

MALAYSIAN BANKS **Quarterly Review**

4QCY15 review & sector outlook



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Ended CY15 with a muted earnings growth

Maintain NEUTRAL

- Cumulative core net profit growth of -0.8%yoy for 12MCY15 was in line with expectation.** In the recently announced 4QCY15 results, earnings of 2 banks (AMMB & RHB Cap) came in below our expectations mainly due to lower top line growth while core earnings of 6 other banks (AFG, CIMB, Maybank, Public Bank, Hong Leong Bank and Affin) kept pace with expectations. Aggregate PATAMI growth for the sector based on reported earnings continued to be subdued at -1.1%qoq and -0.2%yoy in 4QCY15. Stripping out one-offs (further MSS expenses of RM32m for CIMB Niaga and tax on Niaga's MSS expenses of RM8m, MSS cost of RM172m for Hong Leong Bank, regulatory penalty payment of RM53.7m for AMMB and Public Bank's revaluation gain on investment property of RM100.2m), core earnings for the sector grew -1.5%qoq and +0.8%yoy for the quarter. The flattish growth of the sector's 12MCY15 core earnings of -0.8%yoy was in line with our expectation.

Key highlights for 4QCY15 results: i) Liquidity for the sector remained tight with a net LD ratio of 89.5%; ii) loans decelerated in the quarter but large cap banks, Maybank and CIMB still recorded double-digit growth contributed by positive FX translation impact on their international loans; iii) NIM contracted 3bp-qoq to 2.17% (annualized) as pressure on funding cost persist as well as drop in asset yield in the case of AMMB; iv) Provisions remain elevated but was lower by -15.5%qoq; v) CASA ratio stable at 27.1%; vi) LLC ratio dropped to 92.3%, largely due to write back in CA for AMMB and Public Bank resulting in lower provisions for the sector; and vii) improvement in capital ratios due to focus on optimization of RWAs as seen in Maybank and CIMB.

Slower growth in core NII for the sector of +1.2%qoq in 4QCY15, underpinned by softer loan growth of +0.4%qoq and contraction in NIM by 3bp-qoq. Meanwhile, growth in the sector's aggregate core NOII was also slower at +7.4%qoq while the sector's Islamic Banking income registered a growth of -3.3%qoq in 4QCY15.

Chart 1: Sector Aggregate Core Earnings (RM'Mil)

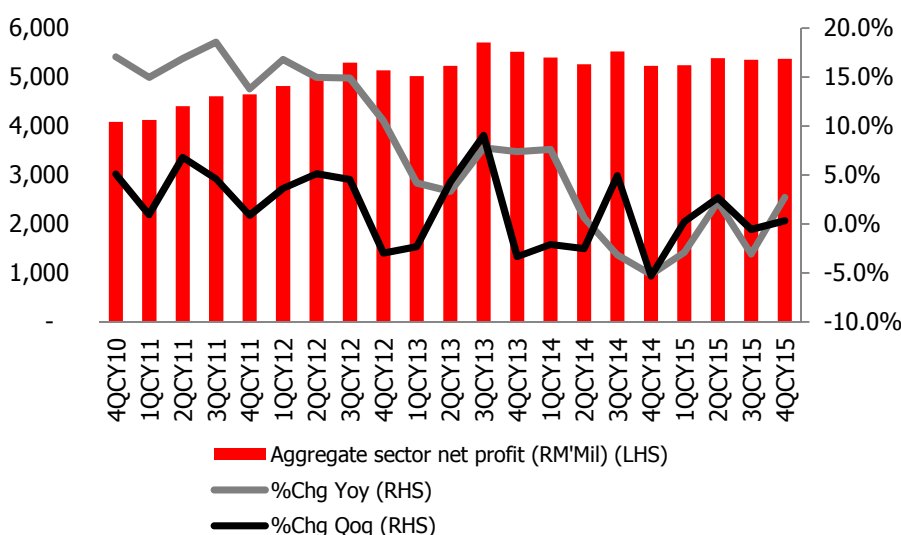


Table 1: Reported Net Profit Comparison (RM'Mil)

Bank	Dec-14 (4QCY14)	Sept-15 (3QCY15)	Dec-15 (4QCY15)	Chg Qoq	Chg Yoy	12MCY14	12MCY15	Chg Yoy
AMMB	417	383	300	-21.5%	-28.0%	1,863	1,541	-17.3%
Maybank	1,931	1,899	1,652	-13.0%	-14.5%	6,716	6,836	+1.8%
Public Bank	1,254	1,201	1,492	+24.2%	+19.0%	4,519	5,062	+12.0%
RHB Cap	486	194	316	+62.6%	-35.0%	2,044	1,511	-26.0%
Hong Leong	552	503	344	-31.6%	-37.6%	2,137	1,981	-7.3%
CIMB	200	804	826	+2.7%	+312.2%	3,107	2,850	-8.3%
AFG	126	135	136	+0.7%	+7.3%	596	485	-18.5%
Affin	209	103	97	-5.2%	-53.3%	608	370	-39.2%
Total	5,175	5,222	5,164	-1.1%	-0.2%	21,589	20,637	-4.4%

Source: Companies, MIDFR

Table 2: Core Net Profit Comparison (RM'Mil)

Bank	Dec-14 (4QCY14)	Sept-15 (3QCY15)	Dec-15 (4QCY15)	Chg Qoq	Chg Yoy	12MCY14	12MCY15	Chg Yoy
AMMB	1,646	383	354	-7.5%	-13.2%	1,646	1,561	-5.2%
Maybank	6,716	1,702	1,652	-2.9%	-14.5%	6,716	6,639	-1.2%
Public Bank	4,531	1,201	1,392	+15.9%	+9.9%	4,531	4,962	+9.5%
RHB Cap	2,044	426	316	-25.8%	-35.0%	2,044	1,743	-14.7%
Hong Leong	2,137	503	475	-5.6%	-13.9%	2,137	2,067	-3.2%
CIMB	3,158	902	850	-5.8%	237.3%	3,158	3,411	+8.0%
AFG	576	135	136	+0.7%	7.3%	576	499	-13.4%
Affin	608	103	97	-5.2%	-53.3%	608	370	-39.2%
Total	21,417	5,354	5,272	-1.5%	+0.8%	21,417	21,252	-0.8%

Source: Companies, MIDFR

Table 3: Annualised ROE of banks by quarters (%)

Bank	Sep-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	Jun-15 (2QCY15)	Sept-15 (3QCY15)	Dec-15 (4QCY15)	2015 ROE guidance by management
AMMB	12.9	12.0	14.7	9.3	10.3	8.1	-1.0%^
Maybank	13.0	15.0	12.5	11.3	13.1	11.8	12.0-13.0%
Public Bank	19.8	18.3	16.7	16.7	16.3	19.6	>16.0%
RHB Cap	12.1	10.5	10.0	10.6	3.8	5.8	>11.5%
Hong Leong	14.8	14.5	13.4	15.2	11.6	10.8	11.0% ^
CIMB	9.8	2.2	6.1	6.6	8.2	8.4	11.0%
AFG	17.0	11.6	8.5	10.8	11.8	11.7	12.0% ^
Affin	7.8	10.7	1.5	7.0	5.2	4.9	8.0%

^Represents ROE target for FY16 / AMMB's ROE target lowered to -1% from 2.0% previously / Hong Leong Bank's management has revised its ROE target to 11.0% from >12.0% previously

Source: Companies, MIDFR

Sector loan growth decelerated in 4QCY15. Most banks reported a slower loan growth in 4QCY15. Aggregate sector's gross loan growth grew at a slower pace of +0.4%qoq or +10.2%yoy, contributed by lower consumer and business loans. Favorable FX translation effect with the strengthening of foreign currencies against MYR had positive impacts on the loan growth of Maybank, CIMB and Public Bank. Excluding the FX impact, underlying growth of Maybank, CIMB and Public Bank's loans was much lower at

5.7%yoy, 6.6%yoy at 10.2%yoy respectively. AMMB's loan growth remained flat at -0.7%yoy contributed by its ongoing loan portfolio rebalancing towards higher quality credits and its selective strategy to grow in the preferred segments with cautious lending towards the property sector.

Table 4: Total Gross Loans (RM'bil)

Bank	Dec-14 (4QCY14)	Mar-15 (1QCY15)	Jun-15 (2QCY15)	Sept-15 (3QCY15)	Dec-15 (4QCY15)	Change Yoy	FYE	2015 loan growth guidance *
AMMB^	87	88	86	87	87	-0.7%	Mar	-1.0%^
Maybank	409	418	433	465	460	+12.3%	Dec	8.0-9.0%
Public Bank	245	253	259	268	273	+11.6%	Dec	9.0-10.0%
RHB Cap	142	144	145	150	151	+6.2%	Dec	10.0%
Hong Leong	107	111	113	116	118	+9.9%	June	8.0-9.0%`
CIMB	265	270	280	298	298	+12.5%	Dec	10.0%
AFG^	36	37	37	38	39	+8.5%	Mar	8.0-9.0%^
Affin	41	41	42	42	44	+6.9%	Dec	10.0%
Total	1,333	1,361	1,394	1,463	1,470	+10.2%		

*Loan growth rates at Group level guided by management

^Loan growth from Apr'15 to Mar'16 / AMMB's management has guided for a lower loan growth target of -1.0% for FY16 compared to 2.0% previously

` Loan growth from July'15 to Jun'16

Source: Companies

Table 5: Growth in Gross Loans (Chg Qoq)

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	-1.2%	+1.1%	+0.4%	-2.6%	+1.5%	+0.04%
Maybank	+3.4%	+5.8%	+2.1%	+3.5%	+7.4%	-1.1%
Public Bank	+2.3%	+3.2%	+3.3%	+2.3%	+3.6%	+2.0%
RHB Cap	+2.7%	+4.8%	+0.7%	+0.8%	+3.4%	+1.2%
Hong Leong	+0.2%	+2.8%	+3.1%	+2.6%	+2.6%	+1.3%
CIMB	+3.6%	+6.1%	+2.1%	+3.5%	+6.5%	+0.02%
AFG	+3.8%	+3.5%	+3.6%	+1.1%	+1.7%	+1.8%
Affin	+3.45	+3.6%	-1.1%	+3.9%	+0.5%	+3.5%
Total	+2.6%	+4.6%	+2.1%	+2.5%	+5.0%	+0.4%

Source: Companies, MIDFR

Table 6: Growth in Gross Loans (Chg YoY)

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	+0.9%	+0.7%	-1.6%	-2.3%	+0.3%	-0.7%
Maybank	+13.8%	+13.3%	+14.3%	+15.6%	+20.1%	+12.3%
Public Bank	+10.2%	+10.8%	+11.7%	+11.5%	+12.9%	+11.6%
RHB Cap	+12.0%	+17.0%	+13.7%	+9.2%	+10.0%	+6.2%
Hong Leong	+6.1%	+6.7%	+8.8%	+8.9%	+11.5%	+9.9%
CIMB	+9.3%	+12.8%	+12.5%	+16.1%	+19.3%	+12.5%
AFG	+14.9%	+16.3%	+14.7%	+12.5%	+10.2%	+8.5%
Affin	+8.8%	+9.6%	+5.9%	+10.1%	+7.0%	+6.9%
Total	+10.3%	+11.6%	+11.5%	+12.2%	+14.8%	+10.2%

Source: Companies, MIDFR

Table 7: Net LD Ratio (Net LDR)

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	99.3%	95.3%	93.5%	93.5%	95.5%	93.9%
Maybank	90.6%	91.8%	92.2%	94.2%	96.0%	91.5%
Public Bank	87.8%	88.0%	88.0%	87.0%	89.8%	90.3%
RHB Cap	90.4%	89.5%	89.3%	91.0%	93.0%	94.6%
Hong Leong	79.1%	80.3%	80.1%	79.9%	80.1%	80.6%
CIMB	92.4%	91.5%	88.7%	92.5%	93.3%	91.4%
AFG	83.7%	85.1%	82.0%	84.2%	85.4%	88.0%
Affin	79.5%	80.0%	82.2%	83.8%	90.2%	85.7%
Average	87.9%	89.4%	88.8%	90.2%	90.4%	89.5%

Source: Companies, MIDFR

- **Growth in aggregate sector NII (excluding net funding income from Islamic banking) was slower in 4QCY15 underpinned by deceleration in loan growth and contraction in NIM.** The sector's reported NII grew +1.2%qoq or +8.6%yoy to RM9.5b in 4QCY15. On a quarterly sequential basis, growth in NII was slower due to deceleration of loan growth while NIM was compressed for the quarter contributed by higher funding cost and lower asset yield as in the case of AMMB. NII mix (NII/Net income) for the sector continued to slide to 56.8% in 4QCY15.

