



Media Release

RAM Ratings downgrades AMMB Group's ratings following 1MDB settlement

RAM Ratings has downgraded the ratings of AMMB Holdings Berhad (the Group) and those of its banking subsidiaries – AmBank (M) Berhad, AmBank Islamic Berhad and AmInvestment Bank Berhad – to AA₃ from AA₂. The outlook on the ratings is stable. All the entities' short-term ratings have been reaffirmed at P1. The rating action is premised on the financial impact of the RM2.83 bil global settlement made by AMMB to the Government of Malaysia in relation to its historical dealings with 1Malaysia Development Berhad. Equivalent to roughly two years' net earnings, the substantial cost will reduce the Group's loss absorption capacity to withstand credit headwinds amid the COVID-19 pandemic.

To be incurred in 4Q FY Mar 2021, the provision for the settlement is estimated to erase 2.5 percentage points from AMMB's common equity tier-1 capital ratio. This brings it to a pro forma 11.3% (adjusted to include 3Q FY Mar 2021 profits) – lower than peers, although still comfortably above the regulatory minimum of 7%. Based on our prudent assumptions, we envisage that it will take about two years for the Group to restore its capital to a level supportive of an AA₂ rating. The high degree of uncertainty over the ultimate impact of COVID-19 on banks' loan portfolios – particularly when all relief measures end – may derail the expected timeframe to replenish the Group's capital.

The planned divestments of AMMB's stakes in its insurance units are credit positive as these may provide cumulative capital uplifts of 0.7 to 0.9 percentage points. These exercises have nonetheless not been taken into account, given the uncertainty over their timing and eventual materialisation. The decision not to propose any final dividends for FY Mar 2021 further reinforces the management's strong commitment to capital restoration.

The stable outlook on the ratings reflects our view that the AA₃ rating has sufficient headroom to withstand potential challenges to the Group's credit metrics amid the ongoing pandemic. AMMB's asset quality has been healthy pre-pandemic. As at end-December 2020, its gross impaired loan ratio stood at a low 1.73% while the Group's provision coverage ratio was a strong 100% (with regulatory reserves). That said – as with other banks – loan defaults are likely to rise when forbearance measures are lifted, although the severity will depend on the strength and speed of the country's

economic recovery. Even so, the Group has judiciously built up its provisioning buffer on a pre-emptive basis over the past year and is anticipated to continue doing so in the coming quarters, albeit at lower levels.

Notwithstanding the large settlement amount, the Group has sufficient liquidity to meet the sum without impairing its funding and liquidity position. Its liquidity coverage ratio is at 156% and the net stable funding ratio of all its operating entities are above 100%. While the one-off payment will put AMMB's full-year FY Mar 2021 in the red, its pre-provision earnings growth demonstrated good momentum, underpinned by loan expansion of 7% y-o-y and tight cost discipline in its recent nine months' results. We believe the Group's continuous enhancements to corporate governance by strengthening controls and processes over the last few years will sustain its franchise in the banking space.

The ratings of various debt securities issued by AmBank (M) Berhad and AmBank Islamic Berhad have also been downgraded by one notch (Table 1).

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

	Ratings
AMMB Holdings Berhad i. Corporate credit ratings	AA ₃ /Stable/P1
AmBank (M) Berhad i. Financial Institution Ratings ii. RM7 billion Senior Notes Issuance Programme (2010/2040) iii. RM4 billion Tier-2 Subordinated Notes Programme (2013/2043)	AA ₃ /Stable/P1 AA ₃ /Stable A ₁ /Stable
AmBank Islamic Berhad i. Financial Institution Ratings ii. RM3 billion Senior Sukuk Musharakah Programme (2010/2040) iii. RM3 billion Subordinated Sukuk Murabahah Programme (2014/2044)	AA ₃ /Stable/P1 AA ₃ /Stable A ₁ /Stable
AmInvestment Bank Berhad i. Financial Institution Ratings	AA ₃ /Stable/P1

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