



AmInvestment Bank

Sector Report
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03-20362294

BANKING SECTOR

Higher deposit growth with stronger CASA momentum

NEUTRAL

(Maintained)

Rationale for report: Banking statistics for January 2017

Investment Highlights

- **Industry loans registered a higher growth of 5.6% YoY with business loans continuing to gain traction.** Industry loan growth continued to rise to 5.6% YoY in January 2017 from 5.3% YoY in the previous month. The expansion was driven by stronger momentum for business loans. Working capital loans continued its rising trend while growth in household loans moderated slightly in January 2017. For household loans, growth in mortgage loans remained stable compared to the previous month while loans for purchase of vehicles remained slow, in line with the drop in new car sales. January 2017 saw higher loan disbursements while loan repayments contracted by a marginal 0.7% YoY.
- **Loan applications continued to contract by 8.4% YoY while loan approvals declined by 5.1% YoY in January 2017.** The levels of loan approvals dropped in January 2017.
- **Deposit growth improved in January 2017 with a stronger CASA growth.** Industry deposit growth improved to 2.6% YoY in January 2017, higher than the 1.5% YoY recorded in December 2016. Business enterprises' deposits continue to contract but at a lower rate of decline at -0.3% YoY, while individual deposits expanded with a higher growth rate of 6.0% YoY. Industry CASA growth rose to 5.8% YoY. This led to a higher CASA ratio of 26.7%. Liquidity eased slightly for the sector with a lower LD ratio of 89.4%.
- **Base rate was stable at 3.62% in January 2017.** Interest spread (between the average lending rate and 3-month FD rate) rose by 5bps MoM to 1.62%, due to higher ALR.
- **Marginal increase in impaired loans by 0.2%MoM or RM55mil in January 2017.** Total GIL and NIL ratios for the industry remained stable at 1.6% and 1.2% respectively. Sector loan loss cover improved to 91.5% in January 2017 from 90.2% in December 2016 due to higher collective and individual impairment allowances.
- **Maintain NEUTRAL on the sector and remain selective on banking stocks with BUYs on CIMB and RHB Bank.** Maintain NEUTRAL on the sector. CIMB (fair value: RM5.70/share) and RHB Bank (fair value: RM6.00/share) remained as our BUY calls. We continue to like these two stocks due to compelling valuations, trading below 1.0x P/BV, decent ROEs and potentially further improvements to CI ratios from cost initiatives.

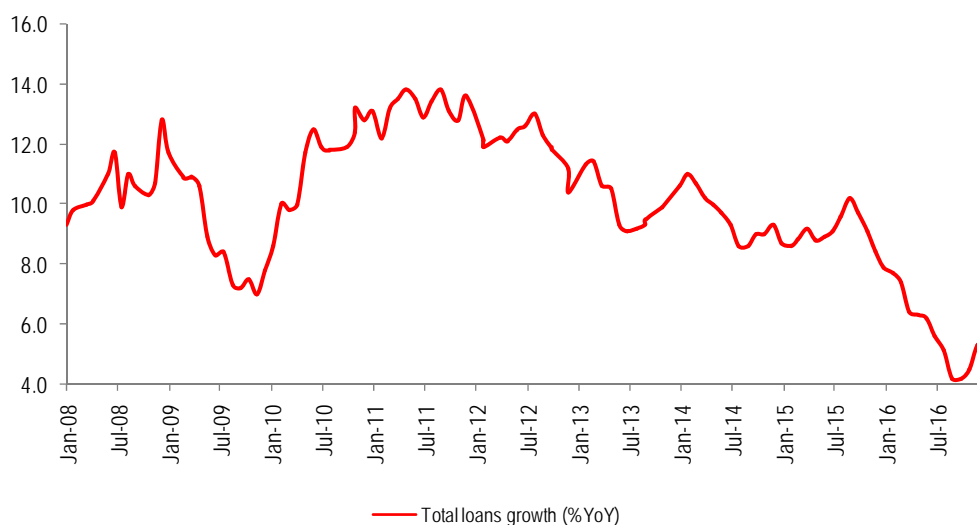
EXHIBIT 1: VALUATION MATRIX

	Rec.	Price @ Target		EPS (sen)		PER		Net DPS		Net DivYield		BV		PBV	
		1/03	Price	17	18	17	18	17	18	17	18	17	18	17	18
AMMB	NR	4.66	-	43.1	43.8	10.8	10.6	16.9	17.6	3.6	3.8	5.3	5.6	0.9	0.8
Maybank	HOLD	8.62	8.40	67.4	72.9	12.8	11.8	50.5	54.7	5.9	6.3	7.0	7.0	1.2	1.2
Public Bank	HOLD	19.94	20.30	132.6	138.3	15.0	14.4	59.1	61.9	3.0	3.1	9.7	10.6	2.1	1.9
RHB Bank	BUY	4.94	6.00	51.4	55.6	9.6	8.9	15.4	16.7	3.1	3.4	5.9	6.3	0.8	0.8
Hong Leong	HOLD	13.34	13.80	102.8	106.3	13.0	12.5	33.9	35.1	2.5	2.6	10.6	11.6	1.3	1.2
CIMB	BUY	5.09	5.70	47.3	55.4	10.8	9.2	23.6	27.7	4.6	5.4	5.4	5.7	0.9	0.9
AFG	HOLD	3.82	3.80	32.4	30.8	11.8	12.4	18.0	19.0	4.7	5.0	3.3	3.5	1.2	1.1
Average				68.1	71.9	12.0	11.4	31.1	33.2	3.9	4.2	6.7	7.2	1.2	1.1

Forecasts by AmInvestment Bank

Source: Bloomberg / Company / AmInvestment. Note: AMMB's estimates are based on Bloomberg consensus forecasts. NR denotes Non-Rated

EXHIBIT 2: INDUSTRY LOAN GROWTH



Source: BNM, AmInvestment Bank Bhd

INDUSTRY LOAN GROWTH CONTINUED TO RISE DUE TO STRONGER MOMENTUM FOR BUSINESS LOANS

- **Industry loans expanded with a higher growth rate of 5.6% YoY in January 2017, an increase of 30bps from the preceding month**

The sector's loan growth continued to trend higher to 5.6% YoY in January 2017 vs. 5.3% YoY in December 2016. This was driven by higher business loan growth (working capital loans) while household loans growth moderated to 5.2% YoY compared to 5.3% YoY in the previous month.

January 2017 saw stronger loan disbursements, rising by 3.4% YoY vs. -0.7% YoY in December 2016. Meanwhile, loan repayments contracted by 0.7% YoY.

- **Business loan growth continued to rise, contributed to increase in lending for working capital**

Business loan growth continued to rise to 5.4% YoY from 5.0% YoY in December 2016. The improved pace of business loans was driven mainly by year-on-year expansion to the construction, wholesale, restaurant, retail and hotels as well as the transportation, storage and communication sectors.

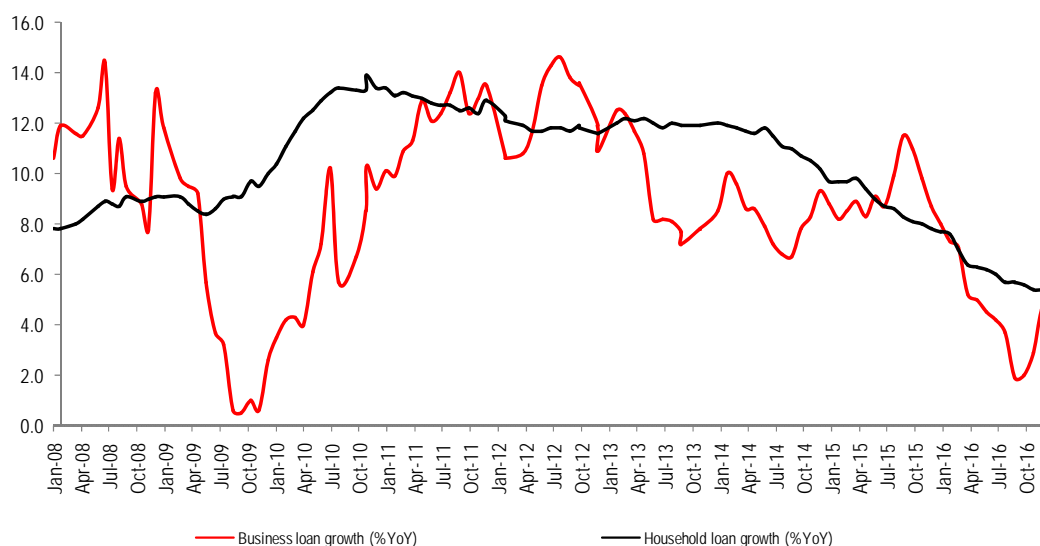
By purpose, working capital loans continued to increase. We believe that this has been contributed by an improvement in exports. This follows a stronger export numbers in November and December 2016.

- **Household loans grew at a slightly slower pace**

Growth in household loans was slightly lower at 5.2% YoY in January 2017 compared to 5.3% YoY in December 2016.

Mortgage loans remained stable with loans for purchase of residential property growing at 9.1% YoY while loans for purchase of non-residential property grew 6.1% YoY. Growth in personal loans and outstanding for credit cards moderated to 4.4% YoY and 1.1% YoY respectively. Meanwhile, growth in loans for purchase of securities remained subdued while loans for purchase of passenger cars contracted by 0.9% YoY, in line with the slower new vehicle sales.

EXHIBIT 3: BUSINESS AND HOUSEHOLD LOAN GROWTH



Source: BNM, AmInvestment Bank Bhd

EXHIBIT 4: LOAN BREAKDOWN BY PURPOSE (RM MIL)

	Jan-16	Dec-16	Jan-17	% of total	%MoM	%YoY
Purchase of securities	74,469	74,436	74,468	4.9%	0.04%	-0.001%
Purchase of transport vehicles	169,818	167,754	168,802	11.0%	0.6%	-0.6%
of which : purchase of passenger cars	160,905	159,080	159,531	10.4%	0.3%	-0.9%
Purchase of residential property	440,906	477,276	481,243	31.5%	0.8%	9.1%
Purchase of non-residential property	197,900	209,017	209,946	13.7%	0.4%	6.1%
Purchase of fixed asset other than land & building	10,014	9,981	9,905	0.6%	-0.8%	-1.1%
Personal use	63,784	66,664	66,612	4.4%	-0.1%	4.4%
Credit card	36,325	36,947	36,724	2.4%	-0.6%	1.1%
Purchase of consumer durables	145	148	145	0.01%	-2.0%	0.0%
Construction	43,000	45,630	46,074	3.0%	1.0%	7.1%
Working capital	347,542	368,655	369,532	24.2%	0.2%	6.3%
Other purpose	63,390	64,997	64,495	4.2%	-0.8%	1.7%
Total	1,447,292	1,521,506	1,527,947	100.0%	0.4%	5.6%

