

The background of the cover is a photograph of a modern, multi-story building with a facade of horizontal concrete and dark panels. The building is partially obscured by a semi-transparent white horizontal band. Below the band, there are dense green trees.

MALAYSIAN BANKS
Quarterly Review

Quarterly review & sector outlook



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1QCY15: Earnings beset by high margin contraction and provisioning for loan impairment

Maintain NEUTRAL

- 1QCY15 aggregate core net profit growth declined -2.8%yoy underpinned by lower net interest income (NII) from high NIM contraction and an increase in impairment for loan losses.** 1QCY15 results of 3 banks (AFG, CIMB and Affin) came in below expectations while the reported earnings of the other 5 banks (AMMB, RHB Cap, Maybank, Public Bank, Hong Leong Bank) were within expectations. Aggregate PATAMI growth for the sector based on reported earnings was down -1.6%qoq and -5.7%yoy. Stripping of one-off items, the sector recorded an aggregate PATAMI growth of +0.3%qoq and -2.8%yoy in 1QCY15. For 1QFY15, higher Islamic Banking income and non interest income (NOII) were offset by lower net interest income (NII) and higher impairment for loan losses. This led to the sector's core net profit slipping by -2.8%yoy. Among the key highlights from the results: i) High NIM compression of -7bp for the quarter, ii) sector loan growth moderated, iii) loan loss charge trended higher and iv) capital market activities remained slow.

Growth of NII for the sector slowed down to +3.6%yoy. This was largely due to high cost of funds (COF) which impacted NIM of banks despite of still a strong loan growth of +11.5%yoy considering the challenging operating environment. COF rose due to keen competition for deposits, in particularly retail deposits and this has resulted in higher contraction of banks' NIM. Meanwhile, growth in the sector's aggregate core NOII was +13.9%yoy after stripping AMMB's divestment gain of RM76m (RM62m from upward revaluation of disposal consideration of shares in AmLife and AmTakaful; RM14m gain from sale of AmFraser Securities) and after adjusting for AFG's change in accounting treatment for credit cards of RM18.4m which involved amortisation of interest income for balance transfer of credit cards instead of recognising the income upfront. Meanwhile, the sector's Islamic Banking income growth gained traction to +7.4%yoy in 1QCY15. Provisions for loan impairment rose by +15.4%qoq largely due to elevated provisioning of CIMB Niaga, one-off impairment for losses for corporate loans for Affin and lower recoveries of bad debts for Maybank. The sector's annualised loan loss charge was higher at 0.29% vs. 0.26% in the previous quarter. Sector liquidity improved slightly with an average Net LD ratio of 88.8%. Customer deposits grew at a faster pace of +10.8%yoy.

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

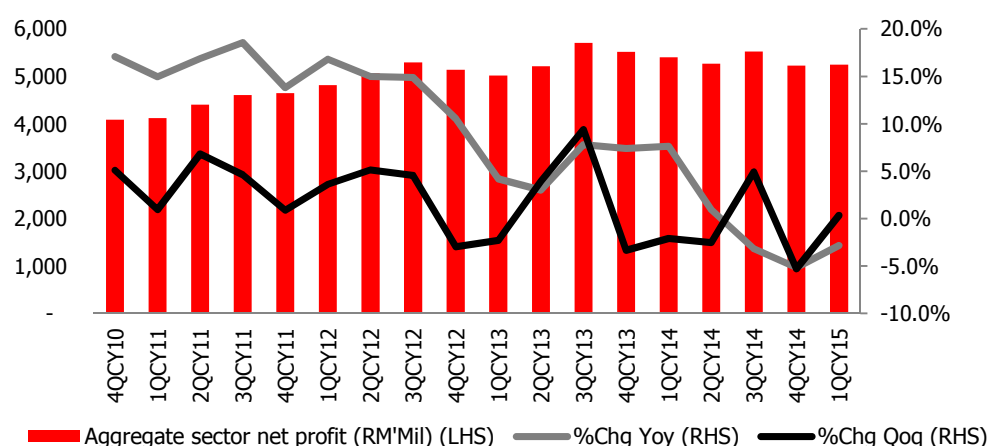


Table 1: Reported Net Profit Comparison (RM'Mil)

Bank	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	%Qoq	%Yoy
AMMB	423	464	537	446	417	519	+24.6%	+12.0%
Maybank	1,732	1,602	1,576	1,608	1,931	1,700	-12.0%	+6.2%
Public Bank	1,026	1,017	1,056	1,192	1,254	1,172	-6.6%	+15.2%
RHB Cap	505	451	562	545	486	476	-2.0%	+5.7%
Hong Leong	520	500	537	548	552	519	-5.9%	+3.8%
CIMB	1,006	1,067	950	890	200	580	+189.6%	-45.6%
AFG	137	158	131	180	126	93	-26.2%	-41.0%
Affin	167	143	115	142	209	30	-85.6%	-78.9%
Total	5,515	5,400	5,464	5,550	5,175	5,090	-1.6%	-5.7%

Source: Companies, MIDFR

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

Bank	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	%Qoq	%Yoy
AMMB	423	464	329	446	407	456	+11.9%	-1.7%
Maybank	1,732	1,602	1,576	1,608	1,931	1,700	-12.0%	+6.2%
Public Bank	1,026	1,017	1,056	1,192	1,266	1,172	-7.5%	+15.2%
RHB Cap	505	451	562	545	486	476	-2.0%	+5.7%
Hong Leong	520	500	537	548	552	519	-5.9%	+3.8%
CIMB	1,006	1,066	950	890	252	782	+210.3%	-26.7%
AFG	137	158	139	153	126	112	-11.6%	-29.3%
Affin	167	143	115	142	209	30	-85.6%	-78.9%
Total	5,515	5,400	5,264	5,523	5,230	5,247	+0.3%	-2.8%

Source: Companies, MIDFR

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

Bank	Dec-13 (4QCY13)	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	2015 ROE guidance
AMMB	13.5	14.4	15.9	12.9	12.0	14.7	12.0 12.5%^
Maybank	15.3	13.6	13.0	13.0	15.0	12.5	13.0-14.0%
Public Bank	20.7	19.9	20.2	19.8	18.3	16.7	>16.0%
RHB Cap	12.2	10.6	12.9	12.1	10.5	10.0	>11.5%
Hong Leong	15.2	14.4	15.1	14.8	14.5	13.4	>14.0%
CIMB	13.4	13.0	10.7	9.8	2.2	6.1	11.0%
AFG	13.4	15.4	12.6	17.0	11.6	8.5	12.0-13.0%
Affin	10.4	8.8	7.0	7.8	10.7	1.5	8.0%

^Represents ROE target for FY16

Source: Companies, MIDFR

Slower momentum for sector loan growth with a mix in trend for loan growth of banks. Loan growth for most banks slowed down in 1QCY15. Growth in aggregate sector's gross loan growth grew at a slower pace of +2.1%qoq or +11.5%yoy. Maybank, Hong Leong Bank and Public Bank outperformed its peers on loan growth on a year-on-year basis. Maybank reported a stronger international loan growth which outpaced its domestic loan growth. Meanwhile, Hong Leong Bank reported a pickup in pace of loan momentum. This was due to stronger growth in mortgage loans, transport vehicle loans while SME loan

growth remain decent. For Public Bank, international loans led by Cambodia gained momentum while domestic loan growth remained strong.

Table 4: Total Gross Loans (RM'bil)

Bank	Mar'14 (1QCY14)	Jun-14 (2QCY14)	Sept-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	Change Yoy	FYE	2015 loan growth guidance *
AMMB^	89	88	87	87	88	-1.6%	Mar	4.0-5.0%^
Maybank	366	374	387	409	418	+14.2%	Dec	9.0-10.0%
Public Bank	227	232	237	245	253	+11.7%	Dec	10.0-11.0%
RHB Cap	126	132	136	142	144	+13.7%	Dec	10.0%
Hong Leong	102	104	104	107	111	+8.8%	June	9.0%**
CIMB	240	241	250	265	270	+12.5%	Dec	10.0%
AFG^	32	33	34	36	37	+14.7%	Mar	8.0%^
Affin	38	38	40	41	41	+5.9%	Dec	10.0%
Total	1,221	1,243	1,275	1,333	1,361	+11.5%		

*Loan growth rates at Group level guided by management

^Loan growth from Apr'15 to Mar'16.

**Loan growth from July'14 to Jun'15

Source: Companies

Table 5: Growth in Gross Loans (%QoQ)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	1.3%	2.8%	-1.9%	-1.2%	1.1%	0.4%
Maybank	6.3%	1.3%	2.3%	3.4%	5.8%	2.1%
Public Bank	2.6%	2.5%	2.4%	2.3%	3.2%	3.3%
RHB Cap	0.3%	3.7%	4.9%	2.7%	4.8%	0.7%
Hong Leong	2.3%	1.1%	2.5%	0.2%	2.8%	3.1%
CIMB	2.7%	2.4%	0.2%	3.6%	6.1%	2.1%
AFG	2.3%	5.1%	3.1%	3.8%	3.5%	3.6%
Affin	2.9%	2.3%	0.0%	3.4%	3.6%	-1.1%
Total	+3.3%	+2.2%	+1.8%	+2.6%	+4.6%	+2.1%

Source: Companies, MIDFR

Table 6: Growth in Gross Loans (%YoY)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	6.1%	5.3%	1.5%	0.9%	0.7%	-1.6%
Maybank	13.7%	13.5%	12.6%	13.8%	13.3%	14.3%
Public Bank	11.8%	11.3%	10.8%	10.2%	10.8%	11.7%
RHB Cap	9.2%	11.2%	13.0%	12.0%	17.0%	13.7%
Hong Leong	12.5%	7.6%	7.2%	6.1%	6.7%	8.8%
CIMB	12.6%	11.9%	8.1%	9.3%	12.8%	12.5%
AFG	12.8%	14.1%	15.2%	14.9%	16.3%	14.7%
Affin	7.9%	10.1%	6.6%	8.8%	9.6%	5.9%
Total	+11.8%	+11.3%	+10.0%	+10.3%	+11.6%	+11.5%

Source: Companies, MIDFR

Table 7: Net LD Ratio (Net LDR) of Banks

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	96.8%	97.2%	98.5%	99.3%	95.3%	93.5%
Maybank	89.9%	91.0%	90.6%	90.6%	91.8%	92.2%
Public Bank	87.5%	86.8%	87.1%	87.8%	88.0%	88.0%
RHB Cap	86.8%	86.6%	87.1%	90.4%	89.5%	89.3%
Hong Leong	78.5%	78.4%	78.8%	79.1%	80.3%	80.1%
CIMB	86.9%	89.4%	87.5%	92.4%	91.5%	88.7%
AFG	82.5%	81.1%	82.9%	83.7%	85.1%	82.0%
Affin	77.9%	81.6%	79.8%	79.5%	80.0%	82.2%
Average	85.9%	86.5%	86.5%	87.9%	89.4%	88.8%

Source: Companies, MIDFR

- Aggregate sector NII (excluding net funding income from Islamic banking) was lower in 1QCY15 due to stronger NIM compression despite of still a strong loan growth. The sector's reported NII grew -0.5%qoq or +3.6%yoy to RM8.7b in 1QCY15. Growth in NII was slower in pace due to high NIM compression arising from a rise in COF. Percentage of NII to total income for the sector rose slightly to 56.6% as compared to 56.0% in the preceding quarter.

Chart 2: Sector Aggregate NII

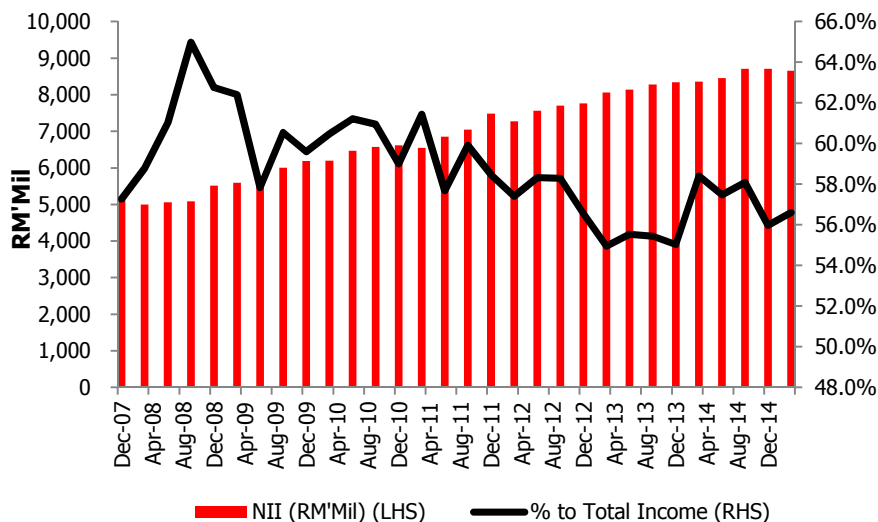


Table 8: Reported Net Interest Income (NII) (RM'Mil)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	576	503	512	487	471
Maybank	2,393	2,407	2,462	2,442	2,605
Public Bank	1,403	1,422	1,551	1,555	1,534
RHB Cap	819	828	836	806	800
Hong Leong	678	677	715	711	657
CIMB	2,067	2,175	2,171	2,242	2,191
AFG	201	200	221	214	186
Affin	219	239	244	247	215
Total	8,355	8,452	8,712	8,704	8,660

Source: Companies

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
% Change Yoy					
Maybank	-0.8%	1.8%	3.6%	2.4%	8.9%
Public Bank	3.9%	2.6%	9.1%	10.0%	9.4%
RHB Cap	5.1%	3.1%	0.9%	-6.8%	-2.3%
Hong Leong	6.4%	6.3%	9.1%	9.2%	-3.0%
CIMB	9.0%	10.1%	6.8%	9.5%	6.0%
AFG	7.3%	8.3%	14.8%	6.5%	-7.4%
Affin	-1.1%	4.3%	2.8%	8.1%	-1.8%
Total	+3.7%	+3.9%	+5.3%	+4.4%	+3.6%
% Change Qoq					
AMMB	5.2%	-12.7%	1.8%	-4.8%	-3.3%
Maybank	0.4%	0.6%	2.3%	-0.8%	6.7%
Public Bank	-0.7%	1.3%	9.1%	0.2%	-1.3%
RHB Cap	-5.2%	1.1%	1.0%	-3.6%	-0.7%
Hong Leong	4.0%	-0.1%	5.6%	-0.6%	-7.6%
CIMB	0.9%	5.3%	-0.2%	3.3%	-2.3%
AFG	0.2%	-0.6%	10.7%	-3.4%	-12.8%
Affin	-4.2%	9.3%	1.8%	1.4%	-13.0%
Total	+0.2%	+1.2%	+3.1%	-0.1%	-0.5%

Source: Companies, MIDFR

Table 9: NII to Total Income (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	50.5%	34.4%	45.4%	48.2%	42.4%
Maybank	54.0%	53.7%	54.2%	48.1%	52.2%
Public Bank	68.0%	67.7%	69.0%	68.7%	67.7%
RHB Cap	55.8%	57.3%	50.7%	48.0%	53.0%
Hong Leong	71.5%	67.3%	70.5%	69.5%	66.5%
CIMB	58.4%	63.8%	61.5%	61.1%	59.5%
AFG	58.9%	59.3%	56.7%	61.0%	60.8%
Affin	59.0%	50.9%	48.3%	51.8%	47.9%
Average	58.4%	57.5%	58.1%	56.0%	56.6%

Source: Companies, MIDFR

- **Sector NIM contracted by -7bp qoq in 1QCY15 largely due to higher COF.** The sector's average NIM contracted by -7bp qoq to 2.18% in 1QCY15 due to higher funding cost as a result of strong competition for retail deposits.

Moving ahead, NIM on banks will persist and is expected to continue to impact banks' NIM. We had earlier expected some of the funding cost pressure of banks to ease after BNM issued new guidelines to ease its regulations on Liquidity Coverage Ratio (LCR). However, based on the recent months' observation, deposit competition has turned stiffer again and this is expected to continue to put pressure on bank's NIM. In our recent review of banks' results, we have factored in higher NIM compression of 10bp (previously 6bp) into our forecast for banks' earnings in CY15.

Table 10: Net Interest Margin (NIM) (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	2.77	2.45	2.54	2.38	2.33
Maybank	2.37	2.35	2.31	2.20	2.26
Public Bank	2.28	2.20	2.29	2.20	2.15
RHB Cap	2.33	2.29	2.29	2.26	2.22
Hong Leong	2.15	2.09	2.09	2.04	1.92
CIMB	2.85	2.90	2.82	2.79	2.65
AFG	2.18	2.10	2.22	2.16	2.15
Affin	1.88	1.98	1.96	1.97	1.72
Average	2.35	2.30	2.32	2.25	2.18

Source: Companies, MIDFR own estimates

The sector's CASA ratio remained stable at 27.1%. Average of the sector's CASA growth decelerated to 4.9%yoy from 7.5%yoy in the previous quarter. Maybank, CIMB and RHB Cap reporting a drop in CASA growth on a year-on-year basis. Meanwhile, AMMB and Affin recorded negative growths in CASA.

Table 11: CASA Ratio (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	20.9%	21.6%	20.1%	20.5%	20.3%
Maybank	35.8%	35.7%	34.5%	35.2%	35.4%
Public Bank	25.5%	25.2%	25.0%	25.0%	25.0%
RHB Cap	23.5%	23.3%	22.6%	21.7%	22.3%
Hong Leong	26.0%	26.2%	26.2%	25.7%	25.8%
CIMB	35.8%	34.7%	35.4%	35.1%	34.4%
AFG	34.0%	34.7%	35.2%	34.8%	33.7%
Affin	21.9%	19.9%	20.4%	20.0%	19.8%
Average	27.9%	27.7%	27.4%	27.3%	27.1%

Source: Companies, MIDFR

- **The sector's reported aggregate NOII grew +13.6%yoy.** Reported sector aggregate's NOII grew -6.9%qoq and +13.6%yoy to RM4.48b. Stripping out the following one-off items:
 - i) AMMB's divestment gain of RM76m (RM62m from revaluation of disposal consideration for the sale of equity in AmLife and AmTakaful to MetLife; RM14m gain from sale of AmFraser Securities) and
 - ii) Adjusting for AFG's change in accounting treatment for credit cards of RM18.4m which involved the amortization of interest income for balance transfer of credit cards instead of recognizing the income upfront.

growth in the sector's aggregate core NOII was -4.3%qoq and +13.9%yoy in 1QCY15. On year-on-year basis, it was an improved quarter for NOII. The notable improvements were Hong Leong Bank and Affin which reported growth in NOII of +43.4%yoy and +80.0%yoy respectively. For Hong Leong Bank, the improvement was driven by higher fee income as a results of an increase in credit card related fees and better performance in Treasury market activities while for Affin, it was attributed to improvement in fee income from higher brokerage income and portfolio management fees post-acquisition of IB and asset management business of Hwang DBS.

Chart 3: Sector Aggregate NOII

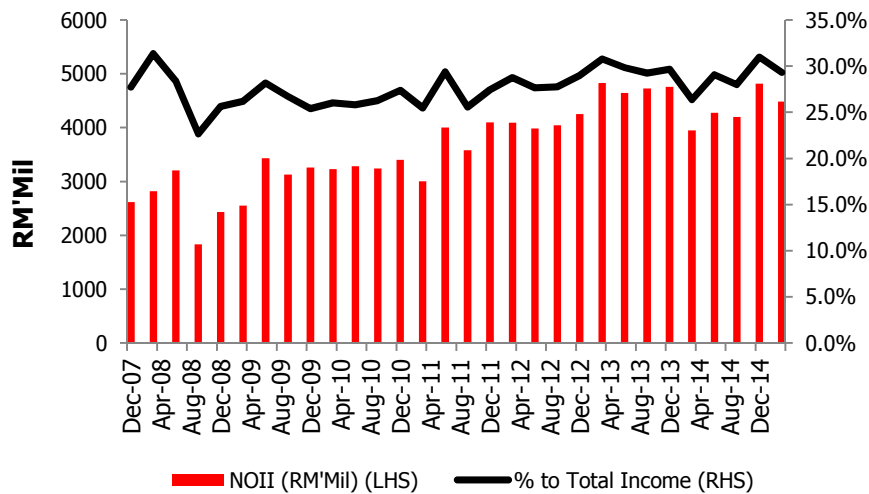


Table 12: Reported Non Interest Income (NOII) (RM'Mil)*

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	315	753	393	317	416
Maybank	1,234	1,263	1,228	1,831	1,450
Public Bank	455	474	481	502	527
RHB Cap	498	434	615	671	506
Hong Leong	162	225	189	206	232
CIMB	1,103	871	1,002	1,052	1,122
AFG	88	83	93	78	62
Affin	95	172	200	162	172
Total	3,949	4,275	4,201	4,819	4,487
% Change Yoy					
AMMB	-12.1%	85.7%	-7.4%	-30.0%	32.3%
Maybank	-14.3%	-29.2%	-31.9%	21.1%	17.5%
Public Bank	7.5%	6.3%	9.6%	13.3%	15.7%
RHB Cap	10.6%	-10.6%	10.9%	13.6%	1.8%
Hong Leong	-40.4%	-2.6%	-28.8%	-29.0%	43.4%
CIMB	-34.0%	-19.7%	-6.5%	-19.0%	1.7%
AFG	-27.3%	-27.8%	32.8%	3.6%	-29.7%
Affin	-0.4%	78.3%	102.8%	66.9%	80.0%
Total	-18.2%	-8.0%	-11.1%	+1.2%	+13.6%
% Change Qoq					
AMMB	-30.6%	139.3%	-47.8%	-19.2%	31.2%
Maybank	-18.4%	2.3%	-2.8%	49.1%	-20.8%
Public Bank	2.7%	4.2%	1.3%	4.4%	4.9%
RHB Cap	-15.7%	-12.8%	41.7%	9.1%	-24.5%
Hong Leong	-44.4%	39.1%	-15.9%	9.1%	12.4%
CIMB	-15.1%	-21.0%	15.1%	5.0%	6.7%
AFG	16.6%	-5.2%	12.3%	-16.5%	-20.9%
Affin	-1.6%	80.7%	16.3%	-19.3%	6.1%
Total	-17.0%	8.2%	-1.7%	+14.7%	-6.9%

*Based on reported financials of companies. Source: Companies

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Kindly refer to the last page of this publication for important disclosures

Table 13: NOII to Total Income (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	27.6%	51.5%	34.8%	31.4%	37.4%
Maybank	27.8%	28.2%	27.1%	36.1%	29.1%
Public Bank	22.0%	22.6%	21.4%	22.2%	23.2%
RHB Cap	33.9%	30.0%	37.3%	40.0%	33.6%
Hong Leong	17.0%	22.3%	18.6%	20.2%	23.5%
CIMB	31.2%	25.6%	28.4%	28.7%	30.5%
AFG	25.7%	24.7%	24.0%	22.3%	20.2%
Affin	25.7%	36.6%	39.7%	33.9%	38.2%
Average	26.4%	29.1%	28.0%	31.0%	29.3%

Source: Companies, MIDFR

- Sector's provisioning for loan impairment rose by +15.4%qoq largely due to high provisions of CIMB, Affin and Maybank.** On absolute value basis, provisions for loan impairment in 1QCY15 rose by +15.4%qoq. This was contributed largely by the elevated provisioning for loan losses of CIMB Niaga, a large one-off provisioning for corporate loans for Affin and higher provisions for Maybank attributed to lower recovery of bad debts. Meanwhile, AMMB and Hong Leong Bank recorded net write backs in provisions for loan impairment. Overall the sector's GIL ratio inched lower to 1.68%. Average loan loss coverage (LLC) ratio for the sector was slightly higher at 96.2%. RHB Cap remained lowest among peers in terms of LLC ratio at 60.7% followed by Affin at 68.0%.

Table 14: Gross Impaired Loan (GIL) Ratio (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	1.86%	1.87%	1.79%	1.88%	1.79%
Maybank	1.52%	1.50%	1.65%	1.52%	1.50%
Public Bank	0.66%	0.65%	0.65%	0.61%	0.56%
RHB Cap	2.54%	2.45%	2.29%	2.03%	2.03%
Hong Leong	1.24%	1.18%	1.15%	0.98%	0.89%
CIMB	3.07%	3.12%	3.28%	3.09%	3.18%
AFG	1.38%	1.36%	1.20%	1.14%	1.03%
Affin	1.92%	1.91%	1.91%	1.82%	1.96%
Average	1.78%	1.76%	1.81%	1.70%	1.68%

Source: Companies, MIDFR

Table 15: Loan Loss Provisions (RM'Mil)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	(64)	(81)	(5)	57	59
Maybank	(210)	(154)	(71)	35	(248)
Public Bank	(85)	(65)	(47)	(63)	(76)
RHB Cap	(54)	(17)	(94)	(40)	(50)
Hong Leong	(25)	(24)	15	54	7
CIMB	(111)	(147)	(344)	(919)	(534)
AFG	18	(1)	7	(27)	(17)
Affin	6	(29)	(13)	51	(124)
Total	(526)	(519)	(551)	(853)	(984)
(% qoq growth)	+7.1%	-1.3%	+6.3%	+54.6%	+15.4%

