RAM RATINGS

Media Release

RAM Ratings upgrades AMMB Group's ratings to AA_2/P1

RAM Ratings has upgraded AMMB Holdings Berhad's (AMMB) long-term corporate credit rating and the long-term financial institution ratings of its banking subsidiaries to AA_2/P1 from AA_3/P1. Concurrent with the upgrade, the outlook on all the ratings has been revised to stable from positive. We have also assigned ratings to AmBank (M) Berhad's Proposed RM8 billion Subordinated Notes Programme, which allows for the issuance of Additional Tier-1 Notes and Tier-2 Notes (see table).

The upgrade reflects the Group's stronger capitalisation following a series of decisive corporate measures as well as broadly sustained key credit metrics. These efforts – including a private placement and the sale of AMMB Group's general insurance outfit – restored its common equity tier-1 capital (CET-1) ratio to the pre-1Malaysia Development Berhad settlement level of 12.6% as at end-June 2023 (without transitional arrangement) compared to 10.4% as at end-March 2021. The sturdier capitalisation provides an improved loss absorption buffer and a more comfortable base for further growth.

The Group's asset quality is healthy despite a higher formation of new impaired loans in 1Q FY Mar 2024, arising primarily from the mortgage and retail small and medium enterprise (SME) portfolios. We do not expect material deterioration in overall asset quality, given management's tight monitoring and aggressive collection efforts. Crucially, these portfolios are largely well-collateralised. The Group is anticipated to keep its gross impaired loan (GIL) ratio at ~2.0% or below (end-June 2023: 1.7%), potentially via writeoffs. GIL coverage (including regulatory reserves) was sound at 104.9% as at end-June 2023.

We view AMMB's funding and liquidity profile to be moderate. Faster loan growth had pushed the net loans to customer funding ratio to 97% as at end-June 2023, but including long-term funding, the ratio was a more comfortable 87%. As at end-June 2023, the Group's liquidity coverage ratio (LCR) and net stable funding ratio were a respective 170% and 104%. The LCR, which is higher after being partly boosted by the early refinancing of tier-2 debt, will normalise in the next quarter.

As with other banks, AMMB faces net interest margin (NIM) pressure. This is primarily due to keen deposit competition in the retail segment, the full impact of deposit repricing and declining current and savings account balances. A larger portfolio of investment securities, which yields less than lending activities, also contributed to the weak NIM. Margin pressure however has likely stabilised. NIM registered at an annualised 1.7% in 1Q FY Mar 2024, from 2.0% in fiscal 2023.

AMMB is at the tail-end of its Focus 8 strategy (FY Mar 2021-FY Mar 2024) which has yielded sound results. The Group is on target to deliver a return on equity of 10% (based on net profit), has expanded its lending portfolio of mid-sized corporations and SMEs to a third of its loan book and, more importantly, improved the granularity of its loan base along the way. We believe AMMB Group is well-placed to fend off incoming competition from digital banks, having observed a steady stream of digital offerings resulting from the Group's investments in internal systems and strategic partnerships with various parties including fintech players. The Group's next planned phase of growth will see it accelerating its coverage of mid-sized corporations and SMEs, strengthening its digital proposition and further optimising its cost structure.

Table 1: Issuer and issue ratings of AMMB and banking entities

	Ratings
AMMB Holdings Berhad	
i. Corporate Credit Ratings	AA_2/Stable/P1
AmBank (M) Berhad	
i. Financial Institution Ratings	AA_2/Stable/P1
ii. RM7 billion Senior Notes Issuance Programme (2010/2040)	AA_2/Stable
iii. RM4 billion Tier-2 Subordinated Notes Programme (2013/2043)	AA_3/Stable
iv. Proposed RM8 billion Subordinated Notes Programme	
- Proposed RM8 billion Tier-2 Subordinated Notes Programme^	AA_3/Stable
- Proposed RM8 billion Additional Tier-1 Notes Programme^	A_2/Stable
(^ combined limit of RM8 billion)	
AmBank Islamic Berhad	
i. Financial Institution Ratings	AA_2/Stable/P1
ii. RM3 billion Senior Sukuk Musyarakah Programme (2010/2040)	AA_2/Stable
iii. RM3 billion Subordinated Sukuk Musyarakah Programme (2014/2044)	AA_3/Stable
AmInvestment Bank Berhad	
i. Financial Institution Ratings	AA_2/Stable/P1

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Date of release: 2 October 2023

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Published by RAM Rating Services Berhad