Chart 2: Sector Aggregate NII

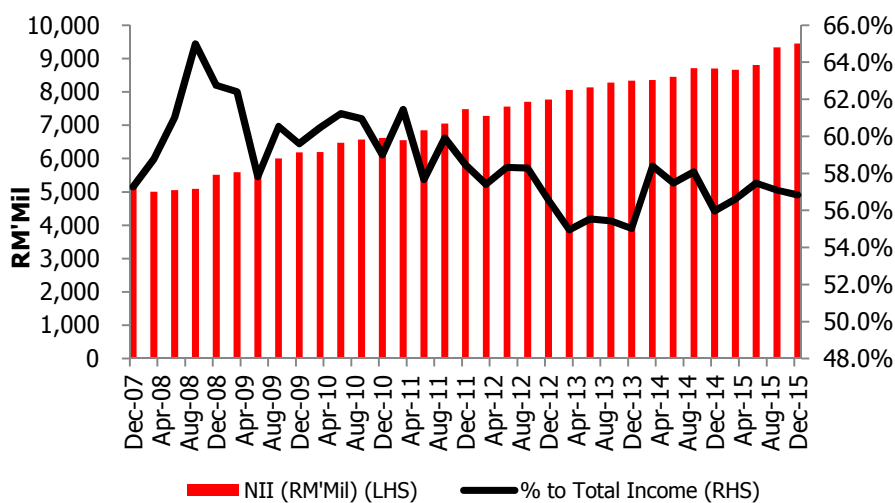


Table 8: Reported Net Interest Income (NII) (RM'Mil)

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	487	471	424	432	395
Maybank	2,442	2,605	2,680	2,897	2,932
Public Bank	1,555	1,534	1,560	1,629	1,654
RHB Cap	806	800	784	844	872
Hong Leong	711	657	657	660	678
CIMB	2,242	2,191	2,269	2,416	2,461
AFG	214	186	208	213	216
Affin	247	215	222	248	241
Total	8,704	8,660	8,803	9,338	9,450

Source: Companies

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
Change Yoy					
AMMB	-11.0%	-18.2%	-15.8%	-15.7%	-19.0%
Maybank	+2.4%	+8.9%	+11.3%	+17.7%	+20.1%
Public Bank	+10.0%	+9.4%	+9.7%	+5.0%	+6.4%
RHB Cap	-6.8%	-2.3%	-5.2%	+0.9%	+8.2%
Hong Leong	+9.2%	-3.0%	-3.0%	-7.7%	-4.7%
CIMB	+9.5%	+6.0%	+4.3%	+11.3%	+9.8%
AFG	+6.5%	-7.4%	+4.0%	-3.6%	1.1%
Affin	+8.1%	-1.8%	-7.2%	+1.7%	-2.3%
Total	+4.4%	+3.6%	+4.2%	+7.2%	+8.6%
Change Qoq					
AMMB	-4.8%	-3.3%	-10.1%	+1.9%	-8.6%
Maybank	-0.8%	+6.7%	+2.9%	+8.1%	+1.2%
Public Bank	+0.2%	-1.3%	+1.7%	+4.4%	+1.6%
RHB Cap	-3.6%	-0.7%	-1.9%	+7.6%	+3.3%
Hong Leong	-0.6%	-7.6%	-0.02%	+0.42%	+2.71%
CIMB	+3.3%	-2.3%	+3.5%	+6.5%	+1.9%
AFG	-3.4%	-12.8%	+11.6%	+2.6%	+1.3%
Affin	+1.4%	-13.0%	+3.3%	+11.6%	-2.6%
Total	-0.1%	-0.5%	+1.7%	+6.1%	+1.2%

Source: Companies, MIDFR

Table 9: NII to Total Income

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	48.2%	42.4%	43.9%	46.2%	44.2%
Maybank	48.1%	52.2%	54.8%	50.4%	52.2%
Public Bank	68.7%	67.7%	67.4%	65.9%	66.3%
RHB Cap	48.0%	53.0%	52.8%	55.7%	51.8%
Hong Leong	69.5%	66.5%	63.1%	64.5%	63.1%
CIMB	61.1%	59.5%	59.2%	62.9%	60.9%
AFG	61.0%	60.8%	60.3%	58.2%	59.8%
Affin	51.8%	47.9%	49.7%	53.9%	51.9%
Average	56.0%	56.6%	57.5%	57.1%	56.8%

Source: Companies, MIDFR

- **NIM drop 3p-qoq in 4QCY15 due to both higher funding cost and lower asset yield.** On quarterly sequential basis, AMMB recorded the largest drop in NIM of 18bp due to portfolio rebalancing by derisking its auto loan book, mortgage portfolio rebalancing cycle and higher funding cost. Also, Maybank reported a lower NIM by 9bp-qoq, largely due to a more aggressive deposit taking via campaigns in key markets (Malaysia, Singapore and Indonesia) in 4QCY15. Meanwhile, AFG's drop in NIM by 4bp-qoq as higher funding cost from its strategy due to diversify the funding of its balance sheet via issuance of new subordinated MTNs totaling RM1.2b offset the positive impacts on its gross margin from higher mix of RAR loans and better loan pricing.

While the KLIBOR has eased after the announcement of SRR cut by 50bp to 3.5% on Jan'16, deposit rates remain sticky as seen by the FD rates still maintaining at high rates. Moving ahead, we expect deposit competition to remain intense and pressure on COF to persist looking at the high LD ratio of banks.