() denotes provision for loan impairment

Source: Companies, MIDFR

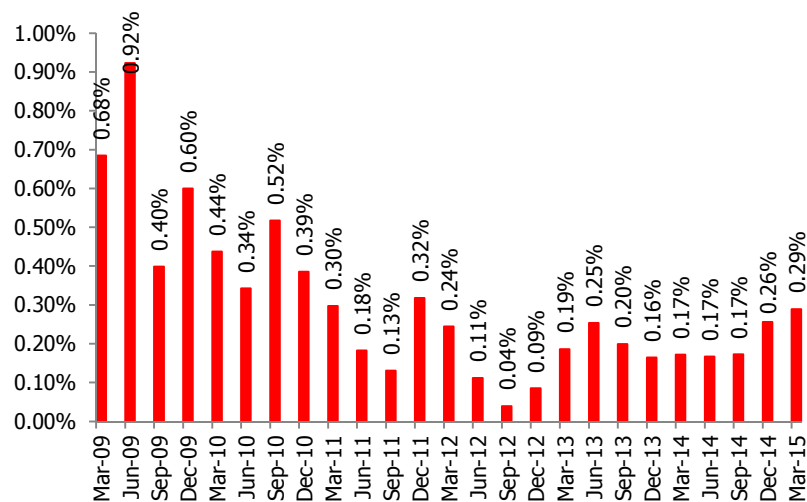
- **Sector annualized loan loss charge rose to 0.29%.** Sector average annualized loan loss charge was higher at 0.29% as compared 0.26% in the previous quarter (see Chart 4 and Table 16). For 1QCY15, Affin's loan loss charge jumped to 1.22% from -0.50% in the preceding quarter. For the other banks, Maybank, RHB Cap and Public Bank, these banks reported a higher annualized loan loss charge in 1QCY15 compared to 4QCY14. On average, the 8 banks' CA ratio inched lower to 1.02% which continues to be lower than BNM's minimum requirement of 1.2% by end of CY15.

Table 16: Annualized Loan Loss Charge (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	0.29	0.37	0.02	-0.26	-0.27
Maybank	0.23	0.16	0.07	-0.03	0.24
Public Bank	0.15	0.11	0.08	0.10	0.12
RHB Cap	0.17	0.05	0.28	0.11	0.14
Hong Leong	0.10	0.09	-0.06	-0.20	-0.02
CIMB	0.19	0.24	0.55	1.39	0.79
AFG	-0.22	0.01	-0.08	0.30	0.19
Affin	-0.07	0.30	0.13	-0.50	1.22
Sector	0.17	0.17	0.17	0.26	0.29

Source: Companies, MIDFR

Chart 4: Sector Average Credit Cost



Source: Companies, MIDFR

Table 17: CA Ratio (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	2.20%	2.20%	2.03%	1.90%	1.78%	1.62%
Maybank	1.10%	1.14%	1.12%	1.08%	1.00%	0.99%
Public Bank	0.72%	0.71%	0.71%	0.70%	0.69%	0.67%
RHB Cap	1.14%	1.11%	1.05%	1.01%	1.00%	0.97%
Hong Leong	1.21%	1.11%	1.04%	1.00%	0.93%	0.84%
CIMB	1.48%	1.45%	1.40%	1.35%	1.26%	1.27%
AFG	1.07%	0.98%	0.95%	0.90%	0.92%	0.91%
Affin	0.83%	0.83%	0.82%	0.83%	0.74%	0.87%
Average	1.26%	1.19%	1.14%	1.10%	1.04%	1.02%

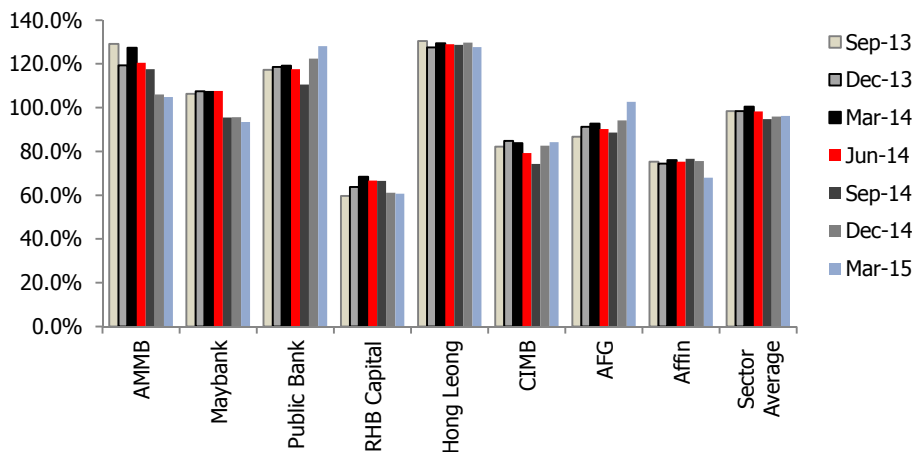
Source: Companies

Table 18: Loan loss coverage (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	119.3%	127.4%	120.5%	117.6%	106.0%	104.9%
Maybank	107.5%	107.2%	107.7%	95.4%	95.6%	93.5%
Public Bank	118.54%	119.13%	117.62%	110.51%	122.40%	128.14%
RHB Cap	63.7%	68.4%	66.7%	66.6%	61.1%	60.7%
Hong Leong	127.5%	129.3%	128.9%	128.7%	129.7%	127.7%
CIMB	84.8%	83.8%	79.2%	74.2%	82.7%	84.2%
AFG	91.2%	92.7%	90.2%	88.6%	94.2%	102.7%
Affin	74.4%	76.0%	75.3%	76.6%	75.6%	68.0%
Average	98.4%	100.5%	98.3%	94.8%	95.9%	96.2%

Source: Companies, MIDFR

Chart 5: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- Reported operating expenses grew -0.2%qoq or +13.4%yoy with an increase in the sector's CI ratio to 50.1%. This was contributed by CIMB which reported a rise in OPEX in the quarter due to an IB restructuring cost of RM202m while for Affin, its higher OPEX was largely due to higher personnel cost, marketing expenses and higher establishment cost after the completion of the merger of its IB and Asset Management business. Negative JAW persists with sector OPEX growing by +13.4%yoy outpacing net income growth of +6.9%yoy. This led to a higher CI ratio for the sector of 50.1%.

