Media Release

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AmBank Group Reports Net Profit of RM1,132 million for FY18

AMMB Holdings Berhad (AmBank Group or the Group) today announced the results for the financial year ended 31 March 2018 (FY18).

Summary of FY18 Results[1]

- Higher income of RM3,979 million, up 5.7% underpinned by good growth in net interest income (NII) (+8.4%). Underlying[2] income up 8.2%. Net interest margin (NIM) up 2bps YoY at 2.00%
- Expenses of RM2,421m, up 12.0% predominantly from the cost of RM146 million incurred on the mutual separation scheme (MSS) exercise which will improve operational efficiency. Underlying expenses up 3.1%
- Profit before provision (PBP) fell 2.9% to RM1,558 million due to one-off expenses incurred. On an underlying basis, PBP increased 15.8% YoY
- Net impairment charge was RM16 million (FY17: Net recovery of RM196 million) as recoveries and releases tapered
- Net profit after tax and minority interests (PATMI) at RM1,132 million (-14.5%), with underlying PATMI flat YoY
- Return on equity (ROE) of 7.0%, return on assets (ROA) of 0.83% and basic earnings per share (EPS) of 37.64 sen. Underlying ROE and basic EPS of 7.3% and 39.97 sen respectively
- Cost-to-income (CTI) ratio at 60.8%, with underlying CTI at 57.2%
- Gross loans increased 5.9% to RM96.3 billion, led by Mortgages which grew 22.9% while Small and Medium Enterprises (SME) loans registered an encouraging growth of 19.2%
- Gross impaired loans (GIL) ratio improved to 1.70% (-16bps lower) and loan loss coverage increased to 100.5% (FY17: 79.7%)
- Common Equity Tier-1[3] (CET 1) Capital ratio at 11.3%, Total Capital[3] ratio at 16.6%

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "For FY18, we stepped up income growth momentum and closed the year with a growth of 5.7% compared with 1.9% growth in FY17. In Q4FY18, our income reached RM1,071 million, the highest recorded since Q4FY15.

Income growth was primarily driven by NII, registering an 8.4% increase YoY from loans growth of 5.9% and higher interest income from fixed income securities. The diversification of our funding mix through increasing non-wholesale deposits composition whilst reducing term funding resulted in a reduction in cost of funds, with NIM up to 2.00% from 1.98% a year ago.

Non-interest income (NoII) was broadly flat YoY due to significant gains arising from two exceptional transactions in FY17. Excluding the impact of these normalised items, we continue to gain traction from our Top 4 focus products. Our appointment as Amanah Saham Nasional Berhad's agent saw our Wealth Management's NoII record an exceptional growth of 63.3% YoY, mainly from unit trust and bancassurance

[1] All growth percentages computed on year-on-year (YoY) FY18 vs FY17 basis unless otherwise stated.

[2] Underlying refers to the financial performance adjusted for one-off, infrequent and normalised items as summarised on page 5

[3] After deducting proposed dividends, based on aggregated banking entities

commissions. Markets NoII grew 21.2% YoY on the back of higher fixed income and foreign exchange trading gains."

Dato' Sulaiman added, "Our CTI stood at 60.8% attributable to the MSS cost of RM146 million and one-off charge for Retail operational losses amounting to RM47 million. The MSS exercise was introduced as part of the Group's effort to streamline processes and strengthen operational efficiency, which in turn is expected to deliver cost savings of approximately RM80 million per annum. We will continue to manage cost diligently through BET300, a 3-year business efficiency programme, which aims to achieve RM300 million gross cost efficiencies across the Group.

Stripping off MSS and other normalised items, underlying PBP grew an encouraging 15.8%. Management's focus is on growing income whilst keeping a close tab on expenses. By stepping up our revenue growth momentum coupled with a tight cost management, we expect this to translate into a healthier bottom line improvement.

In FY18, credit cost normalised further as recoveries tapered off in Retail and Wholesale as well as lower releases of collective allowances as credit quality improved. The Group's asset quality remained resilient with loan loss coverage increasing to 100.5% while GIL ratio improved to 1.70% as compared to 1.86% a year ago.

Our loans and financing base expanded 5.9% YoY to RM96.3 billion supported by a consistent growth in our targeted segments. Mortgage loans grew 22.9% YoY or by RM5.0 billion to RM26.9 billion while SME loans grew a robust 19.2% YoY or by RM2.7 billion to RM16.7 billion. Card receivables, another key growth product, also recorded double digit growth of 17.6% YoY to RM2.0 billion.

Customer deposits grew RM1.9 billion or 2.0% YoY to RM95.8 billion. We are pleased that our efforts to diversify our funding mix, with Retail and Business Banking deposits increasing by 24.1% and 28.0% respectively. This outcome further improved our funding resiliency. Current accounts and savings accounts (CASA) grew by 2.6% YoY. We are enhancing our cash management platform as well as leveraging our new merchant portal to improve our CASA mix from its current 21.3%. Our merchant CASA balance saw an increase of RM289 million YoY, in part due to AmBank successfully becoming the first bank in Malaysia to offer card merchants an instant settlement feature along with real time merchant on-boarding.

On liquidity and capital, our banking subsidiaries maintained liquidity coverage ratios in excess of the regulatory minimum requirements. The Group's aggregated capital adequacy ratio remains adequate at 16.6%.

During the financial year, the Group completed a detailed impact assessment on all aspects of MFRS 9. Following this assessment, our capital position is expected to be largely neutral on 1 April 2018 with the adoption of MFRS 9. While we expect to see an increase in loan loss allowance, this increase will also be offset by gains on revaluation of securities to mitigate the impact to capital upon the adoption of MFRS9."

Speaking on some of AmBank Group's new initiatives, Dato' Sulaiman updated that, "Digitalisation continues to be high on our agenda as we continue to intensify the digital banking experience and services for our valued customers with the official launch of our enhanced internet banking platform, the all-new AmOnline, on 13 April 2018. We are proud to be the first online banking platform in Malaysia to be equipped with a multi-lingual selection of English, Malay or Chinese which caters to the diverse background of our customers. Our total AmOnline users stood at approximately 500,000 users as of March 2018, and we expect this amount to double by the end of the year. We are also at the development stage of a virtual assistant chatbot service. This chatbot will enable us to provide smooth, round-the-clock customer support to our customers. E-wallet is another initiative that we are exploring at the moment. These are indeed exciting developments on our digital front, and I look forward to sharing more with you as we progress."

Divisional performance[1]

Wholesale Banking

Total income of RM1,398 million, was marginally lower by 2.1% YoY. NoII was lower by 10.9% YoY, largely from the non-repeat of a large fixed income trading gain in the last financial year whilst gain on sale of foreclosed property was lower this year. This was offset by steady NII growth, up 6.9% YoY to RM755 million supported by Transaction Banking and higher interest income from investment in fixed income securities. Operating expenses were flat at RM507 million. Net impairment at RM20 million, down 22.8% YoY mainly due to lower individual provisions and higher collective provisions written-back.

Gross loans and financing decreased by 6.1% YoY to RM34.1 billion while deposits from customers fell 18.4% YoY from lower corporate term deposits as part of portfolio repositioning.

Business Banking

Business Banking, a newly established division in FY18, achieved total income of RM259 million, an 18.7% increase YoY from growth in NII (+18.8% YoY) and NoII (+18.4% YoY).

Operating expenses reflected our investments in 26 new Enterprise Banking centres as well as growth in the sales force. Net impairment stood at RM33 million and profit after tax was RM108 million as a result of higher operating expenses and higher provisions.

Gross loans and financing expanded strongly by 30.5% YoY to RM7.7 billion. Deposits from customers grew 28.0% YoY to RM4.2 billion.

Retail Banking

Total income increased 6.8% YoY to RM1,453 million. NII grew marginally (+1.5% YoY) as Mortgages loans expansion was partly offset by retail asset yield compression. NoII grew strongly, up 33.7% YoY, with Wealth Management achieving a 63.3% income growth YoY while we also benefitted from a one-off gain from investment revaluation during the year.

Operating expenses grew 8.4% YoY which included a RM47 million one-off operational loss. Excluding this, underlying operating expenses grew 3.3%. Net impairment stood at RM51 million compared to a net-write back of RM22 million last year, largely due to lower recoveries, partially offset by lower allowances.

Gross loans and financing increased 11.8% YoY to RM54.6 billion with contribution from Mortgages, Retail SME, Personal Financing and Cards. Retail deposits grew 24.1% YoY to RM49.3 billion mainly from fixed deposits.

Islamic Banking

The Group's Islamic Banking business continued to be a key part of our respective lines of businesses providing customers with alternative shariah-compliant financial solutions. Islamic Banking business recorded an income growth of 13.0% YoY driving profit before provision up 28.4% YoY. This was partially offset by an increase in provisions, with profit after tax and zakat up 0.8% YoY.

General Insurance

General Insurance registered a lower net earned premium of RM1,390 million, a 3.3% decrease YoY due to lower gross written premium. However, this was more than offset by lower insurance net claims which fell 12.1% YoY to RM795 million. Loss ratio reduced to 57.2% from 62.9% a year ago. Consequently, total income was up 18.8% YoY to RM629 million with key contributors being higher trading and investment income and lower claims. Operating expenses rose 2.5% YoY to RM347 million. Profit after tax saw a significant increase of 45.2% YoY to RM246 million.

