Media Release

21 February 2019

AmBank Group nine-month net profit grew 19% to RM1.05 billion

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the nine months ended 31 December 2018 (9MFY19).

Summary of 9MFY19 Results[1]

- Income grew 2.0% to RM2,967.8 million underpinned by a 5.9% increase in net interest income (NII). Net interest margin (NIM) at 1.93%
- Expenses reduced by 9.5% to RM1,530.9 million, driven by business efficiency initiatives. Cost-to-income (CTI) ratio improved to 51.6% from 58.2% a year ago
- Profit before provision (PBP) increased by 18.2% to RM1,436.9 million
- Net recovery of RM33.4 million (9MFY18: net impairment charge of RM32.9 million)
- Consequently, net profit after tax and minority interests (PATMI) grew 19.0% to RM1,045.6 million
- Return on equity (ROE) improved to 8.2%[2] (FY18: 7.0%), with return on assets (ROA) of 0.95%[2] (FY18: 0.83%) and basic earnings per share (EPS) of 34.75 sen (9MFY18: 29.22 sen)
- Gross loans and financing grew 4.2% YTD to RM100.4 billion. Customer deposits of RM106.8 billion, up 11.4% YTD
- Lower gross impaired loans (GIL) ratio of 1.62% (FY18: 1.70%), loan loss cover[3] (LLC) ratio higher at 116.8% (FY18: 100.5%)
- Financial Holding Company (FHC) Common Equity Tier 1 (CET1) capital ratio of 12.0% (FY18: 11.1%), FHC Total Capital ratio of 15.7% (FY18: 13.6%)

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer commented, "Our nine-month results demonstrate that our strategies which have been put in place over the last couple of years are bearing fruits on our bottom line and our businesses. This is reflective by virtue of the fact that our net profit during the period rose 19% year-on-year against a backdrop of slower economic growth and heightened markets volatility. Income was up 2% underpinned by steady loans growth, driving net interest income growth of 5.9%. Our commitment and resolve to improve cost efficiencies especially in a subdued environment has resulted in the Group achieving a CTI of 51.6% with positive JAWS of circa 12%. As a result, pre-provision profit grew 18%. Additionally, we have also achieved a few large corporate recoveries, providing additional boost to our earnings. Our ROE has improved to 8.2% (9MFY18: 7.2%), and I believe we are well on track to achieve our FY19 ROE target of 8.5%."

The Group's third quarter (Q3FY19) net profit was up 59.8% compared to a year ago (Q3FY18), propelled by higher lending volume, lower cost base and increase in recoveries. Compared with the preceding quarter

[1] All growth percentages computed on year-on-year (YoY) 9MFY19 vs 9MFY18 basis unless otherwise stated. Year-to-date (YTD) refers to 9MFY19 vs FY18 and quarter-on-quarter (QoQ) refers to Q3FY19 vs Q2FY19

[2] On an annualised basis

[3] Includes regulatory reserve

(Q2FY19), profit was broadly stable quarter-on-quarter (QoQ) as softer income from trading and insurance was mitigated by the resolution of several non-performing corporate loans.

For the nine months ended 31 December 2018, total income increased by 2% YoY. NII grew 5.9% YoY to RM1,951.4 million supported by a consistent expansion of our loan base. NoII dropped by 4.7% YoY to RM1,016.5 million impacted by markets volatility and weaker sentiments, resulted in lower contributions from Markets, Funds Management and Investment Banking. This is partially cushioned by higher fee income from Corporate Banking and Business Banking coupled with better outcomes from General and Life Insurance businesses.

The Group has undertaken assertive cost initiatives while continuing to invest in strengthening the Group's infrastructure and building new capabilities. The BET300 efficiency programme is on-going, with expenses falling by 9.5% YoY to RM1,530.9 million. CTI improved to 51.6% from 58.2% a year ago. The Group has set a CTI target of 55% for FY19.

The Group recorded a net recovery of RM33.4 million in 9MFY19 compared to an impairment charge of RM32.9 million in the same period last year, aided by several large corporate recoveries. Gross impaired loans ratio improved 8bps to 1.62% and loan loss cover rose to 116.8%. The Group's asset quality remains resilient while credit vigilance is exercised in a less benign credit environment.

Gross loans growth is broad based, up 4.2% YTD or 6% compared with the corresponding quarter last year with good traction in the targeted segments. Growth in retail loans was mainly attributable to mortgage loans which increased 10.8% YTD to RM29.3 billion. Card receivables on the other hand grew 12.4% YTD to RM2.2 billion. Loans to small and medium enterprises (SME) grew 13.3% YTD to RM18.9 billion.

The Group recorded a robust customer deposits growth of 11.4% YTD to RM106.8 billion, outpacing the industry's growth. Current accounts and savings accounts (CASA) increased by 8.5% YTD to RM22.1 billion. All banking subsidiaries of the Group have maintained liquidity coverage (LCR) and net stable funding ratios (NSFR[4]) above 100%.

