

MALAYSIAN BANKS **Quarterly Review**

Quarterly review & sector outlook



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2QCY15: Muted earnings growth with limited rerating catalyst

Maintain NEUTRAL

- Flat aggregate core net profit growth for the sector of -0.4%yoy for 6MCY15.** 2QCY15 results of 2 banks (CIMB and Affin) were below expectations while the reported earnings of 6 other banks (AMMB, RHB Cap, AFG, Maybank, Public Bank, Hong Leong Bank) came in within expectations. Aggregate PATAMI growth for the sector based on reported earnings was subdued at +1.4%qoq and -5.5%yoy in 2QCY15. Excluding one-off items, the sector recorded an aggregate PATAMI growth of +0.3%qoq and -2.8%yoy for the quarter. For 2QCY15, higher Islamic Banking income and NII from acceleration in loans were offset by non interest income (NOII) which remained weak. Among the key highlights from the results: i) Higher LD ratio for the sector at 90.2% due to stronger loans compared to deposit growth; ii) negative JAWs with growth in OPEX outpacing total income; iii) lower NIM compression of 4bp for the quarter, iv) higher provisions for loan impairment booked in for international operations of larger cap banks (Maybank and CIMB); v) slight improvement in CASA ratio for the sector; vi) drop in LLC ratio for large cap banks (Maybank and CIMB) due to higher loan impairment and vii) momentum for capital market activities continued to be slow.

Reported NII for the sector grew at a slightly faster pace +4.2%yoy in 2QCY15. This was due to stronger loan growth of +12.2%yoy which outpaced deposit growth of +9.4%yoy while NIM compression was lower with a decline of -4bp qoq. Meanwhile, growth in the sector’s aggregate core NOII further decelerated to +9.3%yoy after adjusting for Hong Leong Bank’s one-off gain of circa RM45m from the disposal of its Raja Laut property. Meanwhile, the sector’s Islamic Banking income continued to gain traction, registering a higher growth of +12.4%yoy in 2QCY15. Provisions for loan impairment declined by -7.0%qoq largely due to Affin’s lower provisions for loan impairment in 2QCY15 while for RHB Cap, the Group reported a write back in Collective Assessment Allowance (CA) of RM131m from the refinement of model for its mortgage loan portfolio which led to net credit charge-off of -0.11% in 2QCY15. The sector’s annualised loan loss charge improved at 0.26% vs. 0.29% in the previous quarter. Sector liquidity turned tighter with higher average Net LD ratio of 90.2%. Excess liquidity in the market has declined with foreign fund outflow as foreign investor turned net sellers in securities. We believe that this has resulted in KLIBOR rising which is expected to impact COF and hence banks’ NIM.

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

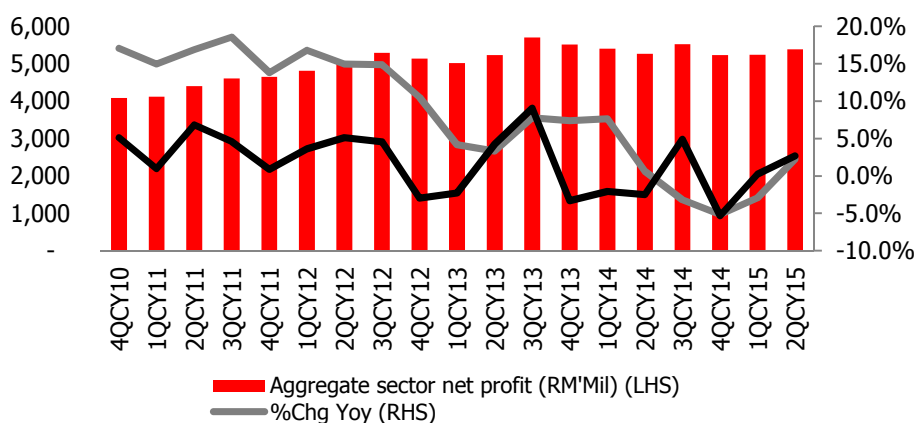


Table 1: Reported Net Profit Comparison (RM'Mil)

Bank	Jun-14 (2QCY14)	Mar-15 (1QCY15)	Jun-15 (2QCY15)	%Qoq	%Yoy	6MCY14	6MCY15	%Yoy
AMMB	537	519	340	-34.6%	-36.8%	1,001	859	-14.2%
Maybank	1,576	1,700	1,585	-6.8%	+0.6%	3,177	3,285	+3.4%
Public Bank	1,056	1,172	1,197	+2.2%	+13.3%	2,073	2,368	+14.2%
RHB Cap	562	476	525	+10.1%	-6.7%	1,013	1,001	-1.2%
Hong Leong	537	519	615	+18.4%	+14.4%	1,037	1,134	+9.4%
CIMB	950	580	640	+10.3%	-32.7%	2,016	1,220	-39.5%
AFG	131	93	122	+30.7%	-6.8%	289	215	-25.6%
Affin	115	30	139	+363.3%	+21.2%	258	169	-34.5%
Total	5,464	5,090	5,161	+1.4%	-5.5%	10,864	10,251	-5.6%

Source: Companies, MIDFR

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

Bank	Jun-14 (2QCY14)	Mar-15 (1QCY15)	Jun-15 (2QCY15)	%Qoq	%Yoy	6MCY14	6MCY15	%Yoy
AMMB	329	456	369	-19.2%	+12.1%	793	825	+4.0%
Maybank	1,576	1,700	1,585	-6.8%	+0.6%	3,177	3,285	+3.4%
Public Bank	1,056	1,172	1,197	+2.2%	+13.3%	2,073	2,368	+14.2%
RHB Cap	562	476	525	+10.1%	-6.7%	1,013	1,001	-1.2%
Hong Leong	537	519	570	+9.8%	+6.1%	1,037	1,089	+5.0%
CIMB	950	782	877	+12.1%	-7.7%	2,016	1,659	-17.7%
AFG	139	107	122	+13.8%	-12.1%	297	229	-22.9%
Affin	115	30	139	+363.3%	+21.2%	258	169	-34.5%
Total	5,264	5,243	5,383	+2.7%	+2.3%	10,664	10,626	-0.4%

