AmBank Group

Media Release

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AmBank Group strengthens footing with higher net profit of RM711.0 million for H1FY20

AMMB Holdings Berhad (AmBank Group or the Group) today announced its financial results for the half-year ended 30 September 2019 (H1FY20).

Summary of H1FY20 Results[1]

- Total income grew 5.6% to RM2,133.5 million, with a consistent net interest income (NII) growth of 4.6%, and stronger fixed income trading and investment gains
- Expenses remain stable at RM1,054.8 million. Cost-to-income (CTI) ratio improved further to 49.4% from 50.4% a year ago, once again delivering positive jaws
- Profit before provision (PBP) increased by 7.6% to RM1,078.7 million
- Net impairment charge of RM76.6 million (H1FY19: RM17.9 million) largely due to increased gross provisions charged for Wholesale Banking offset by releases and recoveries achieved, a net increase in Business Banking provisions and higher expected credit loss on Retail Banking portfolios
- Net profit after tax and minority interests (PATMI) grew 2.2% to RM711.0 million
- Return on equity (ROE) at 7.9%[2] (H1FY19: 8.2%), with return on assets (ROA) of 1.01%[2] (H1FY19: 1.06%) and basic earnings per share (EPS) of 23.63 sen (H1FY19: 23.13 sen)
- Gross loans and financing at RM102.0 billion, remained broadly stable year-to-date (YTD)
- Loans grew 1.6% YTD, excluding auto loans. Customer deposits was stable at RM102.7 billion, decreased 3.9% YTD
- Impaired loans (GIL) ratio stood at 1.77% (FY19: 1.59%), with loan loss coverage[3] (LLC) ratio of 105.8% (FY19: 114.0%)
- Financial Holding Company (FHC) Common Equity Tier 1 (CET1) capital ratio was higher at 12.6% (FY19: 11.9%) and Total Capital ratio of 16.1% (FY19: 15.4%)
- Higher interim dividend of 6 sen (H1FY19: 5 sen) per share

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "The AmBank Group is pleased to have delivered strengthened results for the first half of the year. We continue to demonstrate good progress with improving trends in our income momentum, operating leverage as well as profitability. Total income for the Group rose 5.6% year-on-year propelled by consistent net interest income growth, stronger trading gains and investment income from Group Treasury and Markets as well as General Insurance. Our unwavering focus on cost efficiency has enabled us to deliver improved CTI. As a result, we were able to achieve a good profit before provision growth of 7.6%. Despite the progressively challenging operating environment compounded by the normalisation of credit costs, the Group recorded a 2.2% increment in net profit year-on-year. In line with the Group's good results, strong capital positions and our

[1] All growth percentages computed on year-on-year (YoY) H1FY20 vs H1FY19 basis unless otherwise stated. Quarter-on-quarter (QoQ) refers to Q2FY20 vs Q1FY20.

[2] On an annualised basis

[3] Includes regulatory reserve

commitment to deliver value to our shareholders, we are pleased to declare a higher interim dividend of 6 sen per share."

The Group's income for the second quarter (Q2FY20) increased 6.1% compared to a year ago (Q2FY19), driven by better lending volumes and strong trading and investment income performance. Compared with the preceding quarter (Q1FY20), income was broadly stable quarter-on-quarter (QoQ) as stronger Group Treasury & Markets trading income and higher NII were mitigated by softer insurance income. Meanwhile, net interest margin (NIM) recovered 4bps to 1.91% (Q1FY20: 1.87%). Quarterly net profit decreased 18.4% QoQ as credit cost increased and the absence of large recoveries achieved in the first quarter.

During the first half of FY2020, the Group's NII increased 4.6% year-on-year (YoY) to RM1,348.7 million, driven by consistent assets growth. NIM contracted 8bps to 1.89%, reflecting lower assets yield following the Overnight Policy Rate (OPR) cut earlier this year. Non-interest income (NoII) of RM784.8 million grew 7.4% YoY, largely contributed by stronger trading income and investment income from Group Treasury and Markets and General Insurance, as well as higher fee income from Funds Management. As a result, total income was higher at RM2,133.5 million, up 5.6% YoY.

The BET300 efficiency programme allows the Group to re-invest some of the savings back into the businesses as well as strengthen our digital capabilities. Operating expenses remained well contained, up 4% YoY to RM1,054.8 million. CTI further improved to 49.4% from 50.4% a year ago, with a positive jaw of 2%. Consequently, PBP grew 7.6% YoY to RM1,078.7 million.

The Group recorded a net impairment charge of RM76.6 million in H1FY20 compared to RM17.9 million in the same period last year. This was mainly due to provisions on several newly impaired Wholesale Banking and Business Banking loans offset by recoveries and releases, as well as higher expected credit loss charges in Retail Banking, and also lower recoveries post retail debt sale. The Group's gross impaired loans ratio stood at 1.77% (FY19: 1.59%), with loan loss cover at 105.8% (FY19: 114.0%). We are cautious and remain vigilant on asset quality given the challenging economic conditions.

Gross loans increased 2.0% YoY, and broadly stable YTD at RM102.0 billion, with growth in Mortgages, Mid Corp, Retail SME and Business Banking loans being offset by corporate loan repayments and the continued decline in auto loans. Excluding auto loans, gross loans expanded 1.6% YTD, more in line with industry growth rates. Gross loans continued to grow in the targeted segments; Mortgage loans increased 3.3% YTD to RM35.2 billion while loans in the Retail SMEs and Business Banking segments grew strongly by 14.5% and 4.6% YTD respectively.

Total customer deposits stood at RM102.7 billion, an increase of 1.9% YoY but down 3.9% YTD. The Group's current accounts and savings accounts (CASA) stood at RM23.4 billion, with higher CASA mix of 22.8%. The lower deposits reflected the Group's liquidity management strategy of reducing surplus liquidity and managing down the costs related corporate and retail term deposits while we continue to drive for CASA growth. Retail CASA increased to 50.3% of total CASA as compared to 46.0% at 31 March 2019.

On liquidity and capital, all banking subsidiaries of the Group have maintained liquidity coverage (LCR) of above 100%. The Group remains well capitalised, with the FHC CET1 ratio improving to 12.6% (FY19:11.9%) and total capital ratio at 16.1% (FY19:15.4%).

Speaking on the Group's recent initiatives, Dato' Sulaiman shared that, "We recently launched our AmBank BizM.A.T.E. programme in collaboration with 17 business partners including Digi, to provide solutions and services in accounting and human resource, communications and Internet, payments and marketing, operations and administration as well as logistics and workspace. Through this partnership, we are able to offer SMEs products and services at a special rate allowing them to leverage on savings, which will potentially help them run their businesses more efficiently.

He added, “We have reached the final chapter of our BizCONFERENCE Beyond Financing Series with a session on ‘Building a Green Business’. We are pleased to have been able to provide insights to SMEs on building a feasible framework for green businesses. With the present concerns on environmental impact, SMEs too should play their role and make the requisite effort to Go Green in their business operations.”

“In addition, we are honoured to be collaborating with the Malaysian Green Technology Corporation (MGTC), also known as GreenTech Malaysia. GreenTech will act as a subject matter expert to support the Group’s readiness to deploy our Green Financing Plan. With this collaboration, we will further strengthen our aim to become a value-based intermediary, with a key focus on financial inclusion and responsible financing.”

Divisional performance (H1FY20 vs. H1FY19)[1]

Wholesale Banking – PAT grew 19.4% YoY

Income was up 16.3% to RM636.4 million, supported by higher NII and stronger financial markets trading gain, partially offset by a non-repeat of gain from disposal of foreclosed properties. Profit after tax (PAT) of RM423.2 million was 19.4% higher, with higher write-back of provisions and recoveries offsetting an increase in gross provisions. Gross loans were lower by 3.0% YTD at RM32.5 billion due to corporate loan repayments while customer deposits were stable at RM49.0 billion.

Investment Banking and Fund Management – PAT grew 12.7% YoY

Income was up 11.4% to RM138.6 million mainly led by fee income growth in Corporate Finance, Private Banking and Funds Management. Funds management’s assets under management (AUM) grew 7.6% YTD to RM43.5 billion. Overall, PAT increased by 12.7% to RM37.9 million.

Retail Banking – PAT fell 17.1% YoY

Total income was unchanged at RM726.7 million. NII grew 1.5% in line with loans growth, offset by lower NoII of 5.1%, principally from lower cards related fee income, which was partially mitigated by higher wealth management fee income. Expenses grew by 2.4%, resulting in a slight reduction in PBP to RM301.2 million. Net impairment charge stood at RM95.7 million (H1FY19: RM61.1 million), with increase in gross provisions charged in line with loans growth as well as lower recoveries post retail debt sale. PAT fell 17.1% to RM156.4 million. Gross loans grew marginally YTD to RM57.6 billion mainly from Mortgages and Retail SME. Customer deposits decreased by 8.7% YTD, largely from fixed deposits.

Business Banking – PAT fell 30.1% YoY

Income increased strongly by 15.4% to RM176.8 million. NII grew substantially by 17.0%, underpinned by good loans and deposits growth. NoII grew 10.4% from higher bank acceptances and banca-assurance fee income. Net impairment charge was higher at RM40.6 million, compared to RM3.1 million a year ago. PAT stood at RM48.4 million. Gross loans expanded by 4.6% YTD to RM10.4 billion while customer deposits grew 6.3% YTD to RM6.2 billion.

Islamic Banking – PATZ grew 32.0% YoY

Islamic Banking income grew by 5.8% to RM435.0 million, with a 3.0% reduction in operating expenses. Net impairment charge of RM52.5 million, decreased by RM27.5 million YoY mainly from writeback of provisions on corporate loans. Profit after zakat and taxation increased by 32.0% to RM181.3 million.

General Insurance – PAT grew 12.0% YoY

Income grew 7.4% to RM358.3 million largely driven by higher investment income and net earned premium, partially offset by higher claims. Operating expenses were well controlled at RM170.8 million, up 1.1%. Consequently, profit after tax increased by 12.0% to RM150.1 million.

Life Insurance and Family Takaful – PAT of RM0.6 million

The Life Insurance and Family Takaful businesses recorded a PAT of RM0.6 million compared to RM17.7 million in the previous year due to higher actuarial reserves coupled with decrease in net earned premium and higher claims. 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.

Prospect for financial year ending 31 March 2020

Dato' Sulaiman commented, "While we can expect challenging external headwinds, the outlook for Malaysia remains stable with GDP projected to grow circa 4.5% in 2019 supported by domestic demand with private consumption taking the lead. Inflation is anticipated to hover around 0.8% for 2019 whilst the policy interest rate is expected to remain unchanged at 3.00% for the rest of the year. In tandem with a moderate economic outlook, the banking system loans growth is expected to grow around 4.6%."

In his closing remark, Dato' Sulaiman said, "We are pleased with the Group's performance in the first half of FY2020, as demonstrated by the good progress made particularly in terms of revenue growth and cost efficiency. Through our BET300 programme, the Group continues to embed cost discipline across all lines of business as we continue to improve our cost efficiency. Moreover, notable progress has been made across targeted segments and products as part of our Top 4 Strategy to place the Group on a stronger and more sustainable growth path. Amidst the softer outlook for the banking sector this year, the Group is resolute in its strategic focus to deliver on revenue growth, cost efficiency and capital accretion."

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