26 August 2020

AmBank Group starts FY21 with 6.5% growth in underlying net profit

AMMB Holdings Berhad (AmBank Group or the Group) today announced its financial results for its first financial quarter ended 30 June 2020 (Q1FY21).

Summary of Q1FY21 Results[1]

- Total income up by 2.6% to RM1,092.4 million, underpinned by higher trading and investment income, partially offset by margin compression and net modification loss of RM57.5 million. Excluding the net modification loss, underlying income increased 8.0%
- Expenses were well contained at RM538.6 million, up by 1.9%. Cost-to-income (CTI) ratio improved further to 49.3% from 49.7% a year ago
- Profit before provisions (PBP) increased 3.3% to RM553.8 million, underlying PBP grew 14.1%
- Net impairment charge of RM49.9 million (Q1FY20: net recovery of RM32.5 million), with an additional RM10.3 million pre-emptive macro provision
- Gross impaired loans (GIL) ratio of 1.66% (FY20: 1.73%), with loan loss coverage[2] (LLC) ratio at 97.0% (FY20: 93.4%). Regulatory reserve of RM382.3 million, together with total expected credit loss allowances, represent 1% of total credit exposures
- Net profit after tax and minority interests (PATMI) declined 6.7% to RM365.2 million. Underlying PATMI of RM416.7 million grew 6.5% (adjusted for the net modification loss and pre-emptive macro provision)
- Return on equity (ROE) lower at 7.7% (Q1FY20: 8.8%), underlying ROE at 8.8%. Return on assets[3] (ROA) of 0.97% (Q1FY20: 1.11%) and basic earnings per share (EPS) of 12.1 sen (Q1FY20: 13.0 sen)
- Gross loans and financing remained broadly stable year-to-date (YTD) at RM107.4 billion
- Customer deposits increased 1.2% YTD to RM114.3 billion, current account and savings account (CASA) balances grew 6.2% (CASA mix higher at 26.8%)
- Financial Holding Company (FHC) Common Equity Tier 1 (CET1) capital ratio strengthened to 12.5% (FY20: 12.4%) and Total Capital ratio of 15.9% (FY20: 15.8%)

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer commented, "The banking sector and indeed the world, is facing an unprecedented challenge currently. The COVID-19 pandemic and the resulting Movement Control Order (MCO) suspended many business operations and with rapid monetary easing, this resulted in the narrowing of margins for banks. Despite these challenges, I am satisfied with the Group's overall performance, with underlying net profit growing 6.5% year-on-year. We continue to deliver revenue of over RM1.0 billion for the quarter under review, underpinned by strong trading and investment income, which cushioned the impact of margin compression and net modification loss taken on loans and advances under the moratorium. Costs were well-managed, with cost-to-income (CTI) ratio at 49.3%. The Group's net credit cost for the quarter stood at 16 bps, compared to a net recovery last year. As part of our commitment to assist our customers in need, we have been proactively reaching out to our

[1] All growth percentages computed on year-on-year (YoY) Q1FY21 vs Q1FY20 basis unless otherwise stated. Quarter-on-quarter (QoQ) refers to Q1FY21 vs Q4FY20.
[2] Includes regulatory reserve
[3] On an annualised basis

customers since the MCO was lifted to better understand their financing needs and offer our assistance. In terms of impairment risk to credit portfolios, we foresee that this will only become more apparent in the latter part of the financial year and we continue to exercise credit vigilance as the environment is uncertain. Consequently, the Group has taken a proactive stance, with a pre-emptive macro provision established since the onset of this pandemic of RM177.6 million."

Compared with the preceding quarter (Q4FY20), total income increased 10.4%, reflecting strong Markets trading income and better investment income from General Insurance. Net profit increased 47.5% quarter-on-quarter (QoQ), mainly due to the absence of the macro provision taken in Q4FY20. Excluding the macro provision in both quarters and the net modification loss, the Group's underlying net profit was up by 11.2% QoQ.

As part of the measures to mitigate the economic impact of the COVID-19 pandemic, on 25 March 2020, Bank Negara Malaysia (BNM) announced that effective 1 April 2020, banking institutions are required to provide an automatic deferment of all loan/financing repayments (except for credit card balances) for a period of six months. The financial impact arising from the measures implemented in response to COVID-19 is a net loss of RM57.5 million in Q1FY21 (net modification loss).