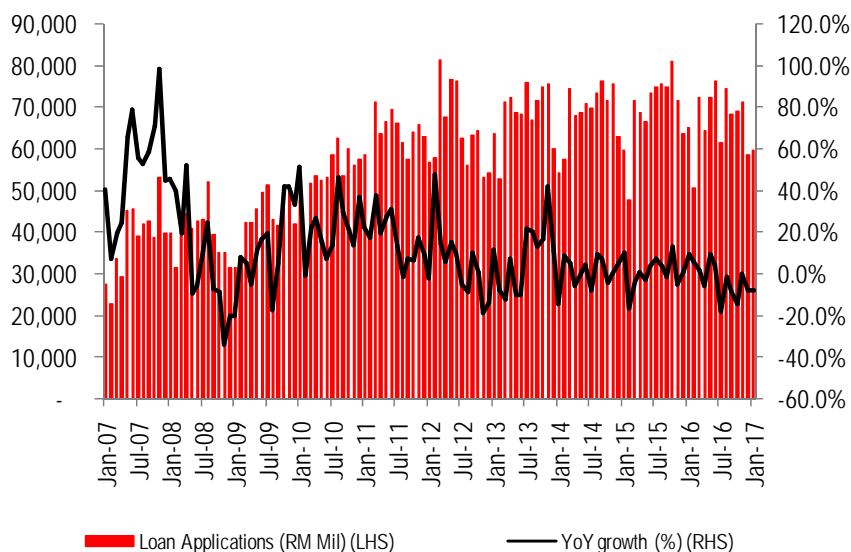
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 5: LOAN BREAKDOWN BY SECTOR (RM MIL)

	Jan-16	Dec-16	Jan-17	% of total	%MoM	%YoY
Primary agriculture	37,075	36,106	36,439	2.4%	0.9%	-1.7%
Mining and quarrying	13,205	13,949	12,824	0.8%	-8.1%	-2.9%
Manufacturing (including agro based)	101,556	102,222	103,680	6.8%	1.4%	2.1%
Electricity, gas and water supply	11,461	10,375	10,407	0.7%	0.3%	-9.2%
Wholesale, retail, restaurants & hotels	106,158	112,585	112,723	7.4%	0.1%	6.2%
Construction	62,905	64,976	66,492	4.4%	2.3%	5.7%
Real estate	99,078	110,030	110,393	7.2%	0.3%	11.4%
Transport, storage & communication	34,088	38,122	38,390	2.5%	0.7%	12.6%
Financing, insurance & business services	99,798	108,724	108,455	7.1%	-0.2%	8.7%
Education, health & others	39,421	43,158	42,811	2.8%	-0.8%	8.6%
Household sector	825,213	864,169	868,069	56.8%	0.5%	5.2%
Other sector	17,333	17,089	17,265	1.1%	1.0%	-0.4%
Total	1,447,292	1,521,506	1,527,947	100.0%	0.4%	5.6%

Source: BNM, AmInvestment Bank Bhd

EXHIBIT 6: LOAN APPLICATIONS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

LOAN APPLICATIONS

- *The level of loan applications continued to rise MoM with higher level of household loan applications. Meanwhile, the level of non-household loan applications declined.*

Industry's loan applications recorded a higher contraction of 8.4% YoY in January 2017 compared to -8.0% YoY in December 2016.

January 2017 saw applications of non-household loans declined by 12.9% YoY while that of household loans registered a marginal growth of 0.1% YoY.

By loan purpose, the slower growth of loan applications on a year-on-year basis was driven by lower growth rates for applications of credit cards, loans for construction and purchase of passenger cars.

By sectors, slower loan demand by the finance, insurance and business activities sector contributed to the slowdown in growth of loan applications.

EXHIBIT 7: LOAN APPLICATIONS BY PURPOSE (RM MIL)

	Jan-17	% of total	Sept-16 (%YoY)	Oct-16 (%YoY)	Nov-16 (%YoY)	Dec-16 (%YoY)	Jan-17 (%YoY)
Purchase of securities	3,990	6.7%	17.0%	43.6%	19.4%	14.1%	46.3%
Purchase of transport vehicles	6,884	11.6%	-11.6%	-11.4%	-9.0%	10.6%	-4.0%
of which : purchase of passenger cars	6,680	11.2%	-8.9%	-11.8%	-3.4%	-1.1%	-2.1%
Purchase of residential property	15,789	26.5%	2.2%	-0.1%	11.5%	-2.7%	3.4%
Purchase of non-residential property	5,745	9.6%	-17.4%	0.1%	16.1%	-11.4%	-10.5%
Purchase of fixed asset other than land & building	497	0.8%	-74.8%	135.2%	-44.5%	108.2%	35.4%
Personal use	4,258	7.1%	-18.7%	-19.3%	-15.8%	-29.0%	-28.9%
Credit card	3,688	6.2%	17.6%	10.8%	30.9%	13.0%	14.5%
Purchase of consumer durables	2	0.0%	-77.9%	-83.9%	-99.7%	-96.7%	-70.6%
Construction	1,876	3.1%	-11.5%	-23.7%	22.1%	12.9%	-27.5%
Working capital	15,021	25.2%	1.7%	-19.8%	-16.6%	-16.2%	-15.0%
Other purpose	1,825	3.1%	-38.4%	-66.9%	20.9%	-40.7%	-49.4%
Total applied	59,574	100.0%	-8.7%	-14.5%	-0.3%	-8.0%	-8.4%

