AmBank Group

Media Release

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AmBank Group Reports Net Profit of RM659.7 million for H1FY18

AMMB Holdings Berhad ("AmBank Group" or "the Group") today announced the financial results for the half year ended 30 September 2017 (H1FY18).

Summary of H1FY18 Results[1]

- Income up 2.3% YoY to RM1,949.1 million supported by higher net interest income (NII) (+9.9%) and improved net interest margin (NIM) (+6bps) to 1.99%
- Profit before provision (PBP) at RM833.3 million (-1.4%)
- Net profit after tax and minority interests (PATMI) at RM659.7 million (+1.0% QoQ)
- Return on equity[2] (ROE) of 8.1%, return on assets[2] (ROA) of 1.06% and earnings per share[3] (EPS) of 21.94 sen
- Cost-to-income (CTI) ratio at 57.2%, up 1.6%
- Gross loans and financing grew 2.2% year-to-date (YTD) to RM93.0 billion with SME loans growth at 7.6% YTD
- Gross impaired loans (GIL) ratio at 1.88% (+2bps)
- Common Equity Tier-1 (CET 1) Capital ratio at 11.5%

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "The Group recorded a modest 2.3% YoY improvement in total income of RM1,949.1 million for the half year ended 30 September 2017. Our topline growth momentum was sustained in Transaction Banking, Business & SME Banking and Retail Banking whilst markets based revenue was affected by the volatility in the market."

"The Group recorded an encouraging 9.9% growth YoY in NII supported by interest income from customer lending and fixed income securities. Interest income from customer lending continued to benefit from the robust growth in our targeted segments namely mortgages and the small and medium-sized enterprises (SME) segments. Interest income from securities grew mainly from trading securities and investment in unrated corporate bonds and sukuk."

Dato' Sulaiman added that, "Our loans and financing base grew 2.2% YTD since 31 March 2017 to RM93.0 billion underpinned by an increase of RM2,187.7 million (+10.0% YTD) in mortgage loans and RM1.1 billion (+7.6% YTD) in SME loans. As a result of our targeted card usage programmes, our cards receivables contributed RM80.7 million to our loans base, marking an encouraging YTD growth of 4.8%. As a testament to the effectiveness of our cards strategy and our strong drive to provide excellent value to our cardholders, I am pleased to share that we have been recognised by the industry at the regional level for our BonusLink Visa Card programme. We were honoured as the "Best Co-Branded Credit Card" and "Best Travel Reward Credit Card" at the CMO Asia Smart Card and e-Payment Awards 2017 in Singapore recently. The Awards

[1] All growth percentages computed on year-on-year (YoY) H1FY18 vs H1FY17 basis unless otherwise stated. Quarter-on-quarter (QoQ) refers to Q2FY18 vs Q1FY18

[2] On an annualised basis

[3] Reference made to basic earnings per share

were in recognition of customer service as well as excellence and innovation in the Asian card and payments industry."

"Deposits from customers and financial institutions increased RM1.7 billion (+1.8% YTD) benefitting from higher average balances in current accounts from our retail and cash management business as well as higher fixed deposits average balances from our fixed deposit campaigns. Our current accounts and savings accounts (CASA) composition stands at 21% with a target to grow to 27% progressively through various initiatives focusing on Transaction Banking, cash management and JomPAY biller recruitment. As part of the Group's funding costs management, we settled all short-term borrowings and redeemed debt securities on the first call date. Collectively, these efforts resulted in an overall marginal increase of RM16.6 million (+0.9% YoY) in interest expense. Our NIM improved 6bps to 1.99% as we continue to reduce our average cost of funds."

"Our CTI ratio increased slightly to 57.2% from 55.6% a year ago. Our ongoing cost efficiency initiatives resulted in lower spend for establishment, commission and other marketing expenses. The increase was attributable to our investment in growing the business. In line with our focus to expand our SME business, we have made close to 300 strategic hires for Business & SME Banking segment and implemented 17 new business centres nationwide. We are confident that this will continue to drive growth in SME loans. We expanded our Priority Banking team, particularly in terms of Relationship Managers with an additional 50 hires in line with the growing segment. We will continue investing in building better capabilities through our investment in quality talent for our core growth segments. Furthermore, the Group's investment in our digital capabilities has allowed us to further improve our online and mobile offerings."

"The Group's credit cost continued to normalise with lower write-back in this financial period due to higher allowance for individually assessed borrowers and lower corporate recoveries which were mitigated by lower allowance provided on collective basis. GIL was contained at 1.88% with loan loss coverage of 101.4%. The Group maintained adequate capital with CET 1 ratio at 11.5%, and remains watchful of corporate loans impairment in select sectors."

Divisional performance[1]

Wholesale Banking

Total income reduced 6.5% YoY to RM646.1 million as non-interest income (NOII) declined 18.4% YoY attributable to lower fixed income sales and mark to market gains as the corresponding period benefitted from the BREXIT event as well as the overnight policy rate cut in July 2016. This decline was partially mitigated by the increase in NII of 5.5% YoY which was attributable to the higher volume in Corporate and Mid-Corporate business.

Net impairment was higher at RM7.4 million due to deterioration in asset quality and lower recoveries.

Operating expenses increased by a marginal 0.9% YoY as a result of personnel related costs following Mid-Corporate's business expansion.

Gross loans contracted 3.2% YTD to RM35.2 billion.

Business Banking

Business Banking continued on its formidable growth trajectory with an increase in total income of 20.8% YoY to RM123.6 million supported by higher NII (+20.9% YoY) and NOII (+20.3% YoY).