Table 10: Net Interest Margin (NIM)

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	2.38%	2.33%	2.12%	2.12%	1.94%
Maybank	2.20%	2.26%	2.28%	2.38%	2.29%
Public Bank	2.20%	2.15%	2.11%	2.16%	2.19%
RHB Cap	2.26%	2.22%	2.13%	2.13%	2.15%
Hong Leong	2.12%	2.01%	1.92%	1.94%	1.96%
CIMB	2.79%	2.65%	2.61%	2.68%	2.66%
AFG	2.16%	2.15%	2.16%	2.19%	2.15%
Affin	1.97%	1.72%	1.80%	2.03%	1.99%
Average	2.26%	2.19%	2.14%	2.20%	2.17%

Source: Companies, MIDFR own estimates

The sector's CASA ratio remained stable at 27.1%. CASA growth picked up pace for Hong Leong Bank and AFG while the rest of the banks recorded slower growth (see Table 12).

Table 11: CASA Ratio

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	20.5%	20.3%	20.9%	21.1%	20.4%
Maybank	35.2%	35.4%	35.0%	35.0%	33.7%
Public Bank	25.0%	25.0%	24.1%	24.7%	24.2%
RHB Cap	21.7%	22.3%	23.4%	23.3%	24.0%
Hong Leong	25.7%	25.8%	25.6%	24.9%	25.5%
CIMB	35.1%	34.4%	35.4%	34.4%	34.4%
AFG	34.8%	33.7%	34.5%	33.6%	35.0%
Affin	20.0%	19.8%	19.5%	21.1%	19.2%
Average	27.3%	27.1%	27.3%	27.3%	27.1%

Source: Companies, MIDFR

Table 12: CASA Growth

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	+6.8%	-0.1%	-0.3%	+10.0%	+0.5%
Maybank	+8.5%	+11.5%	+9.2%	+15.4%	+4.1%
Public Bank	+7.9%	+7.9%	+6.8%	+8.7%	+5.6%
RHB Cap	+6.4%	+4.8%	+5.5%	+11.0%	+11.0%
Hong Leong	+3.8%	+6.3%	+5.3%	+4.8%	+8.5%
CIMB	+9.0%	+8.6%	+12.0%	+14.8%	+10.4%
AFG	+11.8%	+12.5%	+10.1%	+3.3%	+5.7%
Affin	-0.6%	-4.6%	+3.1%	-2.7%	-4.5%
Average	+7.9%	+6.7%	+5.9%	+6.5%	+8.2%

- NOII in 4QCY15 grew +5.1%qoq.** Growth in the sector's aggregate reported NOII in 4QCY15 was +5.1%qoq and +1.9%yoy. On-quarter, the rise was contributed by higher NOII of RHB Cap arising from higher unit trust fee income, underwriting and corporate advisory fee, fund management fees, FX gain and underwriting surplus before management expenses. In case of CIMB, the Group recorded a higher NOII in 4QCY15, largely due to significantly lower FX losses compared to the previous quarter which was partially offset by lower investment and trading income.

Chart 3: Sector Aggregate NOII

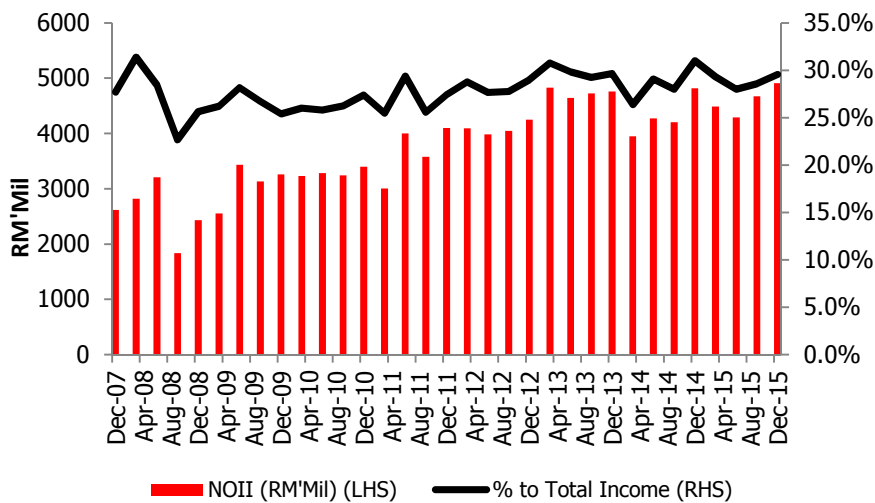


Table 13: Reported Non Interest Income (NOII) (RM'Mil)

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	317	416	333	303	289
Maybank	1,831	1,450	1,241	1,766	1,728
Public Bank	502	527	545	631	638
RHB Cap	671	506	488	448	573
Hong Leong	206	232	279	249	278
CIMB	1,052	1,122	1,165	1,038	1,164
AFG	78	62	78	92	82
Affin	162	172	158	149	159
Total	4,819	4,487	4,288	4,675	4,911
Change Yoy					
AMMB	-30.0%	+32.3%	-55.7%	-22.9%	-8.8%
Maybank	+21.1%	+17.5%	-1.7%	+43.8%	-5.6%
Public Bank	+13.3%	+15.7%	+14.8%	+31.3%	27.1%
RHB Cap	+13.6%	+1.8%	+12.5%	-27.2%	-14.5%
Hong Leong	-29.0%	+43.4%	+24.0%	+31.5%	+34.8%
CIMB	-19.0%	+1.7%	+33.8%	+3.6%	+10.6%
AFG	+3.6%	-29.7%	-6.3%	-1.9%	+5.3%
Affin	+66.9%	+80.0%	-8.1%	-25.7%	-2.0%
Total	+1.2%	+13.6%	+0.3%	+11.3%	+1.9%
Change Qoq					
AMMB	-19.2%	+31.2%	-19.9%	-9.1%	-4.5%
Maybank	+49.1%	-20.8%	-14.4%	+42.3%	-2.1%
Public Bank	+4.4%	+4.9%	+3.4%	+15.9%	+1.1%
RHB Cap	+9.1%	-24.5%	-3.7%	-8.3%	+28.1%
Hong Leong	+9.1%	+12.4%	+20.3%	-10.8%	+11.8%
CIMB	+5.0%	+6.7%	+3.8%	-10.9%	+12.1%
AFG	-16.5%	-20.9%	+26.4%	+17.6%	-10.5%
Affin	-19.3%	+6.1%	-7.7%	-6.0%	+6.5%
Total	+14.7%	-6.9%	-4.4%	+9.0%	+5.1%

