26 February 2016

AmBank Group Records Net Profit of RM1,022.2 million for 9MFY2016

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the first nine months of financial year ending 31 March 2016 (9MFY2016).

9MFY2016 performance[1] highlights:

- Q3 results were lower compared to Q2, profit after tax and non-controlling interests (PATMI) at RM300.2 million
- Return on equity (ROE) of 9.2%, return on assets (ROA) at 1.1% and earnings per share (EPS) at 45.4 sen
- Cost-to-income ratio (CTI) was at 55.7% on slower top line growth albeit improved cost management
- Adjusted customer deposits grew 3.4%, while CASA (current account and savings account) balance remained stable at RM18.5 billion with CASA composition at 20.4%
- Net lending was flat at RM85.4 billion. Adjusted loans-to-deposits ratio (LDR) was at 82.8% compared to 85.9% in 9MFY2015
- Asset quality within expectation with marginal improvement in gross impaired loans (GIL) ratio to 1.80% against industry's expected trend on rising default. Loan loss coverage remained adequate at 94.8% compared to 106.0% in 9MFY2015
- Capital levels of the aggregated banking entities are above current regulatory requirements with common equity tier-1 (CET-1) capital at 10.8%, tier 1 capital at 12.1% and total capital ratio at 16.2%

Delivering on strategic agenda

Commenting on the Group's delivery of the strategic growth agenda, **Dato' Sulaiman Mohd Tahir, Group Chief Executive Officer, AMMB Holdings Berhad** said, "The Group remains focused with the business showing moderate momentum towards delivering on our strategic agenda."

1. