Media Release

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AmBank Group Reports Higher Net Profit of RM695.7 million for H1FY19

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the half year ended 30 September 2018 (H1FY19).

Summary of H1FY19 Results[1]

- Income grew 3.7% to RM2,020.8 million underpinned by 5.3% increase in net interest income (NII). Net interest margin (NIM) at 1.97%
- Expenses reduced by 8.7% to RM1,018.4 million, driven by business efficiency initiatives. Cost-to-income (CTI) ratio improved to 50.4% from 57.2% a year ago
- Consequently, profit before provision (PBP) increased 20.3% to RM1,002.4 million
- Net impairment charge remained negligible
- Net profit after tax and minority interests (PATMI) grew 5.5% to RM695.7 million
- Return on equity (ROE) improved to 8.2%[2] (FY18: 7.0%), with return on assets (ROA) of 0.97%[2] (FY18: 0.83%) and basic earnings per share (EPS) of 23.13 sen (H1FY18: 21.94 sen)
- Gross loans and financing grew 3.8% YTD to RM99.9 billion. Customer deposits of RM100.8 billion, up 5.2% YTD
- Gross impaired loans (GIL) ratio at 1.72% (FY18: 1.70%), loan loss cover[3] (LLC) ratio higher at 111.3% (FY18: 100.5%)
- Aggregated banking entities Common Equity Tier 1 (CET1) capital ratio of 11.5%, total capital ratio of 16.2%
- Interim dividend of 5 sen per share

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "We continued to build on the good progress made last year with improving trends in our income momentum, operating leverage and profitability. Moreover, our assertive business efficiency initiatives enabled us to deliver positive JAWS and achieve a CTI of 50.4%, ahead of plan. Credit costs remained negligible and our overall asset quality remained resilient. The Group's ROE improved to 8.2% compared with 7.0% in FY18. In light of the Group's performance and our commitment to deliver sustainable dividend payout to our shareholders, we are pleased to declare an interim dividend of 5 sen per share."

"For the third quarter in a row, the Group achieved an income of more than RM1 billion. Excluding the gain on disposal of foreclosed property in the first quarter, underlying income grew 1.5% quarter-on-quarter (QoQ) amidst a more cautious market sentiment. PATMI for the second quarter was stable at RM348 million."

For the first half of FY2019, the Group's NII increased 5.3% year-on-year (YoY) to RM1,290.0 million, driven by consistent loans and deposits growth. Net interest margin fell slightly, with margin compression from time deposit repricing. Non-interest income (NoII) of RM730.8 million, grew marginally YoY with underlying NoII

[1] All growth percentages computed on year-on-year (YoY) H1FY19 vs H1FY18 basis unless otherwise stated. Year-to-date (YTD) refers to H1FY19 vs FY18 and quarter-on-quarter (QoQ) refers to Q2FY19 vs Q1FY19

[2] On an annualised basis

[3] Includes regulatory reserve

up 4.0%, after adjusting for one-off investment gains in the previous year and foreclosed property gains. Good growth was achieved in Wealth Management, Corporate and Business Banking fee income, offsetting a lower Financial Markets and Investment Banking revenue outturn. The improved performance of our General Insurance business driven by lower claims and the actuarial revaluation gains experienced by our Life Insurance business had a positive impact on this business segment.

Expense control and business efficiency remained the Group's key focus, with overall expenses falling 8.7% YoY to RM1,018.4 million. Cost savings flow through from the earlier Mutual Separation Scheme and the ongoing BET300 efficiency programs were partly reinvested to further strengthen the Group's infrastructure particularly via new digital initiatives.

The Group recorded a net impairment charge of RM17.9 million in H1FY19 compared with net recovery of RM48.0 million in the same period last year. Gross impaired loans ratio remained stable at 1.72% and loan loss cover improved to 111.3%.

Gross loans grew consistently in the targeted segments. On the retail front, mortgage loans grew 8.1% year-to-date (YTD) to RM28.5 billion whilst card receivables grew 8.7% YTD to RM2.2 billion. Reflecting our focus on our Top 4 strategy, the Group's overall loans to small and medium enterprises (SME) grew 8.3% YTD to RM18.1 billion.

Customer deposits grew 5.2% YTD to RM100.8 billion while current accounts and savings accounts (CASA) increased by 8.0% YTD to RM22.0 billion. Retail deposit mix increased to 54.6% of total customer deposits as compared to 51.5% at 31 March 2018. CASA composition stood at 21.8% and the Group remains focused on driving CASA to improve its funding costs.

On liquidity and capital, all banking subsidiaries of the Group have maintained liquidity coverage (LCR) and net stable funding ratios (NSFR[4]) above 100%. The Group remained adequately capitalised, with its financial holding company CET1 higher at 11.7% (FY18: 11.1%).

Speaking on the Group's strategic initiatives, Dato' Sulaiman said, "In line with our Top 4 strategic priorities on propelling our digital agenda, our enhanced digital offerings to customers with a focus on optimising customer experience provides us with an advantage in the fast-changing financial market. We have recently launched our newly designed share trading website and mobile app, AmEquities, which caters for a seamless user experience. AmEquities offers functions such as push notifications for matched orders, stock alerts and the "first-in-market" corporate action function which is based on customers' portfolio and watchlist. It also features multi-dimensional views and multi-tabs for stock monitoring, real time streaming as well as market data and news. Users may also personalise their layouts with integrated trading tools. This user friendly platform will enable us to appeal to a larger customer base, especially the new generation of millennial investors and traders."