Operating expenses grew in tandem with the business, the bulk of which was hiring related. Impairment and profit after tax stood at RM16.9 million and RM41.2 million respectively.

Gross loans and financing grew an encouraging 13.8% YTD from 31 March 2017 to RM6.7 billion.

Retail Banking
Total income grew 9.7% YoY to RM741.2 million on the back of higher volume impact from mortgages and higher wealth fee income. NII was up 2.9% YoY while NOII grew a commendable 41.8% YoY.

Operating expenses increased by 6.8% YoY from higher administrative and general expenses. PBP improved 16.0% YoY. Net impairment increased by RM34.3 million from higher provision made for cards and lower recoveries. Profit after tax was stable at RM172.9 million.

Loans base was at RM51.1 billion up by RM2.3 billion (+4.8% YTD) from 31 March 2017 largely from mortgage financing. CASA improved 0.6% YTD from higher averages balances in retail current accounts.

General Insurance
Net earned premium from General Insurance business recorded a marginal 1.6% reduction YoY to RM705.9 million following the liberalisation of motor insurance on 1 July 2017 and decreasing car sales. General insurance claims saw a corresponding reduction of 1.6% YoY to RM412 million. Operating expenses rose 2.5% YoY mainly attributable to higher amortisation charges. Profit after tax was up 4.6% YoY to RM124.7 million from lower tax.

Life Insurance and Family Takaful
Life Insurance recorded a marginal increase of 1.1% YoY in net earned premium to RM181.0 million. Loss after tax stood at RM32.0 million due to higher actuarial valuations and lower NOII.

Family Takaful saw a marked increase in net earned premium of 45.4% YoY to RM32.3 million. Loss after tax stood at RM4.8 million.

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. The Group's share of losses from the joint ventures stood at RM13.6 million compared to share of profits of RM15.7 million for the same period last financial year.

Islamic Banking
The Group’s Islamic Banking business forms an integral part of the Wholesale Banking, Business & SME 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 RM127.1 million, an increase of 9.7% YoY following higher income derived from Islamic Banking Funds.

Prospects for financial year ending 31 March 2018
Malaysia’s Gross Domestic Product (GDP) is anticipated to grow at a credible 5.9% in 2017 (2016: 4.2%) fortified by healthy private consumption benefitting from healthy wages and income support measures, impact from infrastructure spending, strong exports on the back of improving global demand and firm commodity prices as well as improving private investment. The economy is poised to continue with sustainable growth in 2018, projected to grow around 5.5% on the back of improving global growth and solid domestic activities.

The headline inflation which averaged at 4.1% in 1H of 2017 is poised to ease in the 2H17. Supported by firmer Malaysian Ringgit against the US Dollar, stable oil and commodity prices added with fading of the cost-push factors and the low base effect, the overall inflation is envisaged to hover around 4.0% in 2017 (2016: 2.1%). Inflationary pressure will remain contained in 2018 barring no unforeseen circumstances.

In the banking system, we anticipate decent growth in retail loans namely in mortgage loans for affordable homes as well as in business loans especially from infrastructure and exports segment which is benefitting from improving global growth and firmer commodity prices. Based on our 5.9% GDP growth projection for 2017, we project the loans to grow circa 5% in 2017.

In 2H17, we expect the mild pressure on banks' NIM to continue. However, it will be of lesser extent since the implementation of net stable funding ratio requirement has been postponed to no earlier than 1 January 2019. Banks have sufficient liquid assets with an industry liquidity coverage ratio of 133.0% as at end August 2017, well above the regulatory requirement of 100.0%. Funding profiles of banks have been well diversified with the industry's loan-to-fund ratio and loan-to-fund and equity ratio standing at 83.4% and 73.2% respectively as at August 2017.

We anticipate the overnight policy rate (OPR) will likely be maintained at 3.00% and we believe the normalisation rate for OPR is around 3.50%, suggesting there could be 2 rate hikes with the first possibly in 1Q18 and second either in 2H18 or 1H19. The GIL ratio for banks is anticipated to be at similar levels in 2H17. We expect an in credit cost for the sector in 2017 compared to 2016.

Speaking on the Group’s earnings outlook for the second half of FY18 (H2FY18), Dato’ Sulaiman guided that, “NII continues to deliver steady growth while NOII from investment banking and money market activities is expected to be lumpy. Wealth Management, Cards and Corporate Banking continue to drive NOII in H2FY18. We expect credit cost to continue to normalise with reduced recoveries relative to FY17. Impairment allowances are expected to be at levels that are reflective of our loans growth. Our asset pricing continues to be refreshed as we improve our capability to price for risk for sustainable NIMs.”

Dato Sulaiman said, “SMEs together with the digital economy are key growth drivers. To capitalise on the growth potential in the SME segment, our Business Banking team is in the process of setting up new business centres. To complement the upcoming business centres, we have also launched the “AmBank BizRACE” campaign as part of our long-term strategy to provide additional support to SMEs. The AmBank BizRACE campaign is a nationwide entrepreneurship challenge aimed at helping SMEs scale their businesses upwards. We are confident that SMEs will find the series of knowledge-sharing events which we are offering at no cost to the public to be highly beneficial and I look forward to a strong participation rate. Given the strong growth potential of the digital economy, we have enhanced our online portal and mobile banking. We will continue to introduce cutting edge Digital Banking capabilities to provide us with the added competitive advantage in todays’ digitalised environment.”

“We remain committed to our FY18 strategic priorities and will continue to grow quality assets, improve our deposit mix, maximise our fees, optimise our risk-adjusted returns whilst improving our service delivery. We remain steadfast in achieving our Top 4 aspirations while delivering optimal returns to our shareholders,” concluded Dato’ Sulaiman.

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