Performance Review by Group Chief Financial Officer

"FY2020 results reflected the outcomes of our Top 4 Strategy, evidenced by strong revenue growth, improved operational efficiency and solid balance sheet. The Group's total income crossed the RM4 billion mark to RM4.2 billion."

JAMIE LING
Group Chief Financial Officer
AmBank Group

We continued to make good progress against a challenging operating landscape. Our key performance highlights are summarised below:

FY2020 KEY PERFORMANCE HIGHLIGHTS

Stepping Up Revenue Growth

Total income grew 7.8% to RM4,227.2 million. Our revenue growth was broad-based, with all divisions recording higher revenue year-on-year (YoY). This is a testament to our strategy execution in transforming the bank and attaining above-market growth.

Continue to Improve Operational Efficiencies

As we continue to drive operational efficiency and paced our investments, overall expenses were down 1.1% YoY which contributed to delivering a cost-to-income (CTI) ratio of 49.9%, and achieving our FY2020 target. Our Business Efficiency Transformation (BET) programme delivered a gross cost reduction of RM103 million during the year and cumulatively over the last three years delivered a total gross cost savings of RM380 million, above our target of RM300 million.

With income growth and expense management, we delivered a profit before provision (PBP) of RM2,119.0 million, an increase of 18.3% YoY.

Good Balance Sheet Growth

The Group's gross loans and financing and deposits from customers expanded by 5.3% and 5.7% respectively, outperforming the industry's growth for the same period. Our current account and savings account (CASA) balances also increased by 15.9%, driving higher CASA mix at 25.5% (FY2019: 23.3%).

Sound Capital and Liquidity Metrics

While we are navigating the ongoing economic uncertainties and challenges posed by the COVID-19 pandemic, we have continued to improve the resiliency of our balance sheet. The Group's Common Equity Tier 1 (CET1) ratio and total capital ratio have strengthened to 12.4% and 15.8% respectively. The Group remains highly liquid, with a liquidity coverage ratio (LCR) of 158.2% and net stable funding ratio (NSFR) of all banking subsidiaries above 100% as at 31 March 2020.

Dividends

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

Subsequent Events

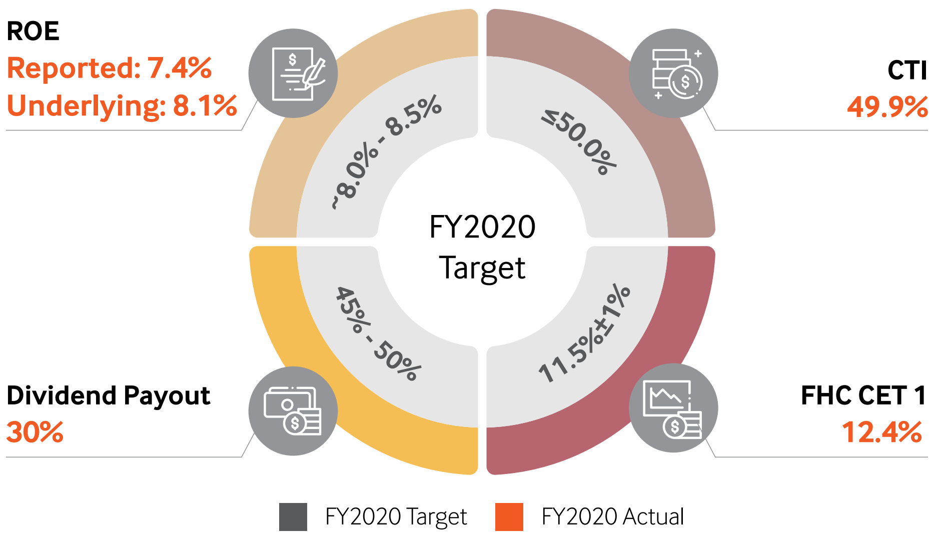
On 25 March 2020, Bank Negara Malaysia (BNM) announced that with effect from 1 April 2020, banking institutions are required to provide an automatic deferment of all loan/financing repayments (except for credit card balances) for a period of 6 months. This is one of the measures implemented by BNM to assist individuals, small and medium enterprises (SME) and corporations to manage the impact of the COVID-19 pandemic. The 6-month moratorium granted to eligible borrowers is applicable to performing loans, denominated in Ringgit Malaysia, that have not been in arrears for more than 90 days as at 1 April 2020. The financial impact arising from this moratorium will be a modification to the contractual cash flows of loans, advances and financing of the Group which will result in a recognition of a modification loss to be recognised in the profit and loss in the next financial year. The Group's current financial year results ended 31 March 2020 is not impacted from the 6-month moratorium as the effective date is after the end of the Group's reporting period. The Group is currently monitoring and assessing the impact of this modification which is expected to be finalised in the first quarter of the financial year ending 31 March 2021.