Source: Companies

Table 14: NOII to Total Income

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	31.4%	37.4%	34.6%	32.4%	32.4%
Maybank	36.1%	29.1%	25.4%	30.7%	30.8%
Public Bank	22.2%	23.2%	23.5%	25.5%	25.5%
RHB Cap	40.0%	33.6%	32.8%	29.6%	34.1%
Hong Leong	20.2%	23.5%	26.8%	24.3%	25.9%
CIMB	28.7%	30.5%	30.4%	27.0%	28.8%
AFG	22.3%	20.2%	22.7%	25.1%	22.7%
Affin	33.9%	38.2%	35.4%	32.4%	34.1%
Average	31.0%	29.3%	28.0%	28.6%	29.5%

Source: Companies, MIDFR

Table 15: Reported Islamic Banking Income (RM'Mil)

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	207	225	207	200	208
Maybank	806	933	967	1,085	954
Public Bank	206	204	209	211	204
RHB Cap	201	202	214	223	237
Hong Leong	106	99	105	115	118
CIMB	377	367	399	386	417
AFG	58	58	59	61	63
Affin	68	62	66	63	65
Total	2,028	2,151	2,226	2,343	2,266
Change Yoy					
AMMB	-8.9%	-10.4%	-0.01%	-10.2%	+0.76%
Maybank	+2.0%	+15.4%	+19.5%	+27.9%	+18.5%
Public Bank	+1.0%	-0.6%	+2.6%	-2.4%	-0.7%
RHB Cap	+24.0%	+33.4%	+16.8%	+13.3%	+18.0%
Hong Leong	-6.2%	-9.1%	+0.5%	+4.1%	+11.1%
CIMB	-16.2%	-0.3%	+10.6%	+8.7%	+10.5%
AFG	+10.5%	+10.7%	+9.1%	+13.2%	+8.5%
Affin	21.9%	+9.6%	+13.3%	+3.5%	-4.7%
Total	-1.3%	+7.4%	+12.4%	+13.5%	+11.7%
Change Qoq					
AMMB	-7.2%	+8.6%	-7.9%	-3.3%	+4.1%
Maybank	-5.0%	+15.8%	+3.7%	+12.2%	-12.0%
Public Bank	-4.7%	-0.7%	+2.2%	+1.0%	-3.1%
RHB Cap	+2.1%	+0.9%	+5.7%	+3.9%	+6.4%
Hong Leong	-3.8%	-6.4%	+5.8%	+9.3%	+2.7%
CIMB	+6.2%	-2.8%	+8.7%	-3.2%	+7.9%
AFG	+8.1%	-0.1%	+0.6%	+4.3%	+3.5%
Affin	+11.6%	-8.5%	+6.8%	-5.2%	+2.9%
Total	-1.7%	+6.0%	+3.5%	+5.3%	-3.3%

Source: Companies, MIDFR

- Sector's provisioning for loan impairments declined by -15.5%qoq largely due to write back in CA of Public Bank and AMMB.** On absolute value basis, provisions for loan impairment in 4QCY15 declined by -15.5%qoq. This was contributed largely by write back in CA of Public Bank and AMMB due to intensified collection efforts. For Public Bank, it was the case of an improvement in recovery rate with better aging profile of loan arrears that led to lower provisioning while for AMMB, the Group recorded an improvement in recovery from HP loans, hence a claw back on its higher provisions taken in the previous year. Recall, in the previous financial year, after migrating to its new IT system, reminder letters for arrears on HP were unable to be sent out to borrowers, consequently causing arrears for HP loans to rise and higher provisions. Meanwhile, provisions for Maybank and CIMB remain elevated with more provisions taken by CIMB Niaga. Higher GIL ratios have been observed on the loans of Maybank's international operations, in particular for its loans in Greater China and Hong Kong, Labuan and Philippines. On RHB Cap, additional provisions of RM150m were taken on two steel companies which had already turn impaired while recoveries were lower compared to the previous year.

Table 16: Gross Impaired Loan (GIL) Ratio

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	1.88%	1.79%	1.80%	1.95%	1.80%
Maybank	1.52%	1.50%	1.56%	1.54%	1.86%
Public Bank	0.61%	0.56%	0.54%	0.53%	0.49%
RHB Cap	2.03%	2.03%	2.05%	1.94%	1.88%
Hong Leong	0.98%	0.89%	0.84%	0.83%	0.86%
CIMB	3.09%	3.18%	3.31%	3.42%	3.05%
AFG	1.14%	1.03%	1.01%	1.12%	1.08%
Affin	1.82%	1.96%	2.04%	2.21%	1.90%
Average	1.70%	1.68%	1.71%	1.76%	1.75%

Source: Companies, MIDFR

Table 17: Loan Loss Provisions (RM'Mil)

Bank	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	57	59	(11)	64	72
Maybank	35	(248)	(301)	(668)	(467)
Public Bank	(63)	(76)	(61)	(114)	104
RHB Cap	(40)	(50)	41	(96)	(235)
Hong Leong	54	7	(24)	(24)	(60)
CIMB	(919)	(534)	(529)	(524)	(579)
AFG	(27)	(17)	(17)	(19)	(6)
Affin	51	(124)	(14)	(30)	(21)
Total	(853)	(984)	(915)	(1,411)	(1,192)
(% qoq growth)	+54.6	+15.4	-7.0	+54.2	-15.5

() denotes provision for loan impairment

Source: Companies, MIDFR

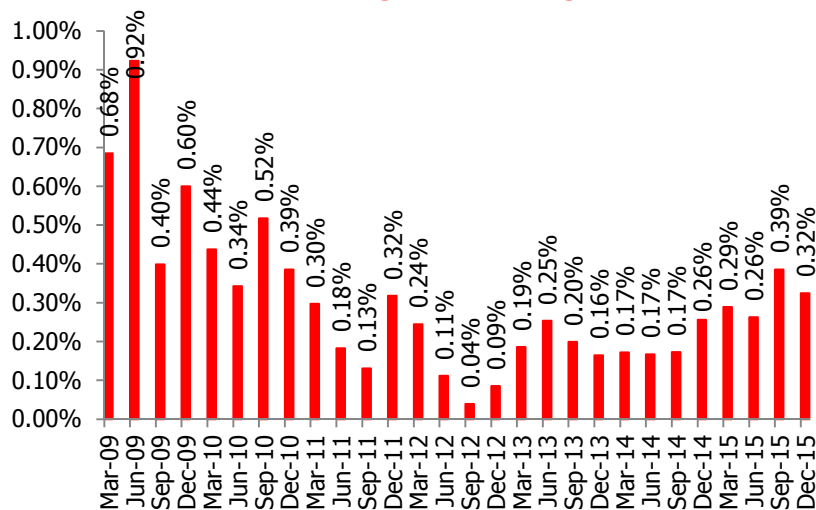
- Sector annualized credit charge-off was lower 0.32% in 4QCY15 vs. 0.39% in 3QCY15.** Sector average annualized credit charge-off ease to 0.32% in 4QCY15 (see Chart 4 and Table 18 below) largely due to the net write back in provisions for loan impairment for AMMB and Public Bank.