Source: BNM, AmInvestment Bank Bhd

LOAN APPROVALS

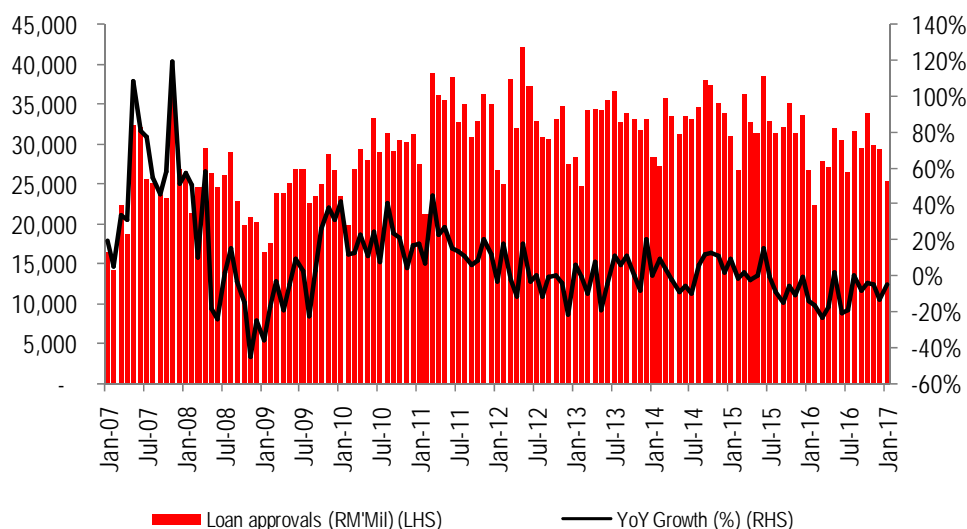
□ Loan approvals improved with a lower negative growth rate of 5.1%YoY

January 2017 saw growth in loan applications remaining slow at -5.1% YoY, underpinned by slower loan approvals for non-household loans that offset stronger approvals for household loans. Approvals for household loans improved to a higher growth rate of 5.2% YoY while approvals for non-household loans was slower than the preceding month, declining by 16.6% YoY.

storage and communication, finance, insurance and business activities as well as the household sectors.

By sector, approvals on a year-on-year basis, improved for loans extended to the manufacturing, transport,

EXHIBIT 8: LOAN APPROVALS (RM MIL)



Source: BNM, AmlInvestment Bank Bhd

□ Stronger deposit growth with CASA gaining traction

Industry LD ratio was lower at 89.4% in January 2017, compared to 89.8% in the previous month while loan-to-fund ratio and loan-to-fund-and-equity ratio also eased slightly to 84.0% and 74.9% respectively.

Growth of deposits (taking into account REPO) in the banking system, picked up pace to 2.6% YoY from 1.5% YoY in the preceding month. Deposit from business enterprises' continued to contract but at a lower negative growth of 0.3% YoY while growth in individual deposits continued to increase to 6.0% YoY. CASA in the sector has continued to gain traction, rising to 5.8% YoY, which is seen positive for protection of banks' net interest margin (NIM). CASA ratio for the sector inched higher to 26.7%, up from 26.5% in the previous month.

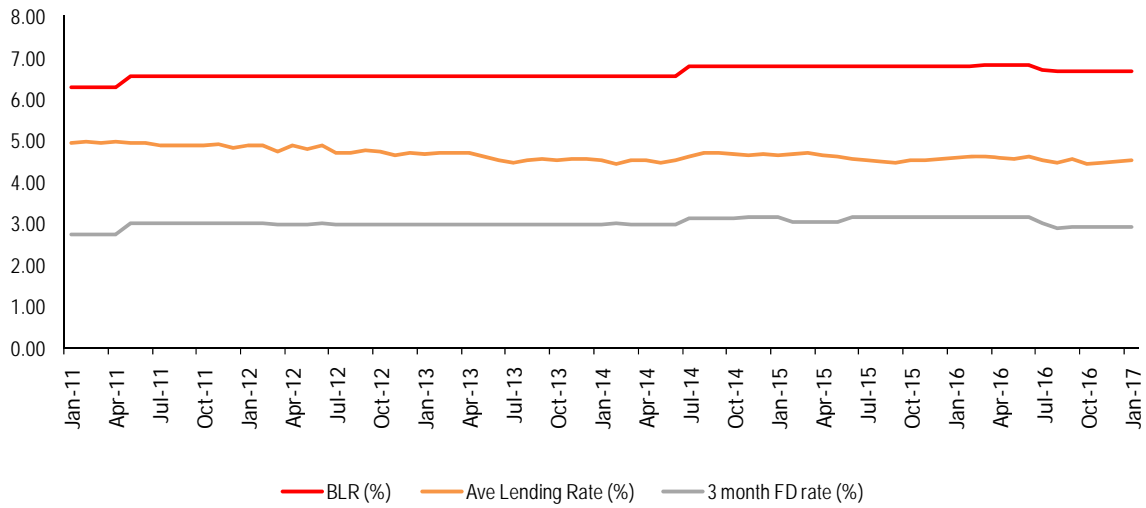
Liquidity coverage ratio (LCR) for the banking sector improved to 125.0% in December 2016, higher than November 2016 of 119.0%. By type of banking entities, LCRs for both commercial and Islamic banks rose to 125% in December 2016 (November 2016: 116% and 115% respectively) while the LCR for investment banks declined to 120%. All commercial, Islamic and investment banks' LCRs were above the regulatory requirements of 70% for 2016 and 80% for 2017.

