29 June 2020

AmBank Group achieved net profit of RM1,341 million for FY20.
Underlying net profit up 15.4%, driven by strong revenue and profit before provisions out turn
Total dividend of 13.3 sen per share for FY20

AMMB Holdings Berhad (AmBank Group or the Group) today announced its financial results for the financial year ended 31 March 2020 (FY20).

Summary of FY20 Results[1]

- Total income rose 7.8% to RM4,227.2 million, as a result of net interest income (NII) growth of 7.5% to RM2,773.9 million and non-interest income (NoII) growth of 8.3% to RM1,453.2 million
- Expenses lower by 1.1% to RM2,108.2 million, driven by operational efficiency initiatives. Cost-to-income (CTI) ratio improved further to 49.9% (FY19: 54.3%)
- Profit before provisions (PBP) increased by 18.3% to RM2,119.0 million
- Net impairment charge of RM336.1 million (FY19: net recovery of RM303.8 million), after taking pre-emptive macro provision of RM167.3 million in the fourth quarter (Q4FY20)
- Gross impaired loans (GIL) ratio of 1.73% (FY19: 1.59%), with loan loss coverage[2] (LLC) ratio at 93.4% (FY19: 114.0%). Regulatory reserve of RM387.5 million, together with total expected credit loss allowances, represent 1% of total credit exposures
- Net profit after tax and minority interests (PATMI) declined 10.9% to RM1,340.7 million. Underlying PATMI was up 15.4% (adjusted for the gain on retail debt sales of RM285.0 million in FY19 and the macro provision of RM167.3 million in FY20)
- Return on equity (ROE) lower at 7.4% (FY19: 8.8%), with return on assets (ROA) of 0.93% (FY19: 1.08%) and basic earnings per share (EPS) of 44.6 sen (FY19: 50.0 sen)
- Gross loans and financing grew 5.3% to RM107.2 billion. Customer deposits increased 5.7% to RM113.0 billion, current account and savings account (CASA) balances up by 15.9% (CASA mix higher at 25.5%)
- Financial Holding Company (FHC) Common Equity Tier 1 (CET1) capital ratio strengthened to 12.4% (FY19: 11.9%) and Total Capital ratio of 15.8% (FY19: 15.4%)
- Final dividend of 7.3 sen per share (FY19:15.0 sen), total dividend payout of 30% as additional prudent measure

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer commented, "With the end of the 2020 fiscal year, we mark the conclusion of AmBank Group's Top 4 Strategy. Over these four years, we have made significant strides in transforming our business. The strong growth we have been able to record in our targeted segments and products is testament to the success of our strategy."

"We also placed targeted emphasis on strengthening our digital capabilities and strategic partnerships. Equally, we have improved our operating leverage, rationalised our cost base and established a much firmer

[1] All growth percentages computed on year-on-year (YoY) FY20 vs FY19 basis unless otherwise stated. Quarter-on-quarter (QoQ) refers to Q4FY20 vs Q3FY20.

[2] Includes regulatory reserve

foundation for the Group. Clearly, we have a stronger balance sheet now and we are well-capitalised and more diverse in our liquidity profile compared to just four years ago. We are certain AmBank Group is on a strong footing to navigate the economic uncertainties and challenges, particularly given the current COVID-19 pandemic. We remain committed to support our people, customers and communities during this unprecedented period.

"We started FY20 strongly, achieving over RM1.0 billion of core revenue in the first three quarters of the year, with higher net interest income and stronger trading and fee income, while the final quarter's performance was impacted by the COVID-19 pandemic. Operational efficiency continued to improve our operating leverage, with cost-to-income ratio at 49.9%, from 54.3% a year ago. Consequently, the Group's profit before provisions grew by 18.3%. In light of the economic disruption resulting from the COVID-19 pandemic and amidst the decrease in global oil price, the Group has set aside an additional macro provision of RM167.3 million in the fourth quarter to reflect a more challenging outlook. As a result, our net credit cost for the year increased to 30bps from a net recovery position last year. Higher net provisions impacted our PATMI which stood at RM1,340.7 million. However, included in the previous year's result was a one-off gain from the retail NPL sale of RM285.0 million. In fact, our underlying PATMI of RM1,467.9 million was up 15.4% year on year, after normalising the one-off gain and the additional macro provision that was set aside as additional prudence."

"We are pleased to declare a final dividend of 7.3 sen per share, bringing total dividend for the year to 13.3 sen and a dividend payout ratio of 30%. This year's payout is a reflection of a more cautious outlook, in the light of the economic impact of the COVID-19 pandemic in the near term."

Total income was up 7.8% year-on-year (YoY) to RM4.2 billion, led by broad-based revenue growth across divisions. Net interest income grew 7.5% YoY, reflecting consistent assets growth and improved NIM (up 5 bps YoY) to 1.94%. NOII growth of 8.3% was bolstered by strong Markets trading gains and higher investment banking and fund management fee income.

