AmBank Group

Media Release

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AmBank Group Achieved Higher Net Profit of RM348 million for Q1FY19

AMMB Holdings Berhad ("AmBank Group" or "the Group") today announced the financial results for the first quarter ended 30 June 2018 (Q1FY19).

Summary of Q1FY19 Results[1]

- Higher income of RM1,014 million, up 3.2% supported by higher net interest income (NII) (+4.7%). Net interest margin (NIM) stable at 2.02%
- Expenses down 7% to RM513 million, reflecting savings from lower headcount and business efficiency initiatives
- Profit before provision (PBP) of RM501 million, up 16.7%
- Negligible net debt charge of RM7 million (Q1FY18: Net recovery of RM20 million)
- Net profit after tax and minority interests (PATMI) at RM348 million, up 5.9%
- Return on equity (ROE) of 8.3%[2], return on assets (ROA) of 0.99%[2] and basic earnings per share (EPS) of 11.56 sen
- Cost-to-income (CTI) ratio improved to 50.6% from 56.3 % in Q1FY18
- Gross loans and financing grew 2.2% year-to-date (YTD) to RM98.4 billion
- Gross impaired loans (GIL) ratio of 1.77%, loan loss cover[3] (LLC) ratio higher at 106.3% (FY18: 100.5%)
- Common Equity Tier-1 (CET 1) Capital ratio at 11.6%, Total Capital ratio of 16.4%

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer said, "After a year of putting in place a series of fundamental changes, we have today a solid platform to grow further, as our Q1FY19 results point to a reasonable start to the new fiscal year. Our Q1FY19 income growth was broad based. NIM remained stable at 2.02%. Our operating leverage improved with CTI of 50.6%. We saw a strong pre-provision profit growth of 16.7% compared to 3.2% in Q1FY18. At RM501 million, this is the highest PBP recorded since Q4FY15, a testament to the strength of our Top 4 strategy. Credit costs were still negligible considering our asset base. Overall, we recorded higher profitability and improved returns in Q1FY19."

"NII continued to grow steadily at 4.7% YoY to RM642 million, paced by the consistent loans growth of 2.2% on a year-to date (YTD) basis with good traction in our targeted segments. Non-interest income (NoII) was flat YoY at RM372 million. Wealth Management fee income continued to increase with a 8.7% growth YoY coupled with improved performance from our Insurance business, mitigating Global Markets and Investment Banking results which were impacted by weaker market sentiments."

"As a result of our concerted efforts over the past year to implement a philosophy of stronger cost discipline, expenses were down 7% YoY to RM513 million. Our cost base is now leaner following the completion of the Mutual Separation Scheme (MSS). Other operational expenses were also reduced as we continue to manage costs diligently through BET300, our 3-year business efficiency transformation aimed at achieving RM300 million gross cost savings across the Group. CTI was lower at 50.6% with positive JAWS of 10.5%."

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[1] All growth percentages computed on year-on-year (YoY) Q1FY19 vs Q1FY18 basis unless otherwise stated
[2] On an annualised basis
[3] Includes regulatory reserve

"Our credit cost continued to normalise. We recorded a net debt charge of RM7 million, still a negligible amount against a gross loan base of RM98.4 billion. Our asset quality remained resilient with higher LLC[3] of 106.3% and GIL ratio at 1.77%."

Speaking on loans growth, Dato' Sulaiman said that, "We continue to see good loans growth in our targeted segments. Mortgage loans maintained its growth momentum and expanded by 4.8% YTD to RM27.7 billion. Loans to small and medium enterprises (SME) grew 2.8% YTD to RM17.2 billion. Card receivables were up 4.3% to RM2.1 billion. All in all, we are encouraged by the 8th consecutive quarter of loans growth."

"Our customer deposits grew 2.9% YTD to RM98.6 billion whilst our current accounts and savings accounts (CASA) increased by 2.1% YTD. We remain focused on driving CASA as well as Retail and Business Banking deposits to improve our funding resiliency. Our retail deposit mix increased to 53.9% from 51.5% on 31 March 2018. Our CASA composition stood at 21.1%."

"On liquidity, our banking subsidiaries have maintained liquidity coverage and net stable funding ratios (NSFR[4]) above 100%. Our capital levels were adequate with CET1 Capital ratio at 11.6%, up 30 basis points (bps) from 31 March 2018 whilst Total Capital ratio stood at 16.4%, down 20 bps."

"The Group adopted Malaysian Financial Reporting Standard 9 on Financial Instruments (MFRS 9) on 1 April 2018. The impairment assessment under MFRS 9 is based on the expected credit loss model, which uses forward-looking assumptions, as opposed to MFRS 139, the preceding accounting standard, which based impairment assessment on an incurred loss model. The Day-1 (i.e. on 1 April 2018) impact to the Group's capital position was broadly neutral."