Apart from this, the Group provided Special Relief Facility (SRF) financing at a concessionary rate to assist SME businesses adversely impacted by the COVID-19 pandemic. RM751 million of loans have been approved under the SRF scheme to its customers, of which RM585 million loans have been disbursed to-date.

With further reductions in OPR interest rates to support the economy and ample liquidity in the banking system, net interest margin compressed further and as a result, NII fell 8.3% YoY. Excluding the net modification loss resulting from the sector wide measures to temporary defer monthly loan repayments, underlying net interest margin (NIM) was 1.74%, down 13 bps YoY. Offsetting the weaker NII momentum, NoII increased by 21.0% YoY, boosted by strong trading income from Group Treasury and Markets and higher investment income from General Insurance. Overall, total income was higher at RM1,092.4 million, up 2.6% YoY.

The Group continues to exercise good cost discipline. Operating expenses were up by 1.9% YoY to RM538.6 million and CTI improved further to 49.3% from 49.7% a year ago. Consequently, PBP increased by 3.3% YoY, with underlying PBP up 14.1%.

The Group recorded a net impairment of RM49.9 million, compared to a net recovery of RM32.5 million a year ago. An additional RM10.3 million of macro provision was charged this quarter, bringing the total pre-emptive macro provision to RM177.6 million, of which RM167.3 million was taken in the previous financial year. Gross impaired loans ratio stood at 1.66%, with loan loss coverage at 97.0%, inclusive of regulatory reserve of RM382.3 million. The Group is closely monitoring the impact of the economic slowdown on the credit portfolios through stress tests, identifying vulnerable borrowers and conducting regular portfolio reviews as part of the on-going credit vigilance. The Group adopts a multi-pronged approach to debt restructuring and rescheduling (R&R) during the loan moratorium period by providing repayment assistance to our borrowers. The emergence of the impairment risk to the credit portfolios will only be more apparent in the latter part of this year as circa 60% of the loan portfolios are currently under the six-month moratorium which will end on 30 September 2020.

The Group's gross loans and financing of RM107 billion recorded a modest growth of RM201.7million YTD. Mortgages grew RM596.0 million and loans to SME customers increased by RM788.8 million while Wholesale Banking loans fell by RM687.4 million from lower corporate utilisation.

Deposits from customers grew 1.2% YTD to RM114.3 billion. CASA balances registered a growth of 6.2% YTD to RM30.6 billion, with CASA mix higher at 26.8% (FY20: 25.5%).

The Group continued to maintain strong capital and liquidity positions. FHC CET1 ratio and total capital ratio stood at 12.5% and 15.9% respectively. Based on stress testing scenarios, the Group has sufficient loss absorption capacity to maintain capital ratios above both internal capital targets and regulatory requirements. We remained highly liquid, with a liquidity coverage ratio (LCR) of 161.2% and net stable funding ratios[4] (NSFR) of all banking subsidiaries above 100% as at 30 June 2020.

<u>Divisional performance (Q1FY21 vs Q1FY20)</u>

Wholesale Banking – PAT grew 4.1% YoY

Income grew 34.6% YoY to RM407.3 million, contributed by robust fixed income trading gains and higher NII from increase holding in fixed income securities. Expenses were broadly stable YoY. Net recovery was lower at RM5.2 million, when compared to RM106.4 million a year ago. Net profit after tax (PAT) of RM269.3 million, up 4.1%. Gross loans decreased 1.9% YTD to RM34.9 billion from lower customer activities, whilst customer deposits remained stable at RM59.6 million.

Retail Banking – PAT grew 1.0% YoY

Total income of RM342.0 million, fell 4.4% YoY. NII was 2.2% lower, due to margin compression. NoII fell 15.3%, attributable to lower Cards merchant fees. Expenses grew by 2.7% YoY. As the moratorium affects most of Retail Banking borrowers, the suspension of delinquency flow rates had resulted in a lower net impairment charge of RM36.4 million (Q1FY20: RM58.9 million). Overall, PAT increased marginally by 1.0% to RM71.5 million. Gross loans increased RM695.2 million YTD to RM59.6 billion, mainly from mortgages, Retail SME and personal financing. Customer deposits increased 3.9% YTD, driven by CASA and fixed deposits.