The Group's expense growth was well-managed, down 1.1% YoY to RM2.1 billion. This was attributable to the Group's BET300 efficiency programme and cost discipline, allowing the Group to continue investing in people, infrastructure and digital capabilities. This improvement in efficiency resulted in a positive JAWS of 9%, driving PBP growth of 18.3% YoY to RM2.1 billion.

Net impairment charge increased to RM336.1 million in FY20, compared to a net recovery of RM303.8 million in FY19. Credit costs have normalised, coupled with lower recoveries post the retail debt sale last year. With the macro provision of RM167.3 million to reflect the future economic uncertainties, the Group's net credit cost stood at 30 bps. Gross impaired loans ratio increased 14bps to 1.73%; loan loss coverage at 93.4%, inclusive of a regulatory reserve of RM387.5 million. The Group continues to closely monitor the impact of COVID-19 pandemic on our credit portfolios during the moratorium period. Approximately RM65 billion, or 61% of the Group's total loans in the retail and SME segments are under the Bank Negara's repayment moratorium until 1 October 2020.

The Group's gross loans and financing base expanded 5.3% YoY to RM107.2 billion with diversified growth in all segments and products, barring auto finance. With the exclusion of auto finance, the Group's gross loans grew 8.7% in FY20. Mortgage loans, the main driver of loans growth, increased by RM2.4 billion or 7.0% during the year. This was followed by loans to the SME and Mid Corporate segments, Business Banking loans was up 12.9%, Mid Corporate 9.5% and Retail SME 34.8%.

The Group's customer deposits grew in line with gross loans and financing, with an increase of 5.7% YoY to RM113.0 billion. CASA balances registered robust growth of 15.9% YoY to RM28.8 billion, with CASA mix higher at 25.5% (FY19: 23.3%).

The Group's FHC CET1 ratio and total capital ratio have increased to 12.4% and 15.8% respectively. Based on stress testing scenarios, the Group has sufficient loss absorption capacity to maintain capital ratios above both internal capital targets and regulatory requirements. We have maintained sound funding and liquidity metrics with the Group's liquidity coverage ratio (LCR) at 158.2% and net stable funding ratios[3] (NSFR) of all banking subsidiaries above 100% as at 31 March 2020.

<u>Top 4 Strategy</u>

Reflecting on the conclusion of AmBank Group's Top 4 Strategy, Dato' Sulaiman said, "We embarked on our Top 4 strategic roadmap in April 2016 with the aims to:

- deliver sustainable returns and revenue growth,
- gain market share in targeted segments and key products,
- enhance operational efficiency, and
- build capabilities across the Group.

Today, as we reach the end of phase one of our transformation journey, I am pleased to note the many tangible achievements recorded by the Group over these past four years.

Firstly, we have successfully transitioned from our concentration in auto finance and corporate lending and we have done this by achieving above market growth as part of our diversification efforts in our Top 4 targeted segments, namely SME, Mid Corporate and Retail affluent and mass affluent customers. Testament to that, lending to the SME segment has grown by 1.7 times since FY16 to RM20.6 billion in FY20. Meanwhile, our affluent and mass affluent customer segments have collectively expanded by 2.4 times since FY16. Our gross loans and customer deposits grew at a compound annual growth rate (CAGR) of 6% over the last four years, outperforming our peers' CAGR growth of 4% and 3% respectively for the same period.

Secondly, our fundamentals have vastly improved in terms of income momentum, operating leverage and the resilience of our balance sheet. Our BET300 efficiency programme has allowed us to garner total gross cost savings of over RM360 million over the three-year period, well above our initial target. This has improved CTI from 58.8% in FY16 to 49.9% in FY20. As we continuously optimise our capital structure and improve the efficiency of risk weighted assets, our CET1 ratio has improved to 12.4% as of FY20 from circa 10.3% in FY16. We further strengthened our asset quality by resolving some large corporate non-performing loans and completed the retail NPL debt sale.

On digital capabilities, we launched the new AmOnline application in April 2018, which saw its user base expanded threefold to approximately 1 million registered users over the course of two years. With the evolving digital landscape and integration, we will continue to invest in our franchise and digitisation to better serve our customers. It is also imperative for us to leverage our distribution footprints and collaborate with strategic partners to solidify our position in the digital ecosystem.

Overall, we have achieved most of the key metrics set out in the Top 4 Strategy and our results are testament of our ability to execute. We look forward to the next phase of transformative growth as the Group operates under our refreshed strategy and business plans."