Commenting on the highlights for Q1FY19, Dato' Sulaiman said that, "We have just established an e-payment partnership with Digi as we continue to step up to our digital offerings in line with our efforts to drive digital transformation. This strategic tie-up allows our card merchants to accept Digi's vcash QR code as an additional payment service. Apart from enabling our merchant point-of-sale (POS) terminals to accept vcash QR code transactions, Digi will also be signing up SME merchants under the Master Merchant programme with AmBank to enlist more merchants to accept vcash payments."

"On the environmental, social and governance (ESG) front, I am pleased to share that AmBank Group has been included as a constituent of the FTSE4Good Index Series in July 2018. This recognition reflects our commitment in advocating strong ESG practices in our day-to-day operations."

Divisional performance[1]

Wholesale Banking

Total income stood at RM318 million, down 6% YoY. NII increased 5.1% YoY to RM195 million on improved margin. NoII reduced by 19.4% YoY to RM123 million due to lower gains from trading and revaluation of securities cushioned by gain on disposal of foreclosed property.

Operating expenses reduced by 13.9% due to the flow through from the MSS exercise and savings from operational efficiencies. Net recovery of RM43 million from higher write-back of collective allowance and recoveries. Consequently, profit after tax (PAT) was higher at RM189 million, up 18.1% YoY.

Gross loans grew 1.8% YTD to RM34.8 billion principally from growth in mid corporate lending. Wholesale deposits contracted by 1.8% YTD as the Group continued to pare down the more expensive corporate deposits.

[4] Under observation period

Business Banking

Total income increased 24.3% YoY to RM75 million driven by higher business volume. NII grew 23.6% YoY to RM56 million whilst NoII grew 26.2% YoY to RM19 million.

Operating expenses rose 23.3% YoY to RM21 million from higher personnel cost as investments were made with a view towards growing the business. Net impairment charge was lower at RM2 million while PAT was up 56.4% YoY to RM40 million.

Gross loans grew 3.8% YTD to RM8 billion whilst customer deposits expanded by 5.9% YTD to RM4 billion.

Retail Banking

Total income recorded 2.0% growth YoY to RM363 million. NII was up 3.4% from consistent growth in loan assets. NoII reduced by 3.5% YoY largely from lower cards related fee income.

Operating expenses decreased by 6.0% YoY to RM225 million. Net debt charge was higher at RM42 million (Q1FY18: RM13 million) attributable to higher non-performing loans provision and lower recoveries. PAT of RM73 million, down 7.8% YoY.

Gross loans expanded by 2.1% YTD to RM56 billion and retail deposits increased 7.8% YTD to RM53 billion.

Islamic Banking

Islamic Banking reported a higher profit after zakat and taxation of RM73 million, up 52.3% YoY. The higher profit was mainly due to lower operating expenses, higher net finance income and lower allowance for impairment on financing and advances (mainly from lower collective impairment for financing and advances) offset by higher provision for commitment and contingencies.

General Insurance

General Insurance recorded a lower net earned premium of RM336 million, a decrease of 5.1% YoY due to lower gross written premium from Motor and Personal Accident. This was offset by a decrease in net claims, which reduced by 20.3% YoY to RM159 million. Consequently, total income was up 1.3% YoY to RM168 million and loss ratio improved by 9% YoY to close at 47%. Operating expenses decreased 7.1% YoY to RM81 million. PAT was flat at RM73 million on higher tax provisions.

Life Insurance and Family Takaful

Life Insurance business reported higher net earned premium of RM103 million, up 24.4% YoY. Insurance net claims was lower by 4.2% YoY whilst gain from actuarial valuation was RM14 million (Q1FY18: loss of RM30 million). Consequently, PAT improved to RM27 million (Q1FY18: net loss of RM9 million).

Family Takaful recorded a 54.4% YoY increase in net earned premium to RM18.7 million driving total income up by 78.7% YoY to RM8 million. PAT closed at RM0.3 million compared to a loss after tax of RM2 million in Q1FY18.

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.

Prospects for financial year ending 31 March 2019

Malaysia's Gross Domestic Product (GDP) grew 4.5% in the second quarter of 2018 supported by private sector and exports. The economy is projected to grow around 4.8% to 5.0% for the full year of 2018 aided by private expenditure on the back of improving consumer sentiment and higher disposable income. Exports are expected to move in-tandem with the projected 3.6% global growth while the firmer commodity price will add some impetus to the economy.

Inflation in the first half of 2018 was 1.6%. We envisage 2018 inflation to be circa 1.5%. While global energy and commodity prices are expected to be firmer, the high base effect coupled with a fairly stable ringgit and the reintroduction of fuel subsidy, should alleviate the pressure for the second half of 2018.

In his concluding remark, Dato' Sulaiman said that, "Our Q1FY19 results marked a reasonable start to the new financial year with PATMI growth of 37% as compared to Q4FY18. We are on track to achieve our full year CTI target of 55%. We will continue to maintain our focus on driving income and CASA growth as well as manage cost diligently through our BET300 programme to attain operational efficiencies while emphasising capital accretive growth."

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