The Group has strengthened its capital levels through additional Tier 2 capital raised during the third quarter. As at 31 December 2018, the Group's FHC CET1 ratio was 12.0% and total capital ratio of 15.7%, representing higher capital level than the previous financial year end.

Dato' Sulaiman further shared the Group's progress on enhancing the features and offerings of AmOnline, the Group's online banking and mobile banking platform, "In conjunction with Paynet, we have incorporated the DuitNow feature into AmOnline, enabling our customers to transfer money instantly and securely using the recipient's mobile phone number.

Amongst other latest features made available in AmOnline is the One Step New Credit Card Activation. The first of its kind in Malaysia, it offers a 3-in-1 process to activate card, set pin through registering for AmOnline allowing new customers to be able to use their card within minutes of receiving it. By simplifying the card activation process, we hope to drive higher utilisation by new cardholders.

AmOnline also offers hassle free motor insurance products, which our customers can now purchase or renew their motor insurance with AmAssurance using AmOnline."

Dato' Sulaiman added, "We are ramping up the digitisation of our financial services. We will continue to introduce other new value-added features into our online banking platform and provide a more efficient online banking experience. These new features are part of our AmOnline digital roadmap and the promise of a new feature every three months."

[4] Under observation period

Divisional performance (9MFY19 vs. 9MFY18)[1]

Wholesale Banking

Total income rose 2.5% to RM772.5 million, supported by higher NII which was up 8.6% YoY. NoII contracted 11.2% due to softer trading gain on securities and lower gains from disposal of foreclosed properties partially offset by the increase in fee income.

The 5.9% reduction in operating expenses and the net recoveries and write backs contributed to a 56.5% increase in profit after tax (PAT) to RM579.2 million. Gross loans grew 1.4% YTD to RM33.0 billion whilst customer deposits grew 6.5% YTD to RM43.7 billion.

Investment Banking and Fund Management

The performance of the investment banking and fund management businesses was dampened by the subdued market conditions, resulting in a lower level of corporate and client investment activities. Overall income fell 25.9% to RM180.2 million; PAT at RM46.2 million, fell by 40.9%.

Business Banking

Income grew 23.3% to RM236.0 million. NII increased 22.4% on strong loans and deposits growth. NoII expanded by 26.0% from higher fee income and foreign exchange sales. Net impairment charge stood at RM15.1 million, with higher gross impairment charge offset by higher recoveries. PAT increased by 81.8% to RM101.7 million. Gross loans grew to RM9.1 billion, up 17.6% YTD, and customer deposits grew to RM5.3 billion, up 26.6% YTD.

Retail Banking

Income was flat at RM1,111.8 million. NII was up 5.7% in line with loans growth. NoII contracted 18.7% principally from lower cards related income and also 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 NoII fell by 2.1%. Expenses was 16.7% lower, driving PBP up 34.7% to RM492.0 million. Net impairment charge of RM111.8 million, reflecting both the lending volume increase as well as the impact from the adoption of MFRS 9. PAT increased 17.5% to RM289.4 million. Gross loans grew 4.0% YTD from mortgages, retail SME and cards. Customer deposits increased by 7.1%, principally from fixed deposits.

Islamic Banking

Islamic Banking income grew by 1.0% to RM622.7 million, with operating expenses reduced significantly by 28.8% from the cost reduction exercise and a change in the basis of cross entities recharges. Net impairment charge of RM110.4 million, reflecting a YoY increase of RM54.0 million from 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 16.5% to RM216.9 million.

General Insurance

Income expanded by 6.0% to RM460.9 million largely driven by improved claims experience and higher gross premium. Operating expenses was flat at RM258.0 million. Profit after tax increased by 12.5% to RM165.4 million.

Life Insurance and Family Takaful

The Life Insurance and Family Takaful businesses delivered PAT of RM22.8 million compared to a loss in the same period last year principally due to the increase in net earned premium of 12.1% to RM379.8 million and actuarial valuation improvement. 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, with full year GDP growth for 2019 projected at 4.5% to 4.8%. Inflation and unemployment levels are also expected to remain moderate. Hence, this should underpin a loans growth of about 4.9% for the banking industry in 2019.

In his closing remark, Dato' Sulaiman said, "With our new leadership team in place over the last couple of years, we are pleased to have delivered another quarter of consistent earnings amidst a more challenging operating landscape. Our loans and customer deposits growth has been particularly encouraging and we remain committed in propelling growth in our target segments. Our costs have been well contained as we continue to invest for growth. We have increased our liquidity buffers and strengthen our capital positions. We are also targeting to conclude the sale of retail non-performing loans by 31 March 2019, which we have announced earlier. This is part of our initiatives to improve our capital position and also focus our resources on newer vintage delinquent loans."

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