[3] Under observation period

Divisional performance (FY20 vs. FY19)[1]

Wholesale Banking – PAT fell 1.4% YoY

Income stepped up by 14.9% YoY to RM1,237.0 million. NII increased by 10.8% on the back of higher loans base and treasury assets as well as improved margin. NoII grew 25.2% underpinned by robust Markets trading gain. Profit after tax (PAT) of RM772.0 million was marginally lower by 1.4% YoY, largely attributed to higher operating expenses and lower net recoveries. Gross loans grew 6.2% YoY to RM35.6 billion whilst customer deposits grew 22.5% YoY to RM60.0 billion.

Retail Banking – PAT fell 44.6% YoY

Total income of RM1,466.3 million, up 1.2% YoY. NII rose 2.8%, offset by lower NoII (-6.1%) mainly attributable to lower Cards merchant fees. Retail Banking recorded a net impairment charge of RM187.1 million (FY19: Net recoveries of RM139.0 million). PAT decreased 44.6% to RM315.2 million, mainly due to non-repeat of RM285.0 million gain from retail debt sale. Gross loans grew 3.6% YoY from mortgages, retail SME and cards. Customer deposits decreased by 11.8%, largely from fixed deposits; CASA balances were up by 13.6%.

Business Banking – PAT was flat YoY

Income grew 13.4% to RM366.3 million. NII increased 13.7%, in line with gross loans. NoII rose by 12.6% from higher loans related fee income, bancassurance commission and foreign exchange sales. Net impairment charge stood at RM57.0 million, as compared to RM30.7 million a year ago. PAT was flat at RM125.6 million, impacted by higher impairment. Gross loans increased 12.9% to RM11.2 billion. Customer deposits also recorded a double digit growth of 23.3% YoY to RM7.2 billion.

Investment Banking and Fund Management – PAT grew 61.3% YoY

Overall income increased 26.0% to RM305.4 million, reflecting higher fee income from Debt Capital Market, Private Banking and Fund Management. Operating expenses increased by 7.4% to RM186.7 million. PAT at RM98.3 million, up by 61.3% YoY.

Islamic Banking – PATZ grew 8.5% YoY

Islamic Banking income grew by 8.5% to RM908.8 million, with a 3.1% reduction in operating expenses. This was offset by an increase of RM57.9 million net impairment charge to RM154.9 million. Profit after zakat and taxation increased by 8.5% to RM351.7 million.

General Insurance – PAT grew 15.2% YoY

Income was relatively flat YoY at RM594.1 million as higher net earned premium and investment income were offset by increase in claims and commission. Operating expenses fell 3.2% to RM338.1 million. Profit after tax increased by 15.2% to RM228.1 million.

Life Insurance and Family Takaful – Loss of RM9.9 million

The Life Insurance and Family Takaful businesses recorded a loss after tax of RM9.9 million compared to a PAT of RM12.3 million last year mainly due to lower investment income, higher claims and reserving. 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.

Outlook for FY21

For 2020, Malaysia's GDP growth is projected to be between 0.4% to -2.0%, impacted by the COVID-19 pandemic and the ensuing Movement Control Order (MCO). Meanwhile, inflation is expected to be between 0.5% and -1.5%, given the weaker global oil prices and subdued demand. Bank Negara Malaysia (BNM) has introduced fiscal stimulus measures, complemented by overnight policy rate (OPR) cuts to spur economic growth and private consumption during this challenging time.

Dato' Sulaiman said, "We are fully supportive of the government's stimulus packages to help Malaysian individuals and businesses cope with the near term challenges related to the COVID-19 pandemic which poses a serious threat to the nation's health and livelihood.

We continue to prioritise the safety of our staff and customers and were quick to roll out several initiatives from the start of the pandemic, among which include the enabling of Virtual Private Network (VPN) and video conferences capabilities, starting "split operations" and "work from home" arrangement, implementing social distancing and temperature screening at our premises and limiting the operating hours of all branches.

To support our communities and front liners, AmBank Group has pledged a RM500,000 donation to Tabung COVID-19 via MERCY, to support the national healthcare system. In addition, we collaborated with PichaEats to sponsor daily meals to the staff of University Malaya Medical Centre during the MCO period.

We have implemented a range of financial relief measures to help our customers, individuals and corporates alike, to weather the impact of COVID-19. To-date, about 637,000 of our customers have opted in for the six-month loan moratorium. We have also approved about RM800 million of additional financing to approximately 1,000 SME customers via the Special Relief Facility since March 2020.

For FY21, we will remain steadfast in exercising credit vigilance and look to proactively reach out to our customers during this difficult time. Greater emphasis has been placed on risk management, stress testing, capital planning and liquidity management in order to safeguard the Group's financial resilience in the face of heightened market volatility. Operationally, we will continue our cost discipline and prioritise investments. The Group will continue to drive operational efficiencies through simplification and automation in line with the second phase of our BET programme. We expect a gradual recovery of the economy, however, we will exercise caution against all aspects of risks in the short term."

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