Life Insurance and Family Takaful

Life Insurance business increased its net earned premium by 30.9% YoY to RM454 million whilst insurance net claims was up marginally YoY. The business however reported a loss after tax of RM1 million due to higher loss on actuarial revaluation.
Family Takaful recorded an increase in net earned premium of 62.3% YoY to RM77 million. Actuarial valuation losses increased to RM57 million resulting in a loss after tax position of RM21 million compared to the loss after tax of RM9 million recorded for FY17.

The Group equity accounted the results of the Life Insurance and Family Takaful businesses to reflect the Group's effective equity interests in the joint ventures. The Group's share of losses from the joint ventures stood at RM11 million.

Outlook for FY 2019

Following the victory of Pakatan Harapan (PH) in the 14th General Election, the smooth transition of power reflects the democratic maturity of Malaysians. Tun Dr. Mahathir Mohamad who has been sworn in as the 7th Prime Minister, comes with a strong track record and credibility. To boost the confidence of investors and households, Tun Dr. Mahathir established the "Council of Eminent Persons" to assist PH in fulfilling its key manifesto within 100 days such as replacing Goods and Services Tax (GST) with Sales and Services Tax (SST), reintroducing subsidy for electricity and fuel, and reviewing toll and construction projects as well as the previous Government's business dealings. This has eased underlying worries as reflected by the performance of the Malaysian Ringgit (MYR), the country's risk aversion, bond yields and the local stock market.

With confidence being restored swiftly, we maintain our 5.5% forecast Gross Domestic Product (GDP) for 2018 (2017: 5.9%) underpinned by private expenditure on the back of improving business sentiments and consumer spending, ongoing infrastructure activities, more business-friendly regulatory environment and stronger exports. Meanwhile, inflation is anticipated to be moderate around 2.5% - 2.8% in 2018 (2017: 3.8%), reflecting stronger Ringgit against the US Dollar outlook.

The banking system's loans growth is expected to be around 5.0% in line with the projected GDP growth of 5.5% in 2018. We foresee the banks' net interest margin to improve modestly in 2018 as a result of the banks' repricing their loans to compensate for higher provisioning under MFRS 9 as well as benefiting from the recent Overnight Policy Rate hike.

Speaking on the priorities for FY19, Dato' Sulaiman commented, "We have passed the halfway point of our 4-year strategic transformation agenda and we remain committed to our aspiration to be a Top 4 bank. Overall FY18 has been a year of rebasing to provide us with a solid platform to grow in FY19. Our significant investments towards building capabilities, improving our compliance culture and related infrastructure as well as optimising our organisational structure have set strong foundations for the Group to build on as we move forward with our Top 4 strategy.

For FY19, our financial priorities will be centred on the following:

1. Revenue growth: We will continue to focus on driving our income growth momentum, in line with our key segments and products strategies. We will focus on CASA growth as one of our key priorities.

2. BET300: This 3-year efficiency initiative will help us achieve our CTI target of 55% in FY19. We will continue to keep a tight rein on cost, pacing our investments while continuing to look for operational efficiencies.

3. Capital accretive growth: We aim to strengthen our capital position further and deliver sustainable dividend payout to our shareholders. To achieve this, we are considering several capital release options and we will also drive initiatives to improve our returns on risk-weighted assets (RWA).

Key metrics have been put in place to measure the outcomes of these priorities. We will increase the pace of execution and run the bank better for our customers and shareholders."

Reported versus Underlying

Normalised P&L (RM'mil)	**FY17**	**FY18**	**YoY Change**
Income – Reported	3,766	3,979	▲ 5.7%
Gain on disposal of foreclosed properties	108	45	
Investment share revaluation	-	42	
Fixed income trading gain	60	-	
Income – Underlying	**3,598**	**3,892**	**▲ 8.2%**
Expenses – Reported	2,160	2,421	▲ 12.0%
Retail operational loss	-	47	
Mutual separation scheme	-	146	
Expenses – Underlying	**2,160**	**2,228**	**▲ 3.1%**
PBP – Reported	1,605	1,558	▼ 2.9%
PBP – Underlying	**1,438**	**1,664**	**▲ 15.8%**
PATMI – Reported	1,325	1,132	▼ 14.5%
PATMI – Underlying	**1,197**	**1,202**	**▲ 0.4%**

Normalised Ratios	**FY17**	**FY18**	**YoY Change**
CTI – Reported	57.4%	60.8%	▲ 340bps
CTI – Underlying	**60.0%**	**57.2%**	**▼ 280bps**
ROE – Reported	8.5%	7.0%	▼ 1.5%
ROE – Underlying	**7.7%**	**7.3%**	**▼ 0.4%**

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