Source: Companies, MIDFR

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

Bank	Mar-14 (1QCY14)	Jun-14 (2QCY14)	Sep-14 (3QCY14)	Dec-14 (4QCY14)	Mar-15 (1QCY15)	Jun-15 (2QCY15)	2015 ROE guidance
AMMB	14.4	15.9	12.9	12.0	14.7	9.3	12.0-12.5% ^
Maybank	13.6	13.0	13.0	15.0	12.5	11.3	12.0-13.0%
Public Bank	19.9	20.2	19.8	18.3	16.7	16.7	>16.0%
RHB Cap	10.6	12.9	12.1	10.5	10.0	10.6	>11.5%
Hong Leong	14.4	15.1	14.8	14.5	13.4	15.2	>12.0% ^
CIMB	13.0	10.7	9.8	2.2	6.1	6.6	11.0%
AFG	15.4	12.6	17.0	11.6	8.5	10.8	12.0-13.0% ^
Affin	8.8	7.0	7.8	10.7	1.5	7.0	8.0%

^Represents ROE target for FY16

Source: Companies, MIDFR

Sector loan growth grew at a faster pace in 2QCY15 compared to 1QCY15. Loan growth was mix trend for banks in 2QCY15. Growth in aggregate sector's gross loan growth grew at a faster pace of +2.5%qoq or +12.2%yoy. Maybank and CIMB outperformed its peers in loan growth on a year-on-year basis. This was partly contributed by favourable FX impact with improvement in foreign currency against MYR. Excluding FX impact, gross loan growth of CIMB was lower at +12.2%yoy. Meanwhile, loan growth for Public Bank and Hong Leong Bank remained stable at +11.5%yoy and +8.9%yoy respectively. Loan growth

for AMMB continued to be subdued at -2.3%yoy contributed by its ongoing loan portfolio rebalancing towards higher quality credits and as well as impact from lumpy corporate repayments. For RHB Cap Group's loan growth was impacted a large corporate loan repayment of RM2.7b in 1QCY15 of which exclude this large loan repayment, loan growth will be +11.2%yoy.

Table 4: Total Gross Loans (RM'bil)

Bank	Mar'14 (1QCY14)	Jun-14 (2QCY14)	Sep-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	8.0-9.0%
Public Bank	227	232	237	245	253	+11.7%	Dec	9.0-10.0%
RHB Cap	126	132	136	142	144	+13.7%	Dec	10.0%
Hong Leong	102	104	104	107	111	+8.8%	June	8.0-9.0%`
CIMB	240	241	250	265	270	+12.5%	Dec	10.0%
AFG^	32	33	34	36	37	+14.7%	Mar	8.0-9.0%^
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'15 to Jun'16

Source: Companies

Table 5: Growth in Gross Loans (%QoQ)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	+2.8	-1.9	-1.2	+1.1	+0.4	-2.6
Maybank	+1.3	+2.3	+3.4	+5.8	+2.1	+3.5
Public Bank	+2.5	+2.4	+2.3	+3.2	+3.3	+2.3
RHB Cap	+3.7	+4.9	+2.7	+4.8	+0.7	+0.8
Hong Leong	+1.1	+2.5	+0.2	+2.8	+3.1	+2.6
CIMB	+2.4	+0.2	+3.6	+6.1	+2.1	+3.5
AFG	+5.1	+3.1	+3.8	+3.5	+3.6	+1.1
Affin	+2.3	0.0%	+3.4	+3.6	-1.1	+3.9
Total	+2.2	+1.8	+2.6	+4.6	+2.1	+2.5

Source: Companies, MIDFR

Table 6: Growth in Gross Loans (%YoY)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	+5.3	+1.5	+0.9	+0.7	-1.6	-2.3
Maybank	+13.5	+12.6	+13.8	+13.3	+14.3	+15.6
Public Bank	+11.3	+10.8	+10.2	+10.8	+11.7	+11.5
RHB Cap	+11.2	+13.0	+12.0	+17.0	+13.7	+9.2
Hong Leong	+7.6	+7.2	+6.1	+6.7	+8.8	+8.9
CIMB	+11.9	+8.1	+9.3	+12.8	+12.5	+16.1
AFG	+14.1	+15.2	+14.9	+16.3	+14.7	+12.5
Affin	+10.1	+6.6	+8.8	+9.6	+5.9	+10.1
Total	+11.3	+10.0	+10.3	+11.6	+11.5	+12.2

Source: Companies, MIDFR

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

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	97.2	98.5	99.3	95.3	93.5	93.5
Maybank	91.0	90.6	90.6	91.8	92.2	94.2
Public Bank	86.8	87.1	87.8	88.0	88.0	87.0
RHB Cap	86.6	87.1	90.4	89.5	89.3	91.0
Hong Leong	78.4	78.8	79.1	80.3	80.1	79.9
CIMB	89.4	87.5	92.4	91.5	88.7	92.5
AFG	81.1	82.9	83.7	85.1	82.0	84.2
Affin	81.6	79.8	79.5	80.0	82.2	83.8
Average	86.5	86.5	87.9	89.4	88.8	90.2

Source: Companies, MIDFR

- **Growth in aggregate sector NII (excluding net funding income from Islamic banking) rose slightly to +4.2%yoy in 2QCY15 contributed by stronger loan growth and lower NIM compression for the quarter.** The sector's reported NII grew +1.7%qoq or +4.2%yoy to RM8.8b in 2QCY15. Growth in NII was contributed by stronger expansion of loans while NIM compression for the quarter was lower. Percentage of NII to total income for the sector rose slightly to 57.5% as compared to 56.6% in the preceding quarter with NOII growth continued to slowdown in 2QCY15.

Chart 2: Sector Aggregate NII

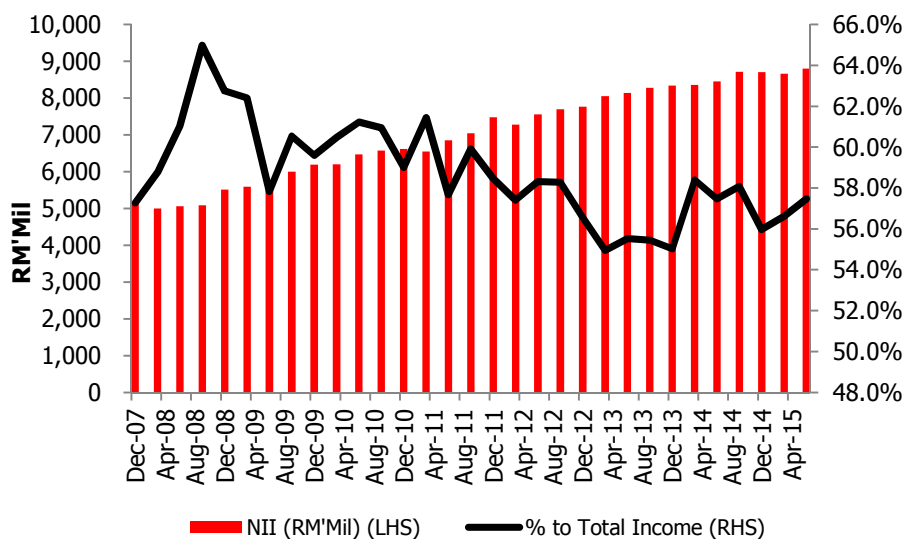


Table 8: Reported Net Interest Income (NII) (RM'Mil)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	503	512	487	471	424
Maybank	2,407	2,462	2,442	2,605	2,680
Public Bank	1,422	1,551	1,555	1,534	1,560
RHB Cap	828	836	806	800	784
Hong Leong	677	715	711	657	657
CIMB	2,175	2,171	2,242	2,191	2,269
AFG	200	221	214	186	208
Affin	239	244	247	215	222
Total	8,452	8,712	8,704	8,660	8,803

Source: Companies

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
% Change Yoy					
AMMB	-9.5	-3.6	-11.0	-18.2	-15.8
Maybank	1.8	3.6	2.4	8.9	11.3
Public Bank	2.6	9.1	10.0	9.4	9.7
RHB Cap	3.1	0.9	-6.8	-2.3	-5.2
Hong Leong	6.3	9.1	9.2	-3.0	-3.0
CIMB	10.1	6.8	9.5	6.0	4.3
AFG	8.3	14.8	6.5	-7.4	4.0
Affin	4.3	2.8	8.1	-1.8	-7.2
Total	3.9	5.3	4.4	3.6	4.2
% Change Qoq					
AMMB	-12.7	+1.8	-4.8	-3.3	-10.1
Maybank	+0.6	+2.3	-0.8	+6.7	+2.9
Public Bank	+1.3	+9.1	+0.2	-1.3	+1.7
RHB Cap	+1.1	+1.0	-3.6	-0.7	-1.9
Hong Leong	-0.1	+5.6	-0.6	-7.6	-0.02
CIMB	+5.3	-0.2	+3.3	-2.3	+3.5
AFG	-0.6	+10.7	-3.4	-12.8	+11.6
Affin	+9.3	+1.8	+1.4	-13.0	+3.3
Total	+1.2	+3.1	-0.1	-0.5	+1.7

Source: Companies, MIDFR

Table 9: NII to Total Income (%)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	34.4	45.4	48.2	42.4	43.9
Maybank	53.7	54.2	48.1	52.2	54.8
Public Bank	67.7	69.0	68.7	67.7	67.4
RHB Cap	57.3	50.7	48.0	53.0	52.8
Hong Leong	67.3	70.5	69.5	66.5	63.1
CIMB	63.8	61.5	61.1	59.5	59.2
AFG	59.3	56.7	61.0	60.8	60.3
Affin	50.9	48.3	51.8	47.9	49.7
Average	57.5	58.1	56.0	56.6	57.5

Source: Companies, MIDFR

- **Lower NIM contraction by 4bp qoq in 2QCY15.** The sector's average NIM contracted by 4bp qoq to 2.14% in 2QCY15. NIM of banks is expected to continue to be impacted by high COF from strong competition for deposits as well as lower asset yield as a result of low yielding mortgage loans (retails) which have been booked in earlier replacing earlier retail loans with higher lending rates which have been repaid.

Despite that banks' Liquidity Coverage Ratio (LCR) were well above the minimum regulatory requirement of 60% by 2015, competition for deposits continued to remain stiff. This is expected to continue to put pressure on bank's NIM. We believe that the lower excess liquidity in the market as foreign investors turned net sellers of securities has resulted in KLIBOR trending higher. This coupled with the higher LD ratio with some banks pushing more aggressively to expand loan base in 2QCY15 to grow deposits more aggressively in the quarters ahead to put pressure on banks' COF and hence impact their NIM.

