AmBank Group

Media Release

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AmBank Group Reports Net Profit of RM878.7 million for 9MFY18

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the 9 months ended 31 December 2017 (9MFY18).

Summary of 9MFY18 Results[1]

- Total income up 5.4% to RM2,908.4 million underpinned by good growth in net interest income (NII) (+8.8%). Net interest margin (NIM) broadly stable YoY at 1.98%
- Expenses up 7.3%, impacted by Retail operational losses and investment for growth and compliance
- Profit before provision (PBP) up 3.0% to RM1,215.9 million
- Net impairment charge of RM32.9 million (9MFY17: Net recovery of RM179.5 million) as recoveries are lower YoY as loan impairment normalised
- Net profit after tax and minority interests (PATMI) at RM878.7 million (-11.1%)
- Return on equity[2] (ROE) of 7.2%, return on assets[2] (ROA) of 0.93% and earnings per share[3] (EPS) of 29.22 sen
- Cost-to-income (CTI) ratio at 58.2% (+1.0%)
- Gross loans and financing grew 4.1% year-to-date (YTD) to RM94.7 billion with Mortgages growing 15.2% and Small and Medium Enterprises (SME) loans growth at 12.4% YTD
- Gross impaired loans (GIL) ratio lower at 1.77% (-9bps YTD) with higher loan loss coverage at 101.6% (+21.9% YTD)
- Common Equity Tier-1[4] (CET 1) Capital ratio at 11.3%, Total Capital[4] ratio at 16.1%

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "I am pleased to announce that AmBank Group recorded an encouraging total income of RM2,908.4 million for the 9 months ended 31 December 2017. NII increased by RM149.0 million (+8.8%) mainly from customer lending and interest on fixed income securities.

The 5.4% YoY growth in total income was underpinned by consistent growth momentum in NII. Interest income from customer lending was boosted by several factors, primarily, robust growth recorded in residential mortgages as well as increased interest income from securities. In addition, cost of funds was lower mainly as a result of the repayment of medium term debt and from diversifying our funding sources towards Retail deposits.

Given our appointment as Amanah Saham Nasional Berhad's agent, fee and commission income from unit trust increased 20.7% YoY propelled by higher commission earned from the sale of unit trust. Investment and trading income was slightly impacted by lower foreign exchange income. In addition, last year's results included a significant fixed income trading gain. Other income increased 90.1% YoY."

Dato Sulaiman added, "Our loans and financing base expanded 4.1% YTD since 31 March 2017 to RM94.7 billion supported by consistent growth in our targeted segments. Mortgage loans grew 16.4% YTD or by

[1] All growth percentages computed on year-on-year (YoY) 9MFY18 vs 9MFY17 basis unless otherwise stated.

[2] On an annualised basis

[3] Reference made to basic EPS

[4] After deducting proposed dividends, based on aggregated banking entities

RM3.6 billion to RM25.5 billion while SME loans grew a robust 12.4% YTD or by RM1.7 billion to RM15.8 billion. Our credit card receivables also recorded double digit growth of 13.3% YTD to RM1.9 billion."

"As a result of our strategic focus on accelerating the growth of our higher margin products, the optimisation of our funding mix as well as the diversification of our portfolio, NIM has improved to 1.98% from 1.96% a year ago.

Deposits from customers increased RM6.0 billion or 6.4% YTD to RM99.9 billion. This was predominantly driven by the diversification of our customer base to enhance funding resiliency. Current accounts and savings accounts (CASA) which collectively make up our lower cost deposits, expanded by 0.8% YTD. CASA composition at 20.0% due to our enlarged deposit base."

"CTI stood at 58.2%. The increase in expenses was largely attributable to investments in new capabilities and compliance. Personnel cost increased by RM73.2 million (+8.5% YoY) mainly from expansion of our new growth segments and salary increment. General administrative expenses were higher driven by compliance initiatives and also a one-off charge for Retail operational losses."