Table 18: Annualized charge charge-off

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	0.02%	-0.26%	-0.27%	0.05%	-0.29%	-0.33%
Maybank	0.07%	-0.03%	0.24%	0.28%	0.58%	0.41%
Public Bank	0.08%	0.10%	0.12%	0.09%	0.17%	-0.15%
RHB Cap	0.28%	0.11%	0.14%	-0.11%	0.26%	0.62%
Hong Leong	-0.06%	-0.20%	-0.02%	0.08%	0.08%	0.20%
CIMB	0.55%	1.39%	0.79%	0.76%	0.70%	0.78%
AFG	-0.08%	0.30%	0.19%	0.18%	0.20%	0.07%
Affin	0.13%	-0.50%	1.22%	0.13%	0.28%	0.19%
Sector	0.17%	0.26%	0.29%	0.26%	0.39%	0.32%

Source: Companies, MIDFR

Chart 4: Sector average credit charge-off



Source: Companies, MIDFR

Table 19: CA Ratio

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	1.90%	1.78%	1.62%	1.62%	1.56%	1.42%
Maybank	1.08%	1.00%	0.99%	0.96%	0.94%	0.87%
Public Bank	0.70%	0.69%	0.67%	0.65%	0.64%	0.56%
RHB Cap	1.01%	1.00%	0.97%	1.22%	1.22%	1.22%*
Hong Leong	1.00%	0.93%	0.84%	1.20%	1.20%	1.21%*
CIMB	1.35%	1.26%	1.27%	1.26%	1.24%	1.21%*
AFG	0.90%	0.92%	0.91%	0.90%	0.88%	0.85%
Affin	0.83%	0.74%	0.87%	0.73%	0.65%	0.56%
Average	1.10%	1.04%	1.02%	1.14%	1.11%	1.00%

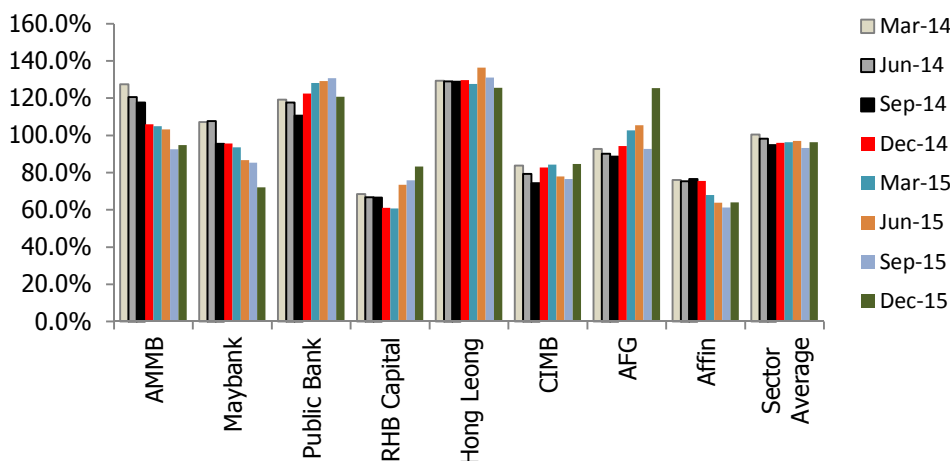
*Inclusive of regulatory reserve. Ratios higher with the transfer from retained earnings to regulatory reserve Source: Companies

Table 20: Loan loss coverage (%)

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	117.6	106.0	104.9	103.2	92.6	94.8
Maybank	95.4	95.6	93.5	86.6	85.4	72.0
Public Bank	110.5	122.4	128.1	129.2	130.8	120.8
RHB Cap	66.6	61.1	60.7	73.4*	75.9*	83.3*
Hong Leong	128.7	129.7	127.7	136.3	131.0	125.5
CIMB	74.2	82.7	84.2	77.9	76.6	84.7
AFG	88.6	94.2	102.7	105.4	92.7	93.0
Affin	76.6	75.6	68.0	63.8	61.2	64.0
Average	94.8	95.9	96.2	97.0	93.3	92.3

*Includes regulatory reserve / Source: Companies, MIDFR

Chart 5: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- Reported OPEX for the sector rose +2.5%qoq or +7.5%yoy largely due to additional MSS expenses of RM32m in 4QCY15 for CIMB (Niaga's MSS), MSS expenses of RM172m for Hong Leong Bank and regulatory penalty payment of RM53.7m for AMMB. This rise in OPEX was largely due to CIMB's additional MSS expenses for Niaga's employees of RM32m and Hong Leong Bank's MSS expenses of RM172m, and AMMB's regulatory penalty payment of RM53.7m in 4QCY15. Excluding these one-off expenses, normalized growth in OPEX for 4QCY15 was +5.2%qoq and +4.2%yoy. On normalized net income and OPEX, negative JAW of 4.2% was recorded in 4QCY15 with growth in OPEX of +5.2%qoq outpacing growth in net income of +1.0%qoq. Normalized CI ratio for the sector was 49.1% in 4QCY15.