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

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	2.45	2.54	2.38	2.33	2.12
Maybank	2.35	2.31	2.20	2.26	2.28
Public Bank	2.20	2.29	2.20	2.15	2.11
RHB Cap	2.29	2.29	2.26	2.22	2.13
Hong Leong	2.09	2.09	2.04	1.92	1.90
CIMB	2.90	2.82	2.79	2.65	2.61
AFG	2.10	2.22	2.16	2.15	2.16
Affin	1.98	1.96	1.97	1.72	1.80
Average	2.30	2.32	2.25	2.18	2.14

Source: Companies, MIDFR own estimates

The sector's CASA ratio inched higher to 27.3%. AMMB, RHB Cap, CIMB and AFG all reported improvement in CASA ratios relative to the preceding quarter.

Based on BNM Statistics for July'15, growth of deposits (excluding REPO) in the banking system decelerated to +4.2%yoy from +7.3%yoy in Jun'15. This was contributed by slower growth in business enterprises and individuals' deposits at +1.6%yoy and +6.7%yoy respectively in July'15. Industry CASA based on BNM Statistics was slower in pace with a growth rate of +2.4%yoy in July'15 as compared to +6.5%yoy in the preceding month.

Table 11: CASA Ratio (%)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	21.6	20.1	20.5	20.3	20.9
Maybank	35.7	34.5	35.2	35.4	35.0
Public Bank	25.2	25.0	25.0	25.0	24.1
RHB Cap	23.3	22.6	21.7	22.3	23.4
Hong Leong	26.2	26.2	25.7	25.8	25.6
CIMB	34.7	35.4	35.1	34.4	35.4
AFG	34.7	35.2	34.8	33.7	34.5
Affin	19.9	20.4	20.0	19.8	19.5
Average	27.7	27.4	27.3	27.1	27.3

Source: Companies, MIDFR

Table 12: CASA Growth (%)

Bank	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	+3.6	+6.8	-0.1	-0.3
Maybank	+27.3	+14.8	+3.9	-4.4
Public Bank	+8.5	+7.9	+7.9	+6.8
RHB Cap	+9.2	+6.4	+4.8	+5.5
Hong Leong	+3.4	+3.8	+6.3	+5.3
CIMB	+1.9	+9.0	+8.6	+12.0
AFG	+16.7	+11.8	+12.5	+10.1
Affin	+13.5	-0.6	-4.6	+3.1

- Still challenges ahead for the sectors' growth in NOII.** Growth in the sector's aggregate reported core NOII was -4.4%qoq and +0.3%yoy in 2QCY15. Excluding the one-off gain of circa RM45m Hong Leong Bank from the disposal of property, NOII growth in 2QCY15 was -5.4%qoq and +9.3%yoy.

Moving ahead, there remains challenges in IB income from weak capital market activities and volatility in Treasury income. Rise in MGS yield is expected to impact AFS reserves of banks. We expect fee and commission income to be also softer in 2HCY15 due to slower loan momentum impacting fees from loans as well as weaker market sentiment impacting wealth management income of banks.

Chart 3: Sector Aggregate NOII

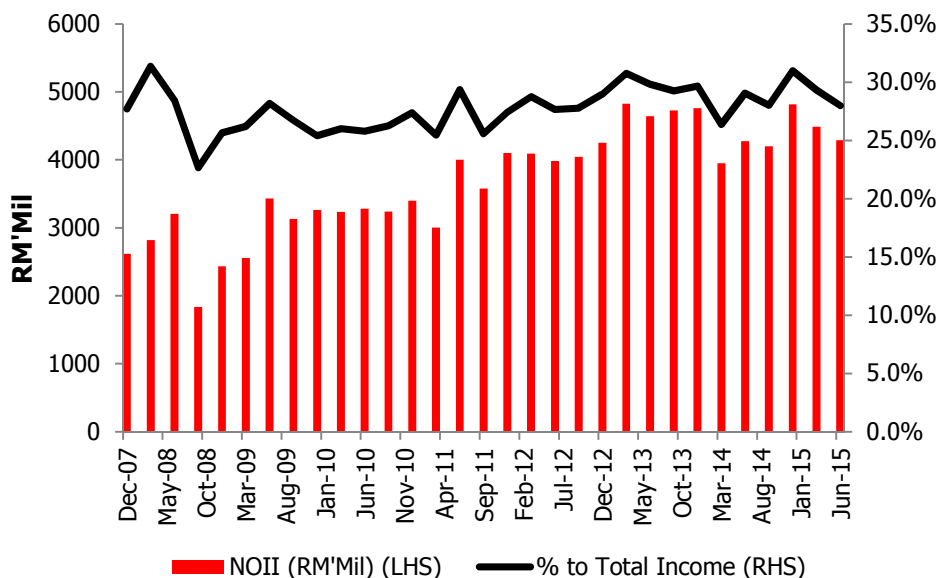


Table 13: Reported Non Interest Income (NOII) (RM'Mil)*

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	753	393	317	416	333
Maybank	1,263	1,228	1,831	1,450	1,241
Public Bank	474	481	502	527	545
RHB Cap	434	615	671	506	488
Hong Leong	225	189	206	232	279
CIMB	871	1,002	1,052	1,122	1,165
AFG	83	93	78	62	78
Affin	172	200	162	172	158
Total	4,275	4,201	4,819	4,487	4,288
% Change Yoy					
AMMB	+85.7	-7.4	-30.0	+32.3	-55.7
Maybank	-29.2	-31.9	+21.1	+17.5	-1.7
Public Bank	+6.3	+9.6	+13.3	+15.7	+14.8
RHB Cap	-10.6	10.9	+13.6	+1.8	+12.5
Hong Leong	-2.6	-28.8	-29.0	+43.4	+24.0
CIMB	-19.7	-6.5	-19.0	+1.7	+33.8
AFG	-27.8	+32.8	+3.6	-29.7	-6.3
Affin	+78.3	+102.8	+66.9	+80.0	-8.1
Total	-8.0	-11.1	+1.2	+13.6	+0.3
% Change Qoq					
AMMB	+139.3	-47.8	-19.2	+31.2	-19.9
Maybank	+2.3	-2.8	+49.1	-20.8	-14.4