Table 19: Overhead Expenses (RM'Mil)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	563	540	481	624	495	496	544
Maybank	2,305	2,334	2,168	2,086	2,284	2,573	2,489
Public Bank	612	630	656	666	649	635	703
RHB Cap	762	818	789	797	841	987	820
Hong Leong	455	460	411	467	429	463	450
CIMB	2,059	2,137	2,011	2,008	2,034	2,239	2,340
AFG	144	144	165	162	161	156	165
Affin	175	195	180	260	299	244	269
Sector	7,076	7,258	6,861	7,070	7,190	7,794	7,781
Sector (% qoq growth)	-1.1%	+2.6%	-5.5%	+3.0%	+1.7%	+8.4%	-0.2%

Source: Companies, MIDFR

Table 20: Net/Total Income (RM'Mil)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	1,183	1,227	1,141	1,462	1,128	1,011	1,112
Maybank	4,916	4,685	4,435	4,479	4,538	5,079	4,988
Public Bank	2,076	2,060	2,064	2,100	2,248	2,263	2,265
RHB Cap	1,534	1,616	1,468	1,445	1,647	1,677	1,509
Hong Leong	1,029	1,055	948	1,006	1,015	1,023	988
CIMB	3,485	3,797	3,538	3,407	3,529	3,672	3,680
AFG	315	329	341	337	390	350	306
Affin	391	381	371	470	505	477	449
Sector	14,928	15,152	14,307	14,707	14,999	15,552	15,297
Sector (% qoq growth)	+1.9%	+1.5%	-5.6%	+2.8%	+2.0%	+3.7%	-1.6%

Source: Companies, MIDFR

Table 21: Cost to Income (CI) Ratio by quarters (%)

Bank	Sep'13 (3QCY13)	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)
AMMB	47.6%	44.0%	42.2%	42.6%	43.9%	49.1%	49.0%
Maybank	46.9%	49.8%	48.9%	46.6%	50.3%	50.7%	49.9%
Public Bank	29.5%	30.6%	31.8%	31.7%	28.9%	28.1%	31.0%
RHB Cap	49.7%	50.6%	53.7%	55.2%	51.1%	58.9%	54.3%
Hong Leong	44.2%	43.6%	43.3%	46.4%	42.3%	45.3%	45.6%
CIMB	59.1%	56.3%	56.8%	58.9%	57.6%	61.0%	63.6%
AFG	45.9%	43.7%	48.4%	48.0%	41.1%	44.7%	54.1%
Affin	44.8%	51.2%	48.6%	55.3%	59.1%	51.1%	59.9%
Average	46.0%	46.2%	46.7%	48.1%	46.8%	50.1%	50.9%

Source: Companies, MIDFR

Table 22: CET1, Core Capital and Risk Weighted Capital ratios as at end of 1QCY15 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	10.5	11.8	15.8
Maybank	11.2 (fully diluted: 10.63)	12.9	15.4
Public Bank	10.5	11.7	15.2
RHB Cap*	10.8	11.2	14.1
Hong Leong	9.9 (fully loaded: 8.7)	11.1	13.6
CIMB	10.0	11.2	14.3
AFG	10.9	10.9	12.9
Affin^	12.3	12.3	13.6

^represent ratios at Affin Bank level

*represent ratios of RHB Bank.

Source: Companies, MIDFR

Table 22 shows the capital ratios of banks which continued to be above the regulatory requirements for Basel III. The capital plans for Hong Leong Bank is still pending BNM's approval. RHB Cap which recently announced its corporate restructuring plan which involved a rights issue exercise to raise RM2.5b is also waiting for regulatory authorities' approval. Approvals from regulatory authorities for the rights issue is expected to be obtain in June or July this year before proceeding to obtain shareholders' approval in August.

STOCK AND SECTOR RECOMMENDATION

- **A slow start for 1QCY15 earnings.** 1QCY15 was one of the weaker quarters for banks' earnings with 3 banks (AFG, CIMB and Affin) falling below expectations. Earnings of Affin underperformed against expectation due to a one-off large provision for corporate loan while in case of CIMB, impairment for loan losses for Niaga continued to be elevated while its NII was below expectation with continued contraction in NIM. AFG's earnings were below expectation largely to lower than expected net income (lower NII, NOII and Islamic Banking income). We have revised our sector's core earnings growth for CY15 downwards to +4.9%yoy from +8.8%yoy previously after incorporating higher NIM contraction of -10bp vs. -6bp as well as raised our loan loss charge assumptions. For CY16, we expect the sector's core earnings to grow by +10.9%yoy with a lower NIM compression of 4bp.

On the international front, provisioning for loan impairment have risen for Maybank's BII and CIMB Niaga in Indonesia while Maybank Singapore reported upticks in impaired loan ratio in 1QCY15 due to impairment of specific corporate loans. On domestic operations, Affin reported a surprised jump in provision for loan impairment for corporate loans which resulted in weak net profit of RM30.1m in 1QCY15.

- **Maintain our CY15 loan growth assumption of 8-9% for the sector on the back of slower domestic consumption and exports.** For CY15, we maintain our expectation that weaker domestic currency and commodity prices are likely to impact CAPEX spending by companies. This is expected to result in slower business loan growth in CY15 than CY14.