Table 21: Reported Overhead Expenses (RM'Mil)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	624	495	496	544	484	-500	-567
Maybank	2,086	2,284	2,573	2,489	2,419	-2,601	-2,776
Public Bank	666	649	635	703	722	-741	-749
RHB Cap	797	841	987	820	843	-1,169	-962
Hong Leong	467	429	463	450	471	-463	-658
CIMB	2,008	2,034	2,239	2,340	2,440	-2,261	-2,211
AFG	162	161	156	165	167	-166	-175
Affin	260	299	244	269	258	-275	-280
Sector	7,070	7,190	7,794	7,781	7,803	-8,175	-8,378
Sector (% qoq growth)	+3.0	+1.7	+8.4	-0.2	+0.3	+4.8	+2.5

Source: Companies, MIDFR

Table 22: Reported Net/Total Income (RM'Mil)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	1,462	1,128	1,011	1,112	964	935	893
Maybank	4,479	4,538	5,079	4,988	4,888	5,747	5,615
Public Bank	2,100	2,248	2,263	2,265	2,313	2,471	2,497
RHB Cap	1,445	1,647	1,677	1,509	1,487	1,514	1,682
Hong Leong	1,006	1,015	1,023	988	1,041	1,023	1,074
CIMB	3,407	3,529	3,672	3,680	3,833	3,840	4,042
AFG	337	390	350	306	344	366	361
Affin	470	505	477	449	447	460	465
Sector	14,707	14,999	15,552	15,297	15,317	16,356	16,627
Sector (% qoq growth)	+2.8	+2.0	+3.7	-1.6	+0.1	+6.8	+1.7

Source: Companies, MIDFR

Table 23: Cost to Income (CI) Ratio by quarters based on reported financials

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)	Sept'15 (3QCY15)	Dec'15 (4QCY15)
AMMB	42.6%	43.9%	49.1%	49.0%	50.2%	53.4%	63.5%
Maybank	46.6%	50.3%	50.7%	49.9%	49.5%	45.3%	49.4%
Public Bank	31.7%	28.9%	28.1%	31.0%	31.2%	30.0%	30.0%
RHB Cap	55.2%	51.1%	58.9%	54.3%	56.7%	77.2%	57.2%
Hong Leong	46.4%	42.3%	45.3%	45.6%	45.3%	45.2%	61.3%
CIMB	58.9%	57.6%	61.0%	63.6%	63.6%	58.9%	54.7%
AFG	48.0%	41.1%	44.7%	54.1%	48.6%	45.4%	48.4%
Affin	55.3%	59.1%	51.1%	59.9%	57.7%	59.7%	60.3%
Average	48.1%	46.8%	50.1%	50.9%	50.9%	50.0%	50.4%*

*Normalised CI ratio: 49.1% Source: Companies, MIDFR

Table 24: CET1, Core Capital and Risk Weighted Capital ratios as at end of 4QCY15

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	10.8%	12.1%	16.2%
Maybank	12.5% (fully loaded: 11.95%)	14.2%	17.5%
Public Bank	10.9%	12.0%	15.5%
RHB Cap*	11.6%	11.9%	16.1%
Hong Leong	13.3% (fully loaded: 11.6%)	14.4%	16.2%
CIMB	10.3% (fully loaded: 10.1%)	11.7%	15.2%
AFG	11.3%	11.3%	17.0%
Affin^	11.9%	11.9%	14.3%

^represent ratios at Affin Bank level

*represent ratios of RHB Bank Group.

Source: Companies, MIDFR

Table 24 shows the capital ratios of banks which continued to be above the regulatory requirements for Basel III. We observed uplifts in the capital ratios of CIMB and Maybank. This was largely due to their focus on optimization of RWAs via sell down of some of their loans. We expect banks to continue to look into ways to optimize their RWAs other than the conventional method of disposing off non-core assets.

STOCK AND SECTOR RECOMMENDATION

- **Sector earnings growth for CY16 trimmed to +5.2% (previously: +7.8%).** In the recent results season, we have trimmed our aggregate earnings growth expectation for banks in CY16 to +5.2%yoy as compared to 7.8% previously. The revision was largely on the back of revision to our CI ratio assumption, a rise to 47.3% for CY16 vs. 46.5% previously and higher credit charge-off of 0.27% (27bp) as compared to 0.24% (24bp) earlier.

Our ROE expectation for the sector in CY16 has been lowered to 10.7% (previously 11.2%). After the completion of the CY15 results, Maybank has guided for a lower ROE of 11-12% in CY16 vs. 12-13% in CY15 while ROEs targets for Public Bank and RHB Cap have also been lowered to >15% and 10% for CY16 respectively as compared to >16% and 11.5% for CY15.

We continue to expect earnings growth for CY16 to improve, coming from a low base and flat earnings growth in CY15 underpinned by: i) modest loan growth of 7-8% for the sector, ii) NIM compression of 7bp, iii) cost savings from initiatives implemented by banks via MSS exercises of CIMB and Hong Leong Bank and CTS exercise of RHB Cap leading to a lower CI ratio for the sector, partially offset by higher credit charge-off.

- **Continue to expect credit charge-off to trend higher in CY16 due to pressure on asset quality as well as lower recoveries.** Aside from lower recoveries, provision is expected to be higher in CY16, contributed by higher inflation, rise in unemployment rate and slower global economic growth. We expect provisioning levels for the banks' local operations to normalise with lower recoveries. In CY15, we have seen an increase in provisions due to higher IA and lower recoveries for Maybank, RHB Cap and Affin. For CY16, we have imputed in a higher credit charge-off of 0.27% as compared to our previous estimate of 0.24%.
- **Maintain NEUTRAL on the sector.** Challenges to the earnings growth for the sector continues to be: i) compression in NIM from high cost of funding despite of lower KLIBOR after the announced SRR cut by 50bp in Jan'16 as deposit competition is expected to continue to remain intense with deposit rates remaining high, ii) market volatility continuing to impact IB income, and iii) higher provisions due to pressure on asset quality and lower recoveries.