Public Bank	+4.2	+1.3	+4.4	+4.9	+3.4
RHB Cap	-12.8	+41.7	+9.1	-24.5	-3.7
Hong Leong	39.1	-15.9	+9.1	+12.4	+20.3
CIMB	-21.0	+15.1	+5.0	+6.7	+3.8
AFG	-5.2	+12.3	-16.5	-20.9	+26.4
Affin	+80.7	+16.3	-19.3	+6.1	-7.7
Total	+8.2	-1.7	+14.7	-6.9	-4.4

*Based on reported financials of companies. *Source: Companies*

Table 14: NOII to Total Income (%)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	51.5	34.8	31.4	37.4	34.6
Maybank	28.2	27.1	36.1	29.1	25.4
Public Bank	22.6	21.4	22.2	23.2	23.5
RHB Cap	30.0	37.3	40.0	33.6	32.8
Hong Leong	22.3	18.6	20.2	23.5	26.8
CIMB	25.6	28.4	28.7	30.5	30.4
AFG	24.7	24.0	22.3	20.2	22.7
Affin	36.6	39.7	33.9	38.2	35.4
Average	29.1	28.0	31.0	29.3	28.0

Source: Companies, MIDFR

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

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	207	223	207	225	207
Maybank	809	848	806	933	967
Public Bank	204	216	206	204	209
RHB Cap	183	196	201	202	214
Hong Leong	104	110	106	99	105
CIMB	361	355	377	367	399
AFG	54	54	58	58	59
Affin	59	61	68	62	66
Total	1,980	2,064	2,028	2,151	2,226
% Change Yoy					
AMMB	-12.7	-1.9	-8.9	-10.4	-0.01
Maybank	+21.5	+15.4	+2.0	+15.4	+19.5
Public Bank	-3.0	+0.1	+1.0	-0.6	+2.6
RHB Cap	+27.1	+30.0	+24.0	+33.4	+16.8
Hong Leong	-2.8	+1.6	-6.2	-9.1	+0.5
CIMB	-6.2	-6.5	-16.2	-0.3	+10.6
AFG	-0.3	+4.2	+10.5	+10.7	+9.1
Affin	+7.2	+10.1	21.9	+9.6	+13.3
Total	+6.6	+7.2	-1.3	+7.4	+12.4
% Change Qoq					
AMMB	-17.4	+7.7	-7.2	+8.6	-7.9
Maybank	+0.1	+4.8	-5.0	+15.8	+3.7

Public Bank	-1.0	+6.1	-4.7	-0.7	+2.2
RHB Cap	+20.8	+7.1	+2.1	+0.9	+5.7
Hong Leong	-4.3	+5.6	-3.8	-6.4	+5.8
CIMB	-2.0	-1.5	+6.2	-2.8	+8.7
AFG	+2.1	+0.5	+8.1	-0.1	+0.6
Affin	+3.3	+3.9	+11.6	-8.5	+6.8
Total	-1.1	+4.2	-1.7	+6.0	+3.5

Source: Companies, MIDFR

- Sector's provisioning for loan impairment dropped by -7.0%qoq largely due to lower provisions of Affin and RHB Capital which offset the higher provisionings of Maybank and CIMB as a result of higher loans impairments for their international operations.** On absolute value basis, provisions for loan impairment in 2QCY15 declined by -7.0%qoq. This was contributed largely by lower provisions for Affin after a large one-off provisioning for corporate loans in 1QCY15. Also, contributing to the decline was RHB Cap's write back in CA of RM131m by refining its mortgage loan portfolio which resulted in a net write back of loan impairment in 2QCY15. Meanwhile, Maybank reported higher provisionings for BII and Maybank Singapore while CIMB's provisioning at Niaga remained elevated while higher provisionings were booked in at CIMB Thai due to the weaker economic conditions in Thailand. Maybank and CIMB's LLC ratios declined in 2QCY15, impacted by the higher provisions while that of RHB Cap was higher at 73.4% after its CA ratio + regulatory reserve ratio was raised to 1.2% by transferring a portion of its retained earnings to regulatory reserve.

Table 16: Gross Impaired Loan (GIL) Ratio (%)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	1.87	1.79	1.88	1.79	1.80
Maybank	1.50	1.65	1.52	1.50	1.56
Public Bank	0.65	0.65	0.61	0.56	0.54
RHB Cap	2.45	2.29	2.03	2.03	2.05
Hong Leong	1.18	1.15	0.98	0.89	0.84
CIMB	3.12	3.28	3.09	3.18	3.31
AFG	1.36	1.20	1.14	1.03	1.01
Affin	1.91	1.91	1.82	1.96	2.04
Average	1.76	1.81	1.70	1.68	1.64

Source: Companies, MIDFR

Table 17: Loan Loss Provisions (RM'Mil)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	(81)	(5)	57	59	(11)
Maybank	(154)	(71)	35	(248)	(301)
Public Bank	(65)	(47)	(63)	(76)	(61)
RHB Cap	(17)	(94)	(40)	(50)	41
Hong Leong	(24)	15	54	7	(24)
CIMB	(147)	(344)	(919)	(534)	(529)
AFG	(1)	7	(27)	(17)	(17)
Affin	(29)	(13)	51	(124)	(14)
Total	(519)	(551)	(853)	(984)	(915)
(% qoq growth)	-1.3%	+6.3%	+54.6%	+15.4%	-7.0%

() denotes provision for loan impairment

Source: Companies, MIDFR

- **Sector annualized credit charge-off declined to 0.26%.** Sector average annualized credit charge-off was lower at 0.26% as vs. 0.29% in the previous quarter (see Chart 4 and Table 18 below). In 2QCY15, Affin's credit charge-off declined significantly to 0.13% from 1.22% in the preceding quarter. Meanwhile, RHB Cap was the only Group which reported a net credit charge-off of -0.11% in 2QCY15 from a net write back in CA as aforementioned.