OUR FINANCIAL AGENDA AND FINANCIAL TARGETS FOR FY2020

Financial Agenda

- Revenue Growth – To increase penetration in targeted products and segments, grow CASA, improve cost of funds and net interest margin, and accelerate digital partnerships.
- BET300 – To achieve a cost-to-income ratio of 50% or lower by FY2020 and deliver gross cost savings of RM300 million over three years.
- Capital Accretive Growth – To strengthen our capital position and deliver sustainable dividend payout.

Financial Targets



Performance Review by Group Chief Financial Officer

	FY2020 Financials				Strong revenue and PBP out turn Macro provisions of RM167 million taken in Q4FY20
Profitability (RM Million)	Income	4,227 *FY2019: 3,922*	▲	**8%**	Good income growth underpinned by net interest income and trading & fee income
	Expenses	2,108 *FY2019: 2,131*	▼	**1%**	Continue to optimise operational efficiency
	PBP	2,119 *FY2019: 1,792*	▲	**18%**	Positive JAWS of 9%, CTI of 49.9%
	Impairment/(Recovery)	336 *FY2019: (304)*	▲	**>100%**	Credit costs include RM167 million macro provisions taken in March 2020
	PATMI	1,341 *FY2019: 1,505*	▼	**11%**	Underlying net profit up 15% (excluding RM167 million macro provisions and net gains on retail debt sale of RM285 million in Q4FY2019)
	ROE	7.4% *FY2019: 8.8%*	▼	**>100bps**	Underlying ROE 8.1%, underlying ROTE at 9.4%
Assets & Liabilities (RM Billion)	Gross Loans	107.2 *FY2019: 101.8*	▲	**5%**	Broad-based loans growth, excluding auto loans up 9%
	Deposits	113.0 *FY2019: 106.9*	▲	**6%**	Actively managing cost of funds, CASA up 16%
Capital & Liquidity	FHC CET1*	12.4% *FY2019: 11.9%*	▲	**55bps**	Improved CET1 (regulatory reserve of 1.0% retained)
	FHC LCR	158% *FY2019: 193%*	▼	**>100bps**	Highly liquid
	Dividend per share	13.3 sen *FY2019: 20.0 sen*	▼	**6.7 sen**	Dividend payout of 30%

** After deducting proposed final dividend*

UNDERLYING NET PROFIT UP 15.4% DRIVEN BY STRONG REVENUE AND PROFIT BEFORE PROVISIONS OUT TURN

FY2020 results reflected the outcomes of our Top 4 Strategy, evidenced by strong revenue growth, improved operational efficiency and a solid balance sheet. The Group's total income crossed the RM4.0 billion mark to RM4.2 billion. Net interest income rose 7.5% YoY to RM2,773.9 million, underpinned by broad-based lending growth of 5.3% and deposit growth of 5.7%. Net interest margin (NIM) improved 5 bps from 1.89% to 1.94%, despite three OPR reductions during the financial year. This was mainly attributed to active liquidity management and pricing discipline on term deposits as we managed cost of funds effectively. The Group was able to mitigate the impact of lower interest rates through investment in fixed income securities.

Non-interest income grew by 8.3% YoY to RM1,453.2 million, bolstered by strong fixed income securities trading gains, higher investment banking and fund management fee income. During the year, our Group Treasury and Markets captured the trading opportunities spurred by low interest rates and heightened market volatilities, and deal closures in the second half of 2019 was positive for our investment banking.

The Group's expense growth was well-managed, down 1.1% to RM2,108.2 million. 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 further improvement in efficiency resulted in a lower CTI ratio of 49.9% and positive JAWS of 9%.

