Media Release

24 August 2017

AmBank Group Reports Higher Net Profit of RM328.3 million for Q1FY2018

AMMB Holdings Berhad ("AmBank Group" or "the Group") today announced the financial results for the first quarter ended 30 June 2017 (Q1FY2018).

Key Features of Q1FY2018 Results[1]

- Income up 3.3% YoY to RM982.2 million supported by higher net interest income (NII) (+8.4%) and improved net interest margin (NIM) (+8bps) to 2.02%
- Profit before provision (PBP) up 3.2% YoY to RM429.1 million
- Net profit after tax and minority interests (PATMI) at RM328.3 million, up 1.6% YoY
- Return on equity (ROE) of 8.1%[2], return on assets (ROA) of 1.08%[2] and earnings per share[3] (EPS) of 10.92 sen
- Cost-to-income (CTI) ratio at 56.3%, unchanged YoY
- Gross loans and financing grew 2.0% year-to-date (YTD) to RM92.8 billion
- Gross impaired loans (GIL) ratio at 1.88%
- Common Equity Tier-1 (CET 1) Capital ratio at 11.7%[4]

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "We are pleased to kick off the new fiscal year with an improved PBP of RM429.1 million. Our results were driven by encouraging topline growth particularly in Business Banking, Transaction Banking, Global Markets and Mortgages."

"Our loans and financing base recorded a modest growth of 2.0% YTD underpinned by Business Banking loans base which grew 4.6% YTD as well as mortgages (+4.3% YTD). In line with our strategic focus to grow the lucrative small and medium size enterprises (SME) segment, our newly set up Enterprise Business Centres and dedicated new SME segment hunter teams will continue to drive growth in SME loans. Our cards receivables have shown a 1.26% growth YTD mainly as a result of our awareness campaigns. We have embarked on employing predictive models and we are starting with our cards business to gain insights into customers' card spending patterns to ultimately champion targeted marketing strategies. We are also seeing good pick-up in our AmBank BonusLink Visa Credit Card application which was launched in April this year."

"In line with the Group's four-year strategy, we undertook a planned reduction in corporate fixed deposits which saw a 1.95% YTD contraction. This contraction was cushioned by higher Retail and Cash Management current accounts which fuelled the 2.2% YTD expansion in current accounts and savings accounts (CASA). We see Transaction Banking maintaining good growth momentum and healthy cash management pipelines."

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1 All growth percentages computed on year-on-year (YoY) Q1FY2018 vs Q1FY2017 basis unless otherwise stated

2 On an annualised basis

3 Reference made to basic EPS

4 Proforma capital ratio includes Q1FY18 unappropriated profits of AmBank (M) Berhad, AmBank Islamic Berhad & AmInvestment Bank Berhad based on Aggregated Banking Group Entities and after proposed dividend

"Higher net interest income was recorded for the quarter, driven by lending growth in targeted segments, while net interest margin stood at 2.02%. Fee income was boosted by stronger fixed income trading, foreign exchange and derivatives sales. The Group saw an uplift in commission income following the appointment of AmBank Group as an agent of Amanah Saham Nasional Berhad (ASNB) in January 2017. ASNB funds are now available at AmBank branches nationwide.

Dato' Sulaiman added, "We are currently focusing our investments in growth areas. On a QoQ basis, expenses fell 5.1% whilst CTI improved 1.6% as a result of our concerted effort in keeping a tight rein on our operating cost."

In terms of asset quality, the Group's credit cost is normalising with lower recoveries and writebacks on performing loans. GIL was stable at 1.88%, in line with the previous fiscal year. The Group maintained adequate capital with CET 1 ratio at 11.7%, and remained watchful of corporate loans impairment in select sectors.

Dato' Sulaiman said, "We are seeing steady progress in our Group's Top 4 strategic initiatives. The JomPAY biller recruitment is gaining momentum and it is my pleasure to share that the Group won the award for outstanding contribution to JomPAY at the Malaysian e-Payments Excellence Awards. In addition, AmInvest bagged three awards from Fundsupermart.com while three of its unit trust funds have been shortlisted in Fundsupermart.com's recommended unit trusts list for 2017/2018. Commodities Equity, a Shariah-compliant fund, emerged as the most recommended fund under the Sector Equity-Global Resources category for the fifth time. We are indeed honoured to be recognised for our commitment and efforts. Rest assured that the Group will continue to strive to perform better in providing end-to-end, value-adding financial solutions to meet the needs of our customers."

Divisional performance[1]

Wholesale Banking

Total income at RM343.0 million marked an increase of 9.1% YoY. Net interest income increased 6.3% YoY to RM185.7 million, benefiting from growth in assets base. Non-interest income recorded a 12.7% improvement YoY to RM157.2 million supported by higher foreign exchange and derivatives trading as well as an increase in other operating income from recoveries of bad debts previously written off from AmFraser International Pte. Ltd.

Operating expenses increased 5.5% YoY from higher personnel costs as we continued to invest in building better capabilities by hiring, retaining and investing in quality talent. Net allowance stood at RM0.5 million as a result of higher allowances and lower recoveries recorded for the quarter. Consequently, profit after tax stood at RM168.2 million.

Gross loans grew 1.3% YTD to RM36.8 billion.

Business Banking

Total income of our new Business Banking division grew 17.0% YoY to RM60.1 million. Net interest income grew 15.1% to RM44.9 million benefiting from higher loans growth. Non-interest income recorded an encouraging growth of 23.1% YoY to RM15.2 million.

The division, which is in "investment mode" saw operating expenses increase during the period under review as a result of investments in the new SME segment as well as the deposit hunter teams. Impairment and profit after tax stood at RM9.3 million and RM21.0 million respectively.

Gross loans grew 4.6% YTD to RM6.2 billion.

Retail Banking

Retail Banking recorded a modest growth in total income of 2.4% YoY to RM351.9 million. Net interest income grew 1.5% YoY driven by Mortgages, Small Business Banking and Deposits partially offset by margin compression. Non-interest income increased 5.9% YoY from higher commission recorded by Wealth Management following the appointment of AmBank Group as an agent of Amanah Saham Nasional Berhad.

Operating expenses grew 2.6% YoY to RM239.3 million as a result of higher personnel costs. Profit before provision improved 1.8% YoY to RM112.6 million. Provision for allowances increased 12.0% YoY. Profit after tax was stable at RM76.1 million.

Gross loans grew 2.1% YTD to RM49.8 billion principally from Mortgages and Cards receivables. We aim to resume growth in our Auto Financing portfolio selectively by focusing on the new non-national car segment which has a better credit risk profile. Retail SME gross loans grew 21.6% YTD to RM1.0bil.

General Insurance

Net earned premium was relatively stable at RM354.1 million. Claims increased 13.2% YoY to RM199.3 million largely due to motor insurance. Operating expenses increased 4.7% YoY to RM87.0 million principally due to higher amortisation charges. Profit after tax was marginally lower at RM72.7 million.

We have developed our risk pricing model infrastructure and increased penetration to non-motor products in line with the liberalisation of premium pricing for motor and fire insurance products which took effect on July 2017. We aim to lead in motor insurance and selected personal and commercial lines via competitive underwriting, innovative product offerings and ongoing digital transformation initiatives.

Life Insurance and Family Takaful

Life Insurance recorded lower net earned premium of RM82.5 million due to lower ordinary life premium. Loss after tax stood at RM8.8 million largely attributable to actuarial valuations.

Net earned premium for Family Takaful increased 5.4% YoY to RM12.1 million. Loss after tax was RM2.3 million as a result of lower non-interest income, higher actuarial valuations and higher operating expenses.

The Group has equity accounted the results of the life insurance and family takaful business to reflect the Group's effective equity interests in the joint ventures.

Islamic Banking

The Group's Islamic Banking business forms an integral part of the Wholesale Banking, Business Banking and Retail Banking divisions. It aspires to add further value to the Group by offering differentiated shariah-compliant financial solutions. The business recorded profit after taxation and zakat of RM48.1 million, a decrease of 12.3% attributed to higher impairment charges.

Prospects for financial year ending 31 March 2018

Malaysia's Gross Domestic Product (GDP) is expected to grow at a credible 5.7% - 5.9% in 2017 (2016: 4.2%) underpinned by income support measures, higher infrastructure spending and strong exports on the back of improving global demand and firm commodity prices.

Domestic investment activity will continue to support GDP growth including improving private investment, recovery in the agriculture sector, large infrastructure projects as well as steady private consumption supported by rising wages and government measures to bolster income. Better export growth comes from better prospects for the semiconductor industry as well as resource based activities from Malaysia's major trading partners.

Inflation is projected to hover around 3.5% - 3.7% in 2017 (2016: 2.1%) owing to the delayed effects of the weak ringgit against the dollar and cost-push factors as well as the fading high base effect. Furthermore, demand-pull inflation from improving economic activity is poised to add inflationary pressure.

“Moving forward, we will maintain our laser-sharp focus on our Group’s strategic priorities involving accelerated penetration into targeted segments and expansion in areas where we are already strong. We will focus on the growth of quality assets, our deposit mix, maximising fees as well as optimising and improving our risk-adjusted returns. Our current initiatives involve improving our operational efficiency via faster loan approval turnaround time and automating our collections process in Q1FY18. We have implemented simplified teller processes at all our branches nationwide.”

“Our FY2018 strategic priorities are in place now. The Group remains focused on running the bank better and changing the bank in our efforts to deliver on our Top 4 aspirations, and bring optimal returns to our shareholders,” concluded Dato’ Sulaiman.

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