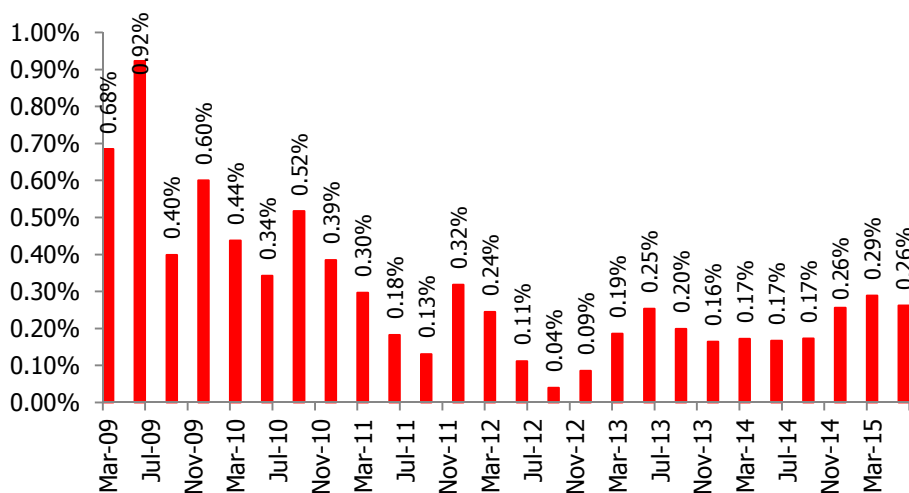
On average, the 8 banks' CA ratio rose to 1.14% as RHB Cap and Hong Leong Bank transferred a portion of their retained earnings to regulatory reserve to comply with BNM's requirement to have a CA plus regulatory reserve ratio of at least 1.2% by end of CY15.

Table 18: Annualized Loan Loss Charge (%)

Bank	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	0.37	0.02	-0.26	-0.27	0.05
Maybank	0.16	0.07	-0.03	0.24	0.28
Public Bank	0.11	0.08	0.10	0.12	0.09
RHB Cap	0.05	0.28	0.11	0.14	-0.11
Hong Leong	0.09	-0.06	-0.20	-0.02	0.08
CIMB	0.24	0.55	1.39	0.79	0.76
AFG	0.01	-0.08	0.30	0.19	0.18
Affin	0.30	0.13	-0.50	1.22	0.13
Sector	0.17	0.17	0.26	0.29	0.26

Source: Companies, MIDFR

Chart 4: Sector Average Credit Cost



Source: Companies, MIDFR

Table 19: CA Ratio (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	2.20	2.03	1.90	1.78	1.62	1.62
Maybank	1.14	1.12	1.08	1.00	0.99	0.96
Public Bank	0.71	0.71	1.23	1.22	1.19	1.19*
RHB Cap	1.11	1.05	1.01	1.00	0.97	1.22*
Hong Leong	1.11	1.04	1.00	0.93	0.84	1.20*
CIMB	1.45	1.40	1.35	1.26	1.27	1.26
AFG	0.98	0.95	0.90	0.92	0.91	0.90
Affin	0.83	0.82	0.83	0.74	0.87	0.73
Average	1.19	1.14	1.10	1.04	1.02	1.14

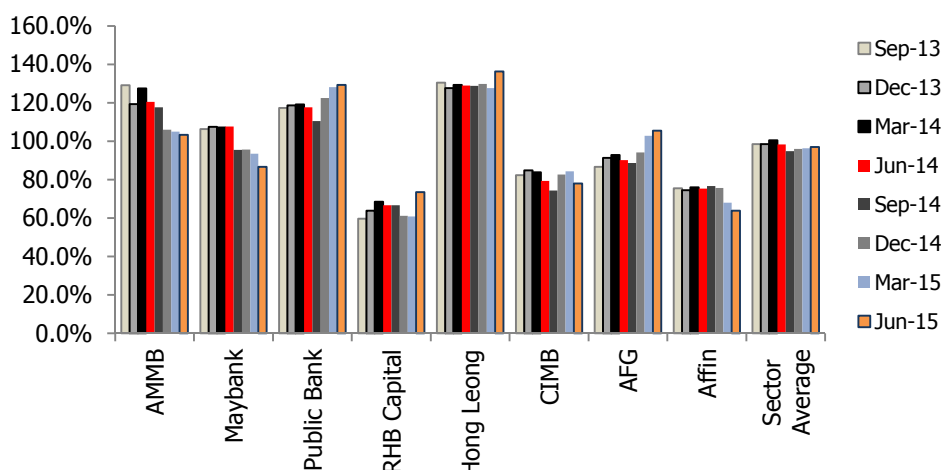
*Inclusive of regulatory reserve
Source: Companies

Table 20: Loan loss coverage (%)

Bank	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	127.4	120.5	117.6	106.0	104.9	103.2
Maybank	107.2	107.7	95.4	95.6	93.5	86.6
Public Bank	119.13	117.62	110.51	122.40	128.14	129.19
RHB Cap	68.4	66.7	66.6	61.1	60.7	73.4*
Hong Leong	129.3	128.9	128.7	129.7	127.7	136.3
CIMB	83.8	79.2	74.2	82.7	84.2	77.9
AFG	92.7	90.2	88.6	94.2	102.7	105.4
Affin	76.0	75.3	76.6	75.6	68.0	63.8
Average	100.5	98.3	94.8	95.9	96.2	97.0