As a result of strong revenue growth and improved cost efficiency, the Group's profit before provision posted a double-digit growth of 18.3% to RM2,119.0 million, our highest level since FY2015.

The Group recorded a net impairment charge of RM336.1 million in FY2020, compared to a net recovery of RM303.8 million in FY2019. Included in the net recovery in FY2019 was a gain from the retail NPL sale of RM285.0 million, which did not repeat in this financial year. Given the heightened uncertainties in the economic outlook, the Group took an additional forward-looking provision of RM167.3 million in the final quarter of the year to reflect the future economic uncertainties as additional prudence. Overall, the Group's net credit cost stood at 30bps.

Reported PATMI decreased by 10.9% to RM1,340.7 million, impacted by the forward-looking provision. However, underlying PATMI was up 15.4%, after adjusting for the gain on the retail debt sale of RM285.0 million in FY2019 and macro provision of RM167.3 million made this financial year. The Group's return on equity (ROE) decreased to 7.4% while underlying ROE was 8.1%.

DIVERSIFIED BALANCE SHEET GROWTH

Our gross loans and financing base expanded 5.3% YoY to RM107.2 billion, with diversified growth in all segments and most products. Excluding auto finance, the Group's gross loans grew 8.7% in FY2020. Mortgage loans were a key driver of loans growth, increasing RM2.4 billion or 7.0% during the year. In addition, loans in Wholesale Banking grew 6.2%, with Large Corporate segment up 3.7% and Mid-Corporate segments grew 9.5%. Business Banking loans grew strongly at 12.9%, and Retail SME grew by 34.8%. Lending to SME customers accounted for 19.2% of the Group's gross loans outstanding.

During the year, the Group's deposits from customers grew in line with gross loans and financing, with a loan-to-deposit ratio at 94.9%. Customer deposits increased by 5.7% YoY, with CASA up 15.9%. We improved our CASA mix to 25.5% from 23.3% a year ago, largely driven by enhanced cash management and wealth management solutions. The Group has recorded consistent loans and deposit growth, both growing at compound annual growth rate (CAGR) of 6% between FY2017 and FY2020, surpassing the CAGR growth rates of our peers of 4% on loans and 3% on deposits for the same period.

EXERCISING CREDIT VIGILANCE AGAINST WEAKER MACROECONOMIC OUTLOOK

As at 31 March 2020, the Group's gross impaired loan (GIL) ratio was 1.73%, up 14bps from the previous year while loan loss coverage ratio, inclusive of a regulatory reserve of RM387.5 million, stood at 93.4% (FY2019: 114.0%). The Group's credit portfolio quality remained sound with 87% of total gross loans classified under Stage 1 and 56% with "strong to exceptionally strong" risk grades.

The Group continues to closely monitor the impact of the COVID-19 pandemic on our credit portfolios during BNM's loan moratorium period. Approximately RM65 billion, or 61% of the Group's total loans in the retail and SME segments, are under BNM's repayment moratorium until 1 October 2020.

WELL-CAPITALISED AND HIGHLY LIQUID

The Group is on a stronger footing to navigate the economic uncertainties and challenges, with our CET1 ratio and total capital ratio at 12.4% (+55bps YoY) and 15.8% (+37bps YoY) respectively. Based on the stress testing scenarios conducted, the Group has sufficient loss absorption capacity to maintain capital ratios above both internal capital targets and regulatory requirements.

The Group has maintained sound liquidity ratios, with LCR at 158.2% and NSFR above 100% for all banking entities, all above prudential requirements.

> "Our gross loans and financing expanded **5.3% YoY** to **RM107.2 billion** with diversified growth in all segments and most products."

PROSPECTS FOR FY2021

We exited FY2020 with solid fundamentals and have executed well on our Top 4 Strategy. However, the operating environment will be challenging in FY2021 as the impact of COVID-19 and disruptions from the Movement Control Order (MCO) have yet to fully unfold. Responding to the COVID-19 pandemic, our focus in FY2021 entails the following:

- Exercise credit vigilance;
- Proactively supporting our customers;
- Maintain sound capital and liquidity positions;
- Continue our cost discipline and prioritise investments against a slower growth prospects;
- Supporting our employees and communities.

JAMIE LING
Group Chief Financial Officer
AmBank Group