EXHIBIT 9: LOAN APPROVALS BY PURPOSE (RM' MIL)

	Jan-17	% of total	Sept-16 (%YoY)	Oct-16 (%YoY)	Nov-16 (%YoY)	Dec-16 (%YoY)	Jan-17 (%YoY)
Purchase of securities	1,840	7.3%	42.6%	48.8%	42.3%	-35.3%	10.6%
Purchase of transport vehicles	4,723	18.7%	-9.9%	-16.6%	-11.2%	-7.7%	9.1%
of which : purchase of passenger cars	3,862	15.3%	-9.9%	-18.5%	-11.8%	-11.8%	1.9%
Purchase of residential property	6,586	26.0%	-6.3%	-9.6%	0.2%	-13.5%	12.5%
Purchase of non-residential property	2,137	8.4%	-18.9%	-5.8%	35.6%	26.6%	-8.9%
Purchase of fixed asset other than land & building	202	0.8%	12.8%	110.7%	-44.1%	87.5%	-8.7%
Personal use	1,178	4.7%	-5.6%	-9.9%	-17.2%	-29.9%	-6.4%
Credit card	1,543	6.1%	3.5%	2.8%	29.2%	7.8%	7.5%
Purchase of consumer durables	0	0.0%	75.0%	105.9%	42.4%	-79.5%	6.1%
Construction	841	3.3%	69.5%	-21.4%	-2.1%	-40.1%	-8.4%
Working capital	5,184	20.5%	-25.0%	4.0%	-10.5%	-4.7%	19.9%
Other purpose	1,068	4.2%	-17.0%	-24.2%	-44.6%	-45.1%	-75.2%
Total approved	25,302	100.0%	-8.2%	-3.9%	-4.6%	-12.8%	-5.1%

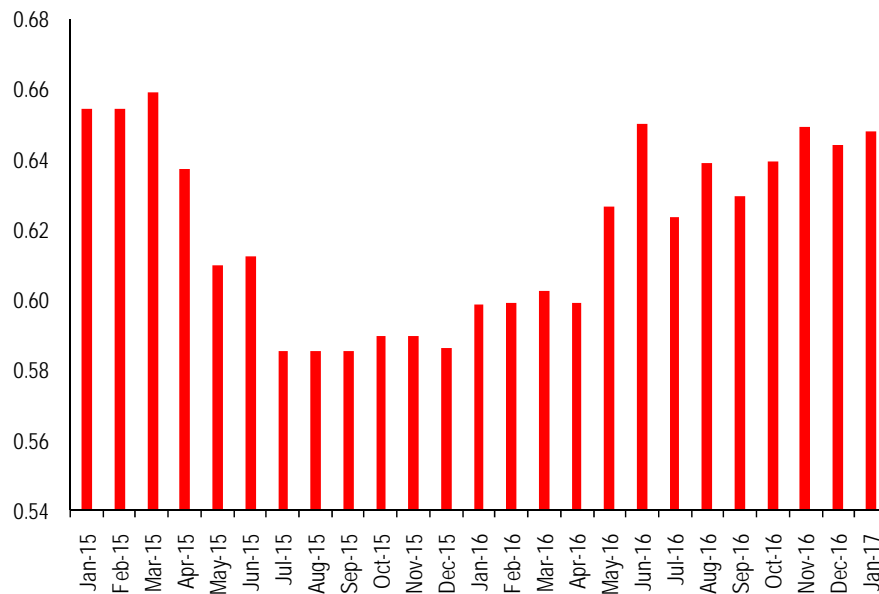
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 10: TREND OF BLR, AVERAGE LENDING RATE AND 3 MONTH FD RATE



Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 11: SPREAD (DIFFERENCE IN BANKS' BASE RATE AND AVERAGE FD RATE)



Source: BNM, AmlInvestment Bank Bhd

LENDING AND DEPOSIT RATES

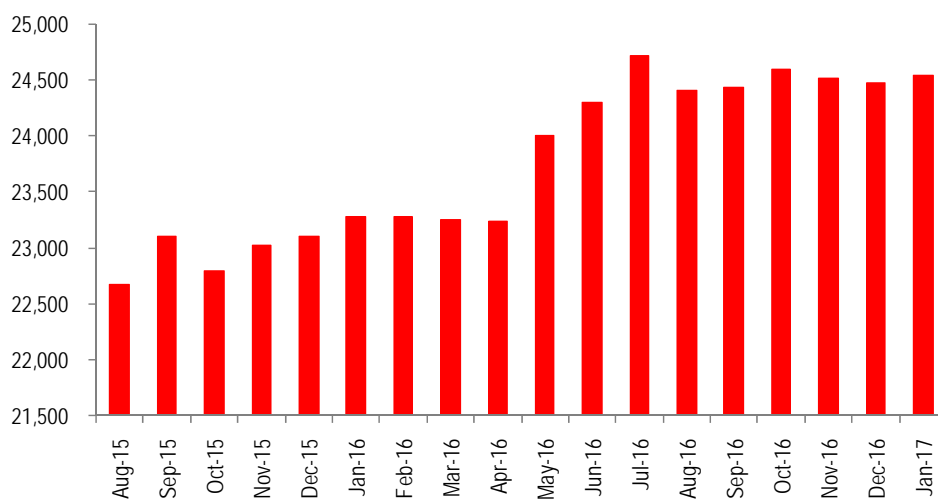
□ Base rate remained stable

Average lending rate (ALR) increased by 5bps MoM to 4.54% (weighted ALR for commercial banks stable at 5.20%). BLR was unchanged at 6.65% while base rate remained stable at 3.62%. The average deposit rate (based on the average rates for FD of up to 1-year tenure) stayed at 2.97%.

Interest spread (between the average lending rate and 3-month FD rate) increased by 5bps MoM to 1.62%. This was contributed by an increase in ALR.

Although banks' NIM have expanded QoQ in 4QCY16 from the management of liquidity and funding cost, we continue to expect pressure on funding cost ahead, which will lower banks' NIM in the subsequent quarters in CY17. This is in view of the deposit competition in the market which continues to be intense.

EXHIBIT 12: GROSS IMPAIRED LOANS (RM MIL)



Source:BNM,AmlInvestment Bank Bhd

EXHIBIT13: GROSS IMPAIRED LOANS (RM MIL)

	Jan-16	Dec-16	Jan-17	% of total	%MoM	%YoY
Purchase of securities	373	331	322	1.3%	-2.7%	-13.7%
Purchase of transport vehicles	1,617	1,470	1,532	6.2%	4.2%	-5.3%
of which : purchase of passenger cars	1,513	1,365	1,423	5.8%	4.2%	-5.9%
Purchase of residential property	5,030	5,440	5,466	22.3%	0.5%	8.7%
Purchase of non-residential property	1,786	2,064	2,137	8.7%	3.5%	19.7%
Purchase of fixed asset other than land & building	175	87	86	0.3%	-1.1%	-50.9%
Personal use	1,192	1,432	1,457	5.9%	1.7%	22.2%
Credit card	480	511	513	2.1%	0.4%	6.9%
Purchase of consumer durables	1	2	2	0.01%	0.0%	100.0%
Construction	2,494	3,244	3,239	13.2%	-0.2%	29.9%
Working capital	8,432	8,696	8,632	35.2%	-0.7%	2.4%
Other purpose	1,522	1,204	1,151	4.7%	-4.4%	-24.4%
Total	23,103	24,481	24,536	100.0%	0.2%	6.2%

Source: BNM, AmInvestment Bank Bhd

TABLE 6: GROSS IMPAIRED LOAN/NPL RATIOS (%)

	July-15	Jun-16	July-16	% of total	%MoM	%YoY
Purchase of securities	327	410	428	1.7%	4.4%	30.9%
Purchase of transport vehicles	1,805	1,647	1,738	7.0%	5.5%	-3.7%
of which : purchase of passenger cars	1,683	1,404	1,483	6.0%	5.6%	-11.9%
Purchase of residential property	5,060	5,107	5,221	21.1%	2.2%	3.2%
Purchase of non-residential property	1,716	2,023	2,058	8.3%	1.7%	19.9%
Purchase of fixed asset other than land & building	163	106	103	0.4%	-2.8%	-36.8%
Personal use	1,033	1,229	1,367	5.5%	11.2%	32.3%
Credit card	452	484	487	2.0%	0.6%	7.7%
Purchase of consumer durables	2	2	2	0.01%	0.0%	0.0%
Construction	3,105	3,368	3,278	13.3%	-2.7%	5.6%
Working capital	7,502	8,724	8,940	36.2%	2.5%	19.2%
Other purpose	1,396	1,201	1,091	4.4%	-9.2%	-21.8%
Total	22,562	24,301	24,711	100.0%	1.7%	9.5%

Source: AmInvestment Bank Bhd

EXHIBIT14: GROSS IMPAIRED LOAN/NPL RATIOS (%)

	Jun-16	July-16	Aug-16	Sept-16	Oct-16	Nov-16	Dec-16	Jan-17
Purchase of securities	0.6%	0.6%	0.4%	0.5%	0.4%	0.4%	0.4%	0.4%
Purchase of transport vehicles	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
of which : purchase of passenger cars	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Purchase of residential property	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Purchase of non-residential property	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Purchase of fixed asset other than land & building	1.1%	1.0%	1.0%	0.9%	0.9%	0.8%	0.9%	0.9%
Personal use	1.9%	2.1%	2.1%	2.1%	2.1%	2.2%	2.1%	2.2%
Credit card	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Purchase of consumer durables	1.5%	1.2%	1.2%	1.1%	1.2%	1.2%	1.4%	1.4%
Construction	7.6%	7.4%	7.3%	7.2%	7.5%	7.2%	7.1%	7.0%
Working capital	2.5%	2.6%	2.5%	2.5%	2.5%	2.4%	2.4%	2.3%
Other purpose	1.9%	1.7%	1.7%	1.7%	1.6%	1.7%	1.9%	1.8%
Total	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%

Source:BNM,AmlInvestment Bank Bhd

EXHIBIT 15: GROSS IMPAIRED LOAN/NPL RATIOS BY SECTORS (%)

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Primary agriculture	1.2%	1.1%	1.1%	0.8%	0.8%	0.8%	0.8%	0.7%
Mining and quarrying	2.8%	3.1%	3.0%	3.1%	3.1%	5.7%	4.7%	5.0%
Manufacturing (including agro-based)	4.5%	4.8%	4.7%	4.7%	4.8%	4.7%	4.1%	4.1%
Electricity, gas and water supply	1.2%	1.3%	1.2%	1.2%	1.2%	1.1%	1.0%	1.3%
Wholesale & retail trade, and restaurants & hotels	1.8%	1.8%	1.8%	1.8%	1.7%	1.7%	1.8%	1.8%
Construction	3.5%	3.2%	3.5%	3.4%	3.3%	2.7%	2.4%	2.3%
Transport, storage and communication	6.1%	6.1%	6.0%	5.9%	5.6%	5.2%	5.9%	5.9%
Finance, insurance and business activities	3.1%	3.2%	3.1%	3.1%	3.0%	3.0%	2.9%	2.9%
Education, health & others	0.8%	0.7%	0.5%	0.5%	0.5%	0.3%	0.2%	0.2%
Household sector 2	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Other sector n.e.c	2.8%	2.8%	2.7%	2.5%	2.4%	3.0%	5.4%	4.9%
Total non-performing/impaired loans	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%

Source: BNM, AmlInvestment Bank Bhd

ASSET QUALITY

- *Slight uptick in impaired loans by 0.2% MoM while GIL ratio for the industry remained at 1.6%*

Compared to the previous month, impaired loans rose by 0.2% MoM, driven largely by upticks in impairment of loans for purchase of transport vehicles, mortgage loans and personal loans. Total GIL and NIL ratios for the sector remained at 1.6% and 1.2% respectively. By sectors, GIL for household loans continued to hold up. Meanwhile, with the exception of an uptick in the GIL ratio of loans to the mining and quarry sector, the similar ratios for loans to the other sectors have been stable.

Sector loan loss cover improved to 91.5% in January 2017 from 90.2% in December 2016, due to higher collective and individual impairment provisions.

CAPITAL

- *Capital ratios remained healthy*

The sector's CET1, Tier 1 capital ratio remained at 13.1% and 14.0%. Meanwhile, total capital ratio rose to 16.9%.

OTHER TRENDS

- *Capital market activities slow for the start of the year*

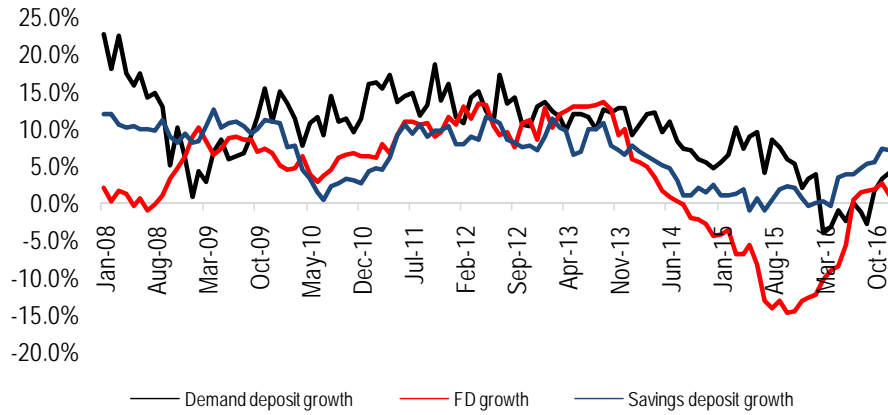
The level of net funds raised in the market by the private sector was low at RM106mil in January 2017 (December 2016: -RM4.17bil). In January 2017, new issuances of corporate bonds/sukuk declined by 24.6% YoY or -62.4% MoM.

MAINTAIN NEUTRAL ON THE SECTOR

- *Keeping our buy calls on CIMB and RHB Bank*

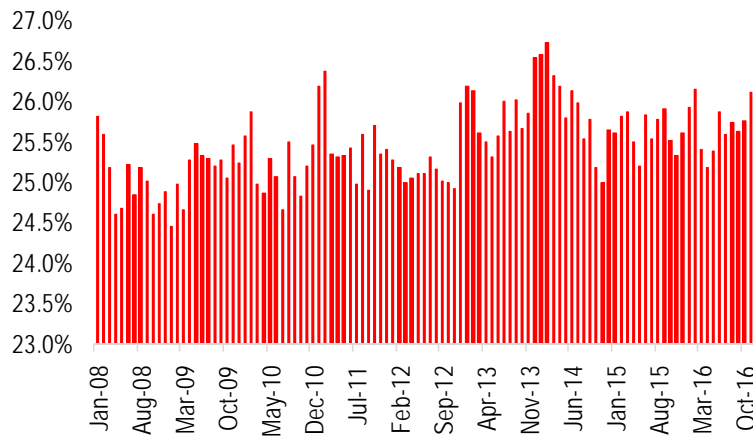
Maintain NEUTRAL on the sector. Our BUY calls remain CIMB (fair value: RM5.70/share) and RHB Bank (fair value: RM6.00/share). We continue to like these two stocks due to compelling valuations, trading below 1.0x P/BV, decent ROEs and potentially further improvements to CI ratios from cost initiatives.

EXHIBIT 16: DEPOSIT GROWTH (%YOY)



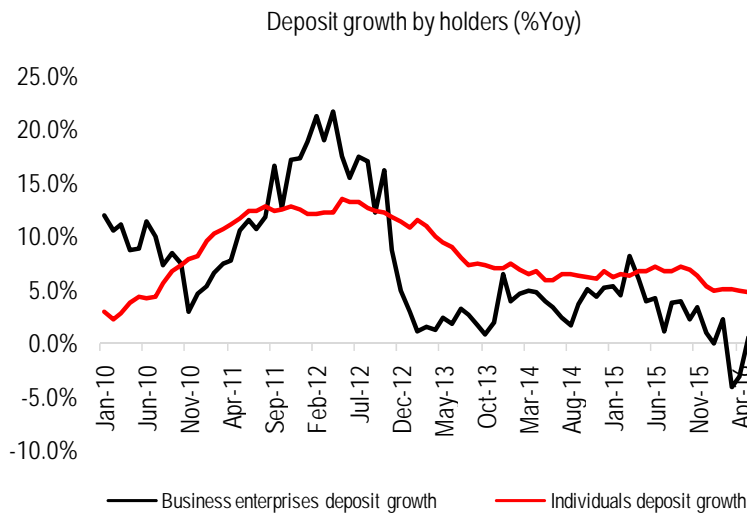
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 17: CASA RATIO (%)



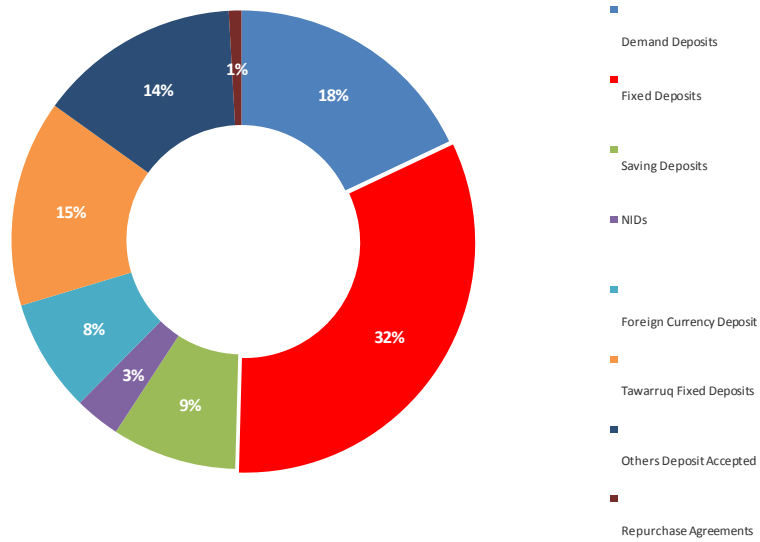
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 18: DEPOSIT GROWTH BY HOLDERS (%YOY)



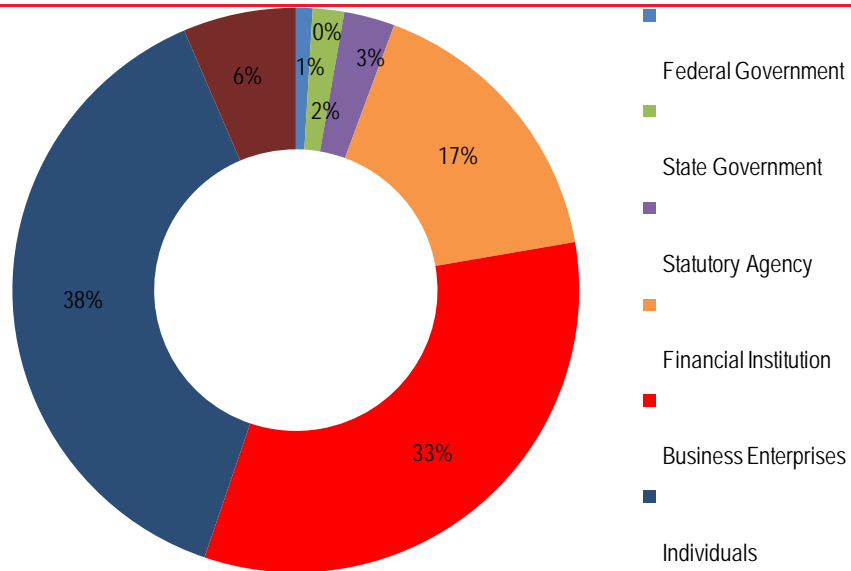
Source: BNM, AmlInvestment Bank Bhd

EXHIBIT 19: DEPOSITS BY TYPE



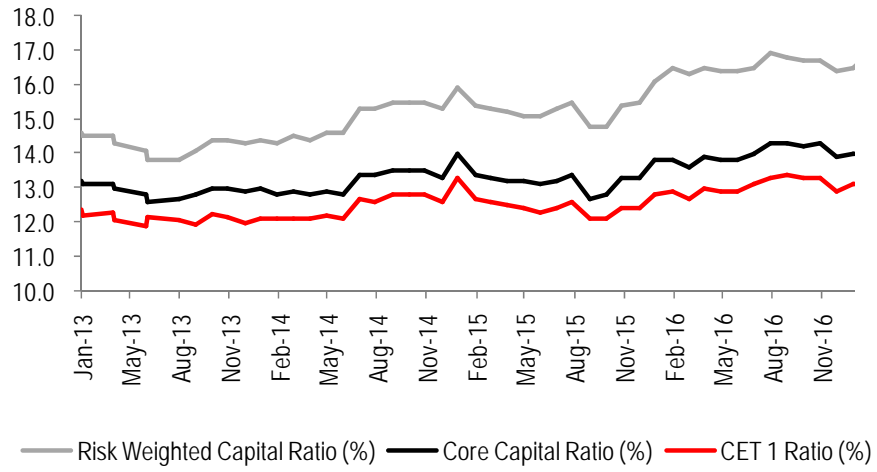
Source: BNM, AmInvestment Bank Bhd

EXHIBIT 20: DEPOSIT BY HOLDERS



Source: BNM, AmInvestment Bank Bhd

EXHIBIT 21: CAPITAL RATIOS



Source: BNM, AmlInvestment Bank Bhd

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