*Inclusive of regulatory reserve. The Group's CA ratio plus regulatory reserve ratio was raised to 1.2% by transferring a portion of its retained earnings to regulatory reserve in 2QCY15
Source: Companies, MIDFR

Chart 5: Loan Loss Coverage (LLC)



Source: Companies, MIDFR

- Reported OPEX for the sector grew +0.3%qoq or +10.4%yoy largely due to MSS cost of RM316m in 2QFY15 for CIMB. This rise in OPEX rose largely due to CIMB's MSS cost of RM316m in 2QCY15 which follows an IB restructuring cost of RM202m in 1QCY15. Negative JAW persists with sector

OPEX growing by +0.3%qoq against a flat total income growth of +0.1%qoq. CI ratio for the sector remained at 50.9%.

Table 21: Overhead Expenses (RM'Mil)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	540	481	624	495	496	544	484
Maybank	2,334	2,168	2,086	2,284	2,573	2,489	2,419
Public Bank	630	656	666	649	635	703	722
RHB Cap	818	789	797	841	987	820	843
Hong Leong	460	411	467	429	463	450	471
CIMB	2,137	2,011	2,008	2,034	2,239	2,340	2,440
AFG	144	165	162	161	156	165	167
Affin	195	180	260	299	244	269	258
Sector	7,258	6,861	7,070	7,190	7,794	7,781	7,803
Sector (% qoq growth)	+2.6%	-5.5%	+3.0%	+1.7%	+8.4%	-0.2%	+0.3%

Source: Companies, MIDFR

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

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	1,227	1,141	1,462	1,128	1,011	1,112	964
Maybank	4,685	4,435	4,479	4,538	5,079	4,988	4,888
Public Bank	2,060	2,064	2,100	2,248	2,263	2,265	2,313
RHB Cap	1,616	1,468	1,445	1,647	1,677	1,509	1,487
Hong Leong	1,055	948	1,006	1,015	1,023	988	1,041
CIMB	3,797	3,538	3,407	3,529	3,672	3,680	3,833
AFG	329	341	337	390	350	306	344
Affin	381	371	470	505	477	449	447
Sector	15,152	14,307	14,707	14,999	15,552	15,297	15,317
Sector (% qoq growth)	+1.5%	-5.6%	+2.8%	+2.0%	+3.7%	-1.6%	+0.1%

Source: Companies, MIDFR

Table 23: Cost to Income (CI) Ratio by quarters (%)

Bank	Dec'13 (4QCY13)	Mar'14 (1QCY14)	Jun'14 (2QCY14)	Sep'14 (3QCY14)	Dec'14 (4QCY14)	Mar'15 (1QCY15)	Jun'15 (2QCY15)
AMMB	44.0	42.2	42.6	43.9	49.1	49.0%	50.2
Maybank	49.8	48.9	46.6	50.3	50.7	49.9	49.5
Public Bank	30.6	31.8	31.7	28.9	28.1	31.0	31.2
RHB Cap	50.6	53.7	55.2	51.1	58.9	54.3	56.7
Hong Leong	43.6	43.3	46.4	42.3	45.3	45.6	45.3
CIMB	56.3	56.8	58.9	57.6	61.0	63.6	63.6
AFG	43.7	48.4	48.0	41.1	44.7	54.1	48.6
Affin	51.2	48.6	55.3	59.1	51.1	59.9	57.7
Average	46.2	46.7	48.1	46.8	50.1	50.9	50.9

Source: Companies, MIDFR

Table 24: CET1, Core Capital and Risk Weighted Capital ratios as at end of 2QCY15 (%)

Bank	CET1 Ratio	CCR / Tier-1 Capital Ratio	RWCR / Total Capital Ratio
AMMB	11.1 (fully loaded: 9.1)	12.4	15.8
Maybank	11.5 (fully loaded: 10.93)	13.2	15.5
Public Bank	10.7 (fully loaded: 10.6)	11.9	15.4
RHB Cap*	12.0	12.4	15.9
Hong Leong	10.8 (fully loaded: 10.5)	11.9	14.3
CIMB	9.7	11.0	13.9
AFG	11.1	11.1	13.0
Affin^	12.2	12.2	13.4

^represent ratios at Affin Bank level

*represent ratios of RHB Bank. Fully loaded Group CET1 ratio of RHB Cap: 10.6%

Source: Companies, MIDFR

Table 24 shows the capital ratios of banks which continued to be above the regulatory requirements for Basel III. RHB Cap's rights issue exercise to raise up to RM2.5b is expected to complete by end Oct'15 while Hong Leong Bank's rights issue exercise to raise up to RM3.0b is expected to complete by end of Dec'15.

STOCK AND SECTOR RECOMMENDATION

- **Unexciting revenue growth for most banks.** Most banks reported a marginal growth in revenue due to: i) NIM compression still impacting NII and ii) softer NOII from weaker capital market activities and treasury income.

In contrast, both Maybank and CIMB reported stronger growth in revenue but their earnings were dampened by higher provisions for their international operations. Provisions for loan impairment of BII and Maybank Singapore were higher for Maybank Group. Meanwhile for CIMB, provisions for Niaga remain elevated and higher provisions were booked in for CIMB Thai.