"As guided previously, we expect credit costs to normalise. For 9MFY18, the Group recorded an annualised credit cost of 0.04% attributable to higher allowance for certain individually assessed borrowers and lower recoveries mitigated by lower allowance provided on collective basis. Loan loss coverage was higher at 101.6% while GIL ratio improved to 1.77% as compared to 1.86% as at 31 March 2017.

On liquidity and capital, our banking subsidiaries maintained liquidity coverage ratios in excess of the regulatory minimum requirements. The Group's aggregated capital adequacy ratio remains adequate at 16.1%."

Speaking on some of AmBank Group's new initiatives for Q3FY18, Dato' Sulaiman updated that, "In November 2017, we launched SME Biz Property Extra in collaboration with CGC. SME Biz Property Extra is a partially secured financing package that comes with 70% of CGC's portfolio guarantee coverage and it is the first of its kind in the market. With CGC's guarantee, we are able to provide approved applicants with higher term loan facilities and faster financing approval.

AmBank introduced Mobile Application Terminal (MAT) in December 2017, another first of its kind in the Malaysian auto industry market. MAT provides Auto Finance Instant Approval by allowing users to submit loan applications, capture documents' images as well as obtain immediate approval within 30 minutes if all required conditions are fully met. MAT offers a new level of customer experience and we aim to strengthen our brand presence in the auto industry market by positioning AmBank as the "top-of-mind" brand amongst car buyers.

December 2017 also saw the launch of AmGeneral Insurance's All Risks 365, yet another innovative product aimed at the property and business sector. Following the Phased Liberalisations of Motor and Fire Tariff introduced by Bank Negara Malaysia, All Risks 365 provides customers with a broader range of optional covers available for selection with new features and benefits on top of the current tariff coverage. For the first time, All Risks 365 provides Full Accidental Destruction or Accidental Damage as automatic standard cover for Building and Stock in Trade."

Divisional performance[1]

Wholesale Banking

Total income registered an increase of 3.1% YoY to RM1.0 billion.

NII grew 5.0% YoY to RM554.5 million supported by Transaction Banking and higher interest income from investment in fixed income securities. NOII was flat YoY as lower trading and investment income was mitigated by gains from the sale of foreclosed properties.

Operating expenses up 2.5% YoY to RM384.1 million. Net impairment stood at RM42.6 million as compared to net recovery of RM118.7 million a year ago due to specific allowance and lower recoveries.

Gross loans and financing decreased 4.3% YTD to RM34.8 billion. Deposits from customers fell 11.3% YTD from lower corporate term deposits.

Business Banking

Business Banking achieved another quarter of strong top line growth reflecting our focus on our Top4 strategy. Income was up 18.7% YoY to RM190.5 million supported by both NII (+19.8% YoY) and NOII (+15.4% YoY).

Operating expenses rose in tandem with business expansions, reflecting our investments in new business banking centres and a larger dedicated sales force. Net impairment stood at RM32.5 million and profit after tax was at RM72.8 million as a result of higher operating expenses and higher provisions.

Gross loans and financing expanded strongly at 20.2% YTD to RM7.1 billion. Deposits from customers grew 22.5% YTD to RM4.0 billion.

Retail Banking

Total income increased 7.4% YoY to RM1.1 billion. NII grew 2.2% YoY driven by good growth in Mortgages and Retail deposits. In NOII we benefitted from a one-off gain from revaluation of an investment as well as from the continued emphasis on Wealth Management (+41.8% YoY).

Operating expenses was 8.5% higher YoY from personnel-related expenses (+11.6% YoY) and operational losses. Net impairment stood at RM41.6 million (9MFY17: RM2.7 million) largely due to lower recoveries, partially offset by lower allowances.

Gross loans and financing increased 8.4% YTD to RM52.9 billion with contribution from Mortgages, Retail SME, Personal Financing and Cards. Retail deposits grew 17.7% YTD to RM46.9 billion mainly from fixed deposits.

General Insurance

General Insurance business reported a net earned premium of RM1,051.0 million, a decrease of 2.8% YoY due to lower gross written premium reflective of the weaker industry vehicle sales sentiment. General insurance claims saw a corresponding reduction of 3.4% YoY to RM639.6 million. Overall income was up 6.0% YoY to RM434.8m underpinned by higher trading and investment income.