Business Banking – PAT grew 5.0% YoY

Income fell 7.4% to RM80.1 million. NII fell 6.0% on margin compression. NoII was 12.0% lower, mainly from lower trade finance related fee income. PAT up 5.0% to RM30.5 million, attributable to lower expenses and lower net impairment charge. Gross loans increased 1.5% or RM172.8 million YTD to RM11.4 billion while customer deposits remained stable at RM7.2 billion.

Investment Banking and Fund Management – PAT grew 36.3% YoY

Overall income increased 7.2% to RM74.9 million, reflecting higher fee income from Fund Management and Equity Markets. Operating expenses fell 5.7% to RM42.8 million. PAT of RM26.5 million, up by 36.3% YoY.

Islamic Banking – PATZ fell 15.7% YoY

Total income fell 8.5% to RM197.7 million mainly due to net modification loss. Operating expenses fell by 3.0%, with net impairment charge of RM32.4 million, up 3.8% YoY. Profit after zakat and taxation fell 15.7% to RM71.7 million.

General Insurance – PAT fell 8.4% YoY

Income grew 11.0% YoY to RM207.6 million, reflecting higher investment income and lower claims, partially offset by lower premiums. Operating expenses increased 41.7% to RM120.2 million from higher marketing cost. Profit after tax fell by 8.4% to RM74.8 million.

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[4] Under observation period

Life Insurance and Family Takaful – PAT of RM21.2 million

The Life Insurance and Family Takaful businesses recorded a PAT of RM21.2 million compared to RM10.7 million a year ago, mainly due to higher investment income, partially offset by higher reserving and lower premiums. 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.

Outlook for FY21

The Gross Domestic Products (GDP) growth for year 2020 is expected to fall between -3.6% and -5.6% following the impact of the COVID-19 pandemic and the measures taken to contain the spread of the virus. The GDP in the first half of 2020 fell by 8.1% on an annual basis, followed by a sharper contraction of 17.1% in the second quarter, reflecting the impact by the lockdowns and MCO. Meanwhile, inflation is expected to remain subdued, due to a lack of demand and cost pressures. Headline inflation is projected to average around -0.6% with room to reduce further to -1.5%. Economic growth in the near term remains challenging.

However, the downside risk to the economy may have eased slightly as reflected by the improving forward looking indicators globally and domestically, supported by the fiscal policy and monetary easing measures. BNM has reduced the Overnight Policy Rate by 125 basis points to 1.75% since January this year. At the same time, BNM lowered the Statutory Reserve Requirement by 100 bps to 2.00% with the aim to increase liquidity. Despite some signs of optimism emerging, concern remains on the risk of a "second wave" adding to the ongoing challenges on the external and domestic front. With the challenging economic backdrop, the banking industry loans growth is likely to be modest, with a flat to 2% growth outlook, compared to 2019's loans growth of 3.9%.

Dato' Sulaiman said, "While there will be downside risks, we are confident that this will be cushioned by the swift introduction of fiscal stimuli and financial measures aimed at supporting economic growth. More stable commodity prices coupled with the current staggered relaxation of the MCO should gradually improve business and consumer sentiments. The easing of global lockdown should also help provide some positive impetus to trade and investment flows in the second half of 2020. At the same time, we are watchful on the emergence of credit risk post moratorium.

We are committed to supporting our customer needs and have established online COVID-19 support, which allows individuals and SME borrowers to submit their requests for our Repayment Assistance Programme easily. We encourage our customers that are currently facing financial difficulties to discuss their repayment needs with us ahead of the expiration of the moratorium period.

For non-SME corporate customers, we have approved the rescheduling and restructuring of circa RM5 billion of outstanding loans to-date. We will continue to engage with our customers and support them during these trying times.

While we acknowledge that COVID-19 poses significant risks, it has also presented the opportunity for us to reassess our position and further strengthen our core operations. In line with the second phase of our BET programme, we will continue to review and streamline our business processes through accelerated focus on digitalisation efforts, robotics and automation initiatives as well as following through our commitment to shaping an agile work culture."

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