Meanwhile on retail lending, we expect lending to households also to slow down in CY15. This is due to a drop in domestic consumption with the slowdown in economic growth, implementation of GST and more conservative lending by banks to avoid households in the vulnerable income segment group as a result of high household debt. Banks like AMMB and AFG have focussed on risk adjusted returns on loans which will result in intentional dial down of loan expansion in CY15 to a single digit growth.

- **NIM compression is now expected to be higher for CY15.** In our previous assumption, we expected NIM to contract -6bp in CY15. However, based on the recent higher guidance given by management for NIM contraction due to rise in funding cost from strong competition for retail deposits, we now expect NIM compression to be higher at -10bp for CY15.

While some banks are focussed on risk adjusted return on loans to manage the margin deterioration, the pressure on funding cost is still expected to persist and compress banks' NIM. As aforementioned, we have raised our NIM contraction expectation for the sector in CY15 to -10bp from -6bp previously. We continue to expect OPR to remain unchanged at 3.25% throughout CY15 on the back of the BNM's highlights that rates remain accommodative and that the interest rate has yet to fully normalise back unlike some of the other countries in the region.

- **Focus on driving CI ratio down and efficiency of capital management will remain key priorities.** With top line growth continues to be seen challenging, cost containment remains a key priority as seen from the drive of CIMB to lower down its OPEX while initiatives for digitisation of banking services albeit requires capital outlay for now are expected to enable higher cost efficiency to be realised in the future. Maximising return on risk weighted assets will be a key priority as seen from the disposal of non-core assets of AMMB and CIMB in the past. Also, recently Maybank has disposed off its operations in Papua New Guinea (PNG) to reallocate its capital to the other parts of business to generate higher returns.


- Capital raising is a space which will continue to be of interest and be monitored. Hong Leong Bank and RHB Capital's capital raising plans are now waiting for regulatory authorities' approval.
- Loan loss charge to move towards normalized level.** We reiterate that loan loss charge for banks will likely move towards normalized levels with lower recoveries of bad debts. On asset quality, we expect some upticks on the asset quality of banks for CY15. We continue to be watchful of the asset quality of corporate loans on back on slower economic growth, weaker commodity prices and domestic currency. Meanwhile, on the implementation of the restructuring and rescheduling (R&R) guidelines on 1st Apr'15, upticks on some banks' impaired loan ratios are expected from the initial stage of implementation but however this is expected to normalize thereafter.
- Capital market activities likely to be flat for CY15 while market will continue to be volatile.** We continue to expect challenges to bank's Treasury income due to the volatility in the market.
- Sector ROE expected to trend lower with the challenging market conditions affecting income of banks as well as post completion of the capital raising of RHB Cap and Hong Leong Bank.** We expect sector ROE to trend lower moving forward reflecting challenges in the market and higher capital base for banks.

Table 23: Sector core earnings growth

(RM'Mil)	CY13	CY14	CY15F	CY16F
AMMB	1,684	1,635	1,696	1,794
Maybank	6,552	6,716	6,963	7,665
Public Bank	4,065	4,519	4,692	5,105
RHB Capital	1,831	2,038	2,104	2,437
Hong Leong	1,856	2,102	2,157	2,294
CIMB	4,188	3,159	3,692	4,223
AFG	558	529	560	632'
Affin	650	605	481	640
Sector	21,384	21,304	22,345	24,789
Sector (% growth)	+6.0%	-0.4%	+4.9%	+10.9%

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

Key risks to our expectations: i) Weaker asset quality than expected resulting in higher provisions for loan losses, ii) slower growth in NOII than expected with capital market activates remaining weak, iii) weaker than expected contribution from international operations and iv) stronger pressure on NIMs than anticipated.

- Maintain NEUTRAL on the sector.** Our stocks picks remain unchanged with BUY calls on Hong Leong Bank (TP: RM15.60), Maybank (TP: RM10.30) and RHB Cap (RM8.90). On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.50), Affin (TP: 2.95), AMMB (TP: RM7.10), AFG (TP: RM4.70) and CIMB (TP: RM6.10). We have lowered our valuation for most banking stocks in our recent review of 1QCY15 results. 

	Rec.	Price @ 3/6	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PB V	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	6.32	7.10	54.4	56.0	11.6	11.3	27.3	23.0	4.3	3.6	4.8	5.1	1.3	1.2
Maybank	BUY	9.16	10.30	75.0	82.0	12.2	11.2	45.0	49.0	4.9	5.3	6.0	6.5	1.5	1.4
Public Bank	NEUTRAL	18.56	19.50	121.0	131.0	15.3	14.2	56.0	60.0	3.0	3.2	7.9	8.6	2.4	2.2
RHB Capital	BUY	7.50	8.90	82.0	95.0	9.1	7.9	10.0	12.0	1.3	1.6	8.1	9.0	0.9	0.8
Hong Leong	BUY	13.66	15.60	115.0	122.0	11.9	11.2	38.0	40.0	2.8	2.9	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	5.32	6.10	44.0	50.0	12.1	10.6	18.0	20.0	3.4	3.8	4.7	5.0	1.1	1.1
AFG	NEUTRAL	4.49	4.70	34.7	36.0	12.9	12.5	15.4	16.0	3.4	3.6	2.9	3.2	1.5	1.4
Affin	NEUTRAL	2.76	2.95	25.0	33.0	11.0	8.4	12.0	16.0	4.3	5.8	4.2	4.3	0.7	0.6
Average				68.9	75.6	12.0	10.9	27.7	29.5	3.4	3.7	5.9	6.4	1.4	1.3

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.