Table 25: Sector core earnings growth

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	1,646	1,561	1,552	1,317
Maybank	6,716	6,639	6,901	7,588
Public Bank	4,519	4,599	5,117	5,408
RHB Capital	2,038	1,743	1,924	2,128
Hong Leong	1,935	1,935	1,935	1,935
CIMB	3,158	3,411	3,955	4,536
AFG	576	499	530	541
Affin	650	369	437	486
Sector	21,417	21,252	22,351	23,939
Sector (% growth)	-0.2%	-0.8%	+5.2%	+7.1%

Source: Companies, MIDF forecast. Earnings adjusted for one-off items

Table 26: Sector ROE

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	14.1%	14.1%	12.6%	8.8%
Maybank	14.3%	12.8%	11.6%	11.9%
Public Bank	18.7%	17.1%	15.3%	14.4%
RHB Capital	11.5%	7.2%	7.8%	7.5%
Hong Leong	15.1%	14.8%	12.6%	10.6%
CIMB	9.1%	7.2%	9.3%	10.0%
AFG	13.8%	12.3%	11.4%	11.0%
Affin	8.4%	4.5%	5.2%	5.5%
Sector	13.1%	11.2%	10.7%	10.0%

Source: Calendarised / Source: companies, MIDF forecast

Table 27: Sector CI ratio

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	46.5%	45.5%	48.0%	54.4%
Maybank	49.2%	48.4%	47.5%	47.3%
Public Bank	30.0%	30.5%	30.0%	30.0%
RHB Capital	54.7%	61.3%	52.0%	51.5%
Hong Leong	45.2%	44.5%	43.2%	41.3%
CIMB	58.6%	60.1%	53.0%	52.5%
AFG	47.6%	46.6%	46.6%	45.8%
Affin	53.9%	60.2%	58.0%	57.0%
Sector	48.2%	49.6%	47.3%	47.5%

Source: Calendarised / Source: companies, MIDF forecast

Table 28: Sector NIM

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	2.72%	2.57%	2.23%	2.00%
Maybank	2.28%	2.35%	2.28%	2.24%
Public Bank	2.15%	2.11%	2.09%	2.03%
RHB Capital	2.08%	1.96%	2.02%	1.99%
Hong Leong	1.96%	1.97%	1.94%	1.93%
CIMB	2.71%	2.61%	2.52%	2.45%
AFG	2.39%	2.23%	2.14%	2.09%
Affin	2.02%	1.91%	1.86%	1.81%
Sector	2.29%	2.21%	2.14%	2.07%

Source: Calendarised / Source: companies, MIDF forecast

Table 29: Sector Credit-charge-off

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	0.18%	0.05%	-0.05%	-0.06%
Maybank	0.10%	0.37%	0.50%	0.46%
Public Bank	0.16%	0.05%	0.10%	0.10%
RHB Capital	0.15%	0.23%	0.40%	0.35%
Hong Leong	0.05%	0.00%	0.03%	0.10%
CIMB	0.59%	0.75%	0.70%	0.55%
AFG	-0.08%	-0.01%	0.13%	0.21%
Affin	-0.04%	0.43%	0.35%	0.30%
Sector	0.14%	0.24%	0.27%	0.25%

Source: Calendarised / Source: companies, MIDF forecast

Table 30: Sector loan growth

(RM'Mil)	CY14	CY15	CY16F	CY17F
AMMB	10.2%	-1.1%	1.0%	3.0%
Maybank	13.5%	12.4%	8.0%	10.0%
Public Bank	10.8%	11.8%	9.0%	9.5%
RHB Capital	17.7%	6.3%	8.0%	8.0%
Hong Leong	7.6%	8.4%	8.7%	7.5%
CIMB	13.0%	12.5%	10.0%	10.0%
AFG	13.7%	14.7%	13.2%	8.0%
Affin	9.7%	7.0%	8.0%	8.0%
Sector	12.0%	9.0%	8.2%	8.0%

Source: Calendarised / Source: companies, MIDF forecast

- Downside risk to the sector: i) Wider NIM contraction than expected, ii) asset quality deterioration resulting in higher than anticipated provisions on the back of weaker than expected economic growth, and iii) impairment of securities and investments in affiliates and subsidiaries due to weaker than expected economic conditions
- Our top pick is Maybank (TP: RM9.80) for its lower Base Rate which reflects a competitive advantage compared to peers on COF, diversified earnings and higher dividend yield than peers. We have TRADING BUY calls on CIMB and BMB with TP of RM4.90 and RM4.22 respectively on valuation grounds. We are NEUTRAL on Hong Leong Bank (TP: RM12.95), RHB Cap (TP: RM5.40), Public Bank (TP: RM19.30), AMMB (TP: RM4.80) and AFG (TP: RM3.85). We have recently upgraded our call on Affin to NEUTRAL from SELL (TP: RM2.20) as we now, post results briefing, expect an improvement in provisions in CY16 compared to CY15.

	Rec.	Price @ 7/3	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				16	17	16	17	16	17	16	17	16	17	16	17
AMMB	NEUTRAL	4.48	4.80	43.0	45.0	10.4	10.0	19.0	20.0	4.2	4.5	5.0	5.3	0.9	0.8
Maybank	BUY	8.83	9.80	71.0	78.0	12.4	11.3	53.0	58.0	6.0	6.6	6.5	6.7	1.4	1.3
Public Bank	NEUTRAL	18.80	19.30	131.8	139.3	14.3	13.5	56.0	59.0	3.0	3.1	9.2	10.2	2.0	1.8
RHB Capital	NEUTRAL	5.68	5.40	50.0	55.0	n.m	n.m	15.0	16.0	n.m	n.m	5.5	6.0	n.m	n.m
Hong Leong	NEUTRAL	13.24	12.95	95.0	106.0	13.9	12.5	31.0	35.0	2.3	2.6	10.0	10.8	1.3	1.2
CIMB	TRADING BUY	4.60	4.90	46.0	53.0	10.0	8.7	19.0	21.0	4.1	4.6	5.1	5.5	0.9	0.8
AFG	NEUTRAL	3.76	3.85	34.0	36.0	11.1	10.4	15.0	16.0	4.0	4.3	3.1	3.3	1.2	1.1
BIMB	TRADING BUY	3.64	4.22	37.8	40.2	9.6	9.1	15.0	16.0	4.1	4.4	2.4	2.6	1.5	1.4
Affin	NEUTRAL	2.21	2.20	23.0	25.0	9.6	8.8	11.0	12.0	5.0	5.4	4.4	4.6	0.5	0.5
Average				59.1	64.2	11.4	10.5	26.0	28.1	4.1	4.4	5.7	6.1	1.2	1.1

Forecasts by MIDFR

Note: *Even though BIMB is under our coverage, this report is based only on the earnings comparison of the large 8 banking groups, which we deemed as more comparable.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.