mainly contributed by higher fee income (up 10.5%) and insurance business (up 39.0%).

Net interest income grew 8.1% to RM 2,742.8 million. NIM was lower at 2.94% (FY10 : 2.98%) but remained within expectations, as it reflects our portfolio diversification towards viable segments and rebalancing towards non-retail customers. Nevertheless, irrational pricing in some segments will continue to impact NIMs across the banking industry.

The Group remains operationally efficient with an improved cost-to-income ratio of 39.9%. Income grew faster at 9.4% compared to expenses growth of 4.0%. The Group expects to accelerate investments over the next few years in order to support medium term income growth.

Balancing loans and strong deposits growth

Gross loans grew 10.4% to RM 73.6 billion as the Group continues portfolio rebalancing efforts to increase the composition of variable rate loans, and the mix of business and corporate loans. Variable rate loans now constitute half of the Group's total loans portfolio, a 13% rise since FY08. Business and corporate loans expanded 25% in FY11 to now make up 38% of total loans, compared to 26% in FY08.

Business loans grew 27.8% (net) targeting small and medium enterprises ("SME"), and stable and preferred growth sectors while corporate loans expanded 27.7% concentrating on project financing with government support, government linked companies ("GLCs") and large multinational companies ("MNCs"). Retail lending continued to focus on viable and profitable segments.

Meanwhile, adjusted customer deposits rose 15.1% to RM 81.3 billion resulting in a 4.3% improvement in loans to deposit ratio to 87.4%, the lowest in recent history.

More stable funding
As at end FY11, stable funding (comprising shareholders' equity and debt capital, deposits from customers, loans sold with recourse and term funding with maturity more than one year) made up 95.2% of the Group's total balance sheet funding; higher than FY10 of 93.9%.

Term funding initiatives included senior notes and sukuk issuances, and loans sold with recourse to Cagamas. As at 31 March 2011, RM 2.9 billion senior notes were in issuance as part of a RM 7 billion Senior Notes programme, RM 550.0 million senior sukuk were in issuance under a 30-year RM 3 billion Senior Sukuk Musyarakah Programme and RM 2.7 billion of loans were sold with recourse.

We continue to grow customer and low cost deposits ("CASA") through enhanced retail distribution channels and footprints, improved product suite and services, and better leveraging on SME, business and corporate relationships vide the payroll facilities, cash management, trade and transactional offerings.

Loan loss coverage exceeding 100%
Since 1 April 2010 ("Day-1"), AHB has adopted FRS 139 under the Bank Negara Malaysia ("BNM") transitional arrangements to now classify loans based on evidence of impairment instead of the previous time-based classification. Under the new convention, the Group's loan quality has improved throughout the year compared to the day-1 position. Allowance coverage rose 13.2% to 102.3% from 89.1%. Gross impaired loans continued down trending to 3.3% compared to 3.8%, and loan loss charge for the year was 0.67%.

The Group continues to proactively manage its asset quality via considered asset writing strategies, enhancing its collections strategies, credit and risk tools, supported by the specialist risk and impaired loans management team.

Improved risk and financial disciplines
Through the Group's Advanced Risk Recognition Programme initiatives, the Group has implemented best-in-class third generation retail credit scorecards that support the application of risk-based pricing. The Group is progressively rolling out the probability-of-default ("PD"), loss-given-default ("LGD") and earnings-at-default ("EAD") models for both retail and non-retail portfolios, and the new Asset and Liability System over 2011.

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.

The Group's balance sheet is now well positioned for rising interest rates as we have successfully neutralised the net mismatch position via hedging and term fund raisings.

Capital levels positioned well for Basel III and target payouts

Overall capital ratios remained sound on an aggregated Group banking entities level, with common equity Tier-1 ("CET 1") at 8.0% and total Tier-1 at 10.2%. The Group has a sound Capital Management Plan that will continue to be refined, and encompasses optimizing capital profile and buffer, increasing scenario modelling, streamlining corporate structures, developing dynamic dividend policy and managing Basel III requirements appropriately.

Stable Malaysian economy with emerging industry opportunities and challenges

Mr Cheah Tek Kuang added, "The Malaysian economy is expected to remain healthy. Nonetheless, we are not immune to potential downside risk of a slower global economic growth due to the recent geo-political turmoil and natural disasters, inflationary pressures from rising oil and commodity prices, and solvency risks in certain economies.

The banking sector is set to benefit from the ETP and CMP2, with opportunities arising from more activities in lending, debt capital market and funds management, and higher foreign investment flows plus private sector involvement. We are well positioned to benefit from these opportunities.

For calendar year 2011, Malaysian gross domestic product ("GDP") is projected to grow at circa 5.5% (based on in-house research) supported by strong economic fundamentals, robust domestic demand and ETP implementation, which is being fast tracked following the announcement of 72 entry point projects ("EPPs") up to 19 April 2011, requiring over RM 106 billion in investments. Recently, BNM has raised the overnight policy rate ("OPR") by 25 bps, and we expect the OPR to remain at 3.00% for 2011. At the same time, the statutory reserve requirement ("SRR") was raised to 3.00% effective 16 May 2011."

MTA and priorities for financial year ending 31 March 2012 ("FY12")

The Group's Medium Term Aspirations is to be **Malaysia's Preferred Banking Group with International Connectivity**. To achieve this, the Group will focus on four strategic priorities of profitable growth and rebalancing, diversification and new business development, non-interest income and deposit growth, and customer centricity.

The Group has identified five growth levers in supporting these strategic priorities. Firstly, "leverage international connectivity". Initiatives will include strengthening cross border referrals, two-way product offerings such as Islamic banking and funds management, and later on increasing coordinated customer pitching.

Secondly, "invest to grow income". This encompasses developing customer centric business models, enhancing wealth management business, focusing on cash management and international trade, developing a new family Takaful business with Friends Provident plc ("FP"), introducing new products and enhancing relationship teams.

Thirdly, "increase customer share of wallet". Product development will focus on fulfilling customer segment and life cycle needs while the Group enhances distribution footprints for easier accessibility. Plans are underway to up the ante in cross-selling across the Group and include the potential replacement of the core banking system for improved customer centricity.

Fourthly, "capitalise on ETP", targeting projects in National Key Economic Activities ("NKEA") sectors. Key focus areas include expansion of loans, bridging finance and advisory services for private debt securities ("PDS") issuances and capital market activities, and private pension industry.

Finally, "upgrade capability and productivity" by investing in human capital development, enhancing account planning system for business growth and consolidation of operations to deliver efficiencies.

Strategic partnership with global partners

Mr Cheah Tek Kuang concluded, "Since AHB inked its strategic partnership with 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. ANZ has continued to provide technical and knowledge exchange through placement of experienced officers on the Board and key management positions within the Group, and secondment of staff from various disciplines on project basis.

In Life Assurance, on-going technical support and knowledge exchange from our insurance partner, Friends Provident, has added value in the areas of asset-liability and distribution management, as well as product and service enhancements.

Likewise in General Insurance, 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").

In the coming financial year, domestic economy is expected to remain healthy, sustained by the national growth agenda, amidst potential external headwinds. The Group is well placed to deliver on its aspirations, as we execute to our MTA strategic priorities and leverage opportunities from the sovereign growth plans to bring Malaysia into a high-income nation by 2020. We remain committed to increasing value to all our stakeholders."

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