- **Expect banks with lower LLC ratios due to higher loan impairment to raise provisionings in the subsequent quarters of CY15 to improve their ratios.** Maybank and CIMB's LLC ratios declined to higher loan impairment for their international operations. We expect these banks to raise their provisionings in the subsequent quarters of CY15 to increase their LLC ratios. This is expected to impact their earnings.
- **Larger capitalised banks have guided for a slower loan momentum in 2HCY15.** For 2HCY15, the larger cap banks, Maybank, CIMB and RHB Cap have all guided for slower loan momentum on the back of slower economic growth, weaker household and cautious business sentiment.

Maybank has trimmed their Group loan growth target to 8.0-9.0% from 9.0-10.0% previously while CIMB has guided a loan growth of 10.0% for CY15 from a growth rate of +16.5%yoy as of end 1HCY15. Also, guided for a lower loan growth was RHB Cap at 6.0-7.0% as compared to a target of 10.0% previously for CY15.


- **Focus on achieving higher efficiency with improvements in CI ratios remain key focus area for banks looking at the challenges to grow revenue.** With top line growth continues to be seen challenging, cost improvement remains a key priority as seen from the initiatives of CIMB Group to implement restructuring on its IB business in 1QCY15 followed by a MSS exercise in 2QCY15. Also, following closely is RHB Cap's recently announced Career Transition Scheme (CTS also known VSS) to lower headcounts.

- **Credit charge-off to move towards normalized level.** We reiterate that credit charge-off for banks will likely move towards normalized levels with lower recoveries of bad debts. We remain watchful of the asset quality of corporate loans on back on slower economic growth, weaker commodity prices and domestic currency. Should these conditions remain for extended period of time, we will not be surprised of upticks in impaired loans for banks. In the recent results reporting session, we have raised our credit charge-off assumption for some banks. Meanwhile, on the implementation of the restructuring and rescheduling (R&R) guidelines on 1st Apr'15, some upticks on some banks' impaired loan ratios have been observed but however the overall impact has not been too significant.
- **Capital market activities are likely to remain weak while market will continue to be volatile in 2H CY15.** We continue to expect challenges to bank's Treasury income due to the volatility in the market. Nevertheless, their volatility will be positive for banks' FX profits due to hedging needs of their clients. On IB deals, we continue to expect a low execution of pipeline deals for capital raising via equities and bonds in 2H CY15.
- **Sector ROE expected to trend lower with the challenges impacting revenue growth as well as due to completion of the equity capital raising exercise for banks such as Hong Leong Bank.** We expect sector ROE to trend lower moving forward reflecting challenges to achieve higher revenue growth as well as due to the enlarged capital base for banks not just from rights issue exercise but also from the reinvestment of dividends into new shares of banks under DRP.

Table 25: Sector core earnings growth

(RM'Mil)	CY13	CY14	CY15F	CY16F
AMMB	1,542	1,647	1,671	1,639
Maybank	6,552	6,716	6,435	7,166
Public Bank	4,065	4,519	4,692	5,105
RHB Capital	1,831	2,038	2,074	2,230
Hong Leong	1,752	1,979	2,168	2,235
CIMB	4,188	3,159	3,365	3,984
AFG	477	526	551	537
Affin	650	605	441	607
Sector	21,057	21,190	21,398	23,502
Sector (% growth)	+7.6%	+0.6%	+1.0%	+9.8%

*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) weaker than expected contribution from Banks' International operations and iii) stronger pressure on NIMs than anticipated.
- **Trimmed our CY15 and CY16 core earnings forecast for the sector.** With the completion of the 2QCYQ15 results sessions, our sector earnings growth for CY15 and CY16 has been trimmed to +1.0% and +9.8% respectively from +4.9% and +10.9% previously.
- **Maintain NEUTRAL on the sector.** Our BUY calls are on Hong Leong Bank (TP: RM14.60) for its defensive qualities and Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield. We have downgraded RHB Cap from BUY to NEUTRAL (TP: RM6.60) based on the valuation of the new Bank Holding Company, RHB Bank which will eventually take over the listing status of RHB Cap. On the other stocks, we are NEUTRAL on Public Bank (TP: RM19.80), Affin (TP: 2.30), AMMB (TP: RM5.50), AFG (TP: RM4.10) and CIMB (TP: RM5.50). 

	Rec.	Price @ 7/9	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV	BV	PBV	PBV
				15	16	15	16	15	16	15	16	15	16	15	16
AMMB	NEUTRAL	4.27	5.50	54.4	55.0	7.8	7.8	27.3	22.0	6.4	5.2	4.8	5.1	0.9	0.8
Maybank	BUY	8.38	9.80	67.0	75.0	12.5	11.2	40.0	45.0	4.8	5.4	6.1	6.5	1.4	1.3
Public Bank	NEUTRAL	17.78	19.80	121.0	131.0	14.7	13.6	56.0	60.0	3.1	3.4	7.9	8.6	2.3	2.1
RHB Capital	NEUTRAL	5.95	6.60	67.0	57.4	8.9	n.m	9.0	7.4	1.5	n.m	7.6	5.7	0.8	n.m
Hong Leong	BUY	13.24	14.60	115.0	122.0	11.5	10.9	38.0	40.0	2.9	3.0	8.5	9.5	1.6	1.4
CIMB	NEUTRAL	4.72	5.50	40.0	47.0	11.8	10.0	16.0	19.0	3.4	4.0	4.7	5.0	1.0	0.9
AFG	NEUTRAL	3.38	4.10	34.7	36.0	9.7	9.4	15.4	16.0	4.6	4.7	2.9	3.2	1.2	1.1
BIMB	NEUTRAL	4.00	3.96	37.5	40.2	10.7	10.0	15.0	16.1	3.8	4.0	2.2	2.4	1.8	1.7
Average				62.2	66.1	10.8	10.0	25.3	29.3	3.9	4.6	5.4	5.6	1.3	1.2

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.