"For our AmOnline mobile and online banking platform, we have been constantly adding new features to enrich the functionalities offered online. Most recently, we introduced AMY, a first of its kind Virtual Assistant that represents the next frontier of customer service. The launch of AMY is indeed an important milestone for us as we continue our journey to revolutionise our customers' banking experience. AMY's first release will incorporate assistance to customers on credit card services as well as Smart Alerts to provide useful credit card related notifications. We will continue to enhance AMY in the next few releases via artificial intelligence."

He added, "We are not just focused on how we can make everything that is available at a branch or contact centre also available online, we are also interested in creating an order of magnitude improvement in the customers' banking experience. Our objective is to see AmOnline on the phones of more and more Malaysians from our compelling propositions. It is all about creating optimal financial services that are tailored to helping customers derive the best value."

[4] Under observation period

Divisional performance (H1FY19 vs. H1FY18)[1]

Wholesale Banking

Income grew 10.3% to RM525.8 million, driven by higher NII (up 9.1%) and NoII (up 13.4%) with income growth in transaction banking and lending, partially offset by lower trading gains. A gain on disposal of foreclosed property of RM21.7 million was also achieved. Operating expenses reduced by 8.4% and net impairment recoveries and write backs contributed to a 31.3% increase in profit after tax (PAT) of RM339.4 million. Gross loans grew 2.3% YTD to RM33.3 billion whilst customer deposits were down by 2.7% YTD to RM39.9 billion.

Investment Banking and Fund Management

Income from investment banking and fund management reflected the more subdued market conditions in the first half, with overall income of RM124.5 million, 22.0% lower. PAT fell by 29.6% to RM34.0 million primarily due to lower corporate activity levels.

Business Banking

Income grew 22.9% to RM153.0 million. NII increased 20.6% on the back of strong loans and deposits growth. Higher cross-selling also led to higher NoII, up 30.4%, mainly from foreign exchange and derivatives sales. Net impairment charge stood at RM3.1 million, with higher gross impairment charge offset by recoveries. PAT increased by 77.9% to RM71.3 million. Gross loans grew to RM8.6 billion, up 11.4% YTD, and customer deposits grew to RM5.0 billion, up 19.6% YTD.

Retail Banking

Income reduced slightly by 3.1% to RM726.4 million impacted by lower NoII due to the non-repeat of a one-time investment gain of RM42.5 million in the previous year. Excluding this one-time gain, the underlying income grew 2.7% with NII up 4.2%. Expenses was 15.2% lower, driving PBP up 19.5% to RM310.9 million. Net impairment charge of RM61.1 million, reflecting both the lending volume increase as well as the impact from the adoption of MFRS 9. PAT increased 3.6% to RM190.1 million. Gross loans grew 3.5% YTD from mortgages, retail SME and cards. Customer deposits increased by 11.6%, largely from fixed deposits.

Islamic Banking

Islamic Banking income grew by 1.3% to RM411.4 million, with operating expenses reduced significantly by 30.5% from the cost reduction exercise and a change in cross entity recharges. Net impairment charge of RM80.0 million, reflecting a YoY increase of RM57.0 million primarily due to a handful of corporate accounts, lower retail recoveries and the absence of a release of the general macroeconomic provision in the previous year. Profit after zakat and taxation increased by 8.2% to RM137.3 million.

General Insurance

General Insurance recorded a higher PAT of RM134.0 million (+7.4%) despite lower net earned premium of RM679.2 million (-3.8%) as this was mitigated by a 12.7% reduction in net claims. Operating expenses also decreased 3.3% to RM168.9 million.

Life Insurance and Family Takaful

Life Insurance delivered PAT of RM36.7 million compared to a loss in the same period last year as net earned premium increased to RM215.0 million (+18.8%), further supplemented by lower claims and actuarial revaluation gains. Family Takaful recorded a lower loss after tax of RM1.4 million compared to a loss of 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.

Prospects for financial year ending 31 March 2019

Dato' Sulaiman commented that the outlook for Malaysia remains positive, albeit economic growth may be slower in the near term, with a projected GDP growth of 4.6% for 2018. Inflation and unemployment levels are also expected to remain moderate. Hence, this should underpin a loans growth of about 5.5% for the banking industry in 2018.

In his closing remark, Dato' Sulaiman said, "AmBank Group performed well in the first half of FY2019 with encouraging progress particularly in terms of revenue growth and cost take out. We achieved a CTI below 55%, delivering on this KPI for the year. Amidst the emerging market sentiment and heightening external geopolitical tensions which have given rise to some near term uncertainties, the Group is resolute in its strategic focus to deliver on our FY19 financial agenda that entails delivering efficiencies and propelling growth. In line with our commitment to deliver value to our shareholders, we will continue to reinvest the savings generated from our BET300 initiatives in order to increase our capabilities, more specifically on digital initiatives, payment services and customer experience."

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