Operating expenses rose 3.2% YoY to RM258.2 million mainly attributable to higher amortisation charges relating to de-tariffication. Loss ratio reduced to 60.9% from 61.2% a year ago. Profit after tax was up 15.1% YoY to RM147.0 million.

Life Insurance and Family Takaful

Life Insurance business increased its net earned premium by 24.2% YoY to RM283.5 million whilst insurance claims saw a corresponding increase of 22.7% YoY. The business reported a loss after tax of RM15.6 million due to higher loss on actuarial valuation.

Family Takaful recorded an increase in net earned premium of 61.9% YoY to RM55.3 million. Actuarial valuation losses increased to RM36.6 million resulting in a loss after tax position of RM10.7 million compared to the loss after tax of RM8.0 million recorded for 9MFY17.

The Group has equity accounted the results of the Life Insurance and Family Takaful businesses to reflect the Group’s effective equity interests in the joint ventures. The Group's share of losses from the joint ventures stood at RM13.2 million.

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. Islamic Banking business recorded an income growth of 13.0% driving profit before provision up 23.2% YoY. This is partially offset by an increase in provisions, with PATZ up 13.8% YoY.

Prospects for financial year ending 31 March 2018

Malaysia's Gross Domestic Product (GDP) grew strongly in 2017 by 5.9% (2016: 4.2%) supported by private consumption benefitting from healthy wages and income support measures, infrastructure spending, strong exports on the back of improving global demand, firm commodity prices and private investment. The economy is projected to continue expanding favorably in 2018 by 5.5% aided by private expenditure, infrastructure spending, more business-friendly regulatory environment and exports.

Meanwhile, inflation is expected to be at 2.5%-2.8% in 2018 (2017: 3.8%) on the back of firmer Malaysian Ringgit against the US Dollar, stable oil and commodity prices, fading cost-push pressures and base effect.

The banking system registered a decent growth in 2017 mainly from mortgage loans for affordable homes as well as business loans in particular infrastructure and exports that is benefitting from improving global growth and firmer commodity prices. Loans growth for 2017 was 4.1%. For 2018, we project loans to grow circa 5% in line with GDP growth of 5.5% in 2018.

Banks have sufficient liquid assets with an industry liquidity coverage ratio of 134% as at end December 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 84.0% and 73.7% respectively as at December 2017.

We foresee the banks' NIM to improve modestly in 2018 as a result of the banks' repricing their loans to compensate for higher provisioning under MFRS 9 and milder pressure on banks' funding cost from deposit competition.

Following Bank Negara's 25bps rate hike in January, we believe the central bank will adopt the 'wait-and-see' attitude to determine the need to further reprice the policy rate which is at 3.25%. A key point highlighted in the Bank Negara's MPC is that the economy is on a firm growth path and we believe the normalisation rate is around 3.50%.

Speaking on the Group's earnings outlook for FY18, Dato' Sulaiman guided that, "NII will continue to drive our top line growth with mortgage, SME, Credit card loans maintaining their growth momentum. NOII from investment banking and money market activities may still be lumpy but Wealth Management, Corporate and Commercial Banking will continue to propel NOII growth. We expect credit cost to continue to normalise for us with reduced recoveries relative to FY17 as impairment allowances are expected to commensurate with our loans growth. We will continue to manage our funding mix, grow CASA and diversify our portfolio for sustainable NIMs. Our capital position is constantly being assessed and we continuously strive to improve its efficiency."

As part of the AmBank Group's 4-year strategic transformation agenda and our ongoing efforts to pare down costs and enhance operational efficiency, we have now streamlined and centralised some of our processes. As a result, we were able to offer a Mutual Separation Scheme (MSS) to employees in January 2018. This scheme is offered purely on a voluntary basis and provides eligible employees the opportunity to self-identify their willingness to voluntarily part ways with the Group. The MSS allows us to further optimise the Group's organisational structure and in the long run, translate into greater savings and efficiency." concluded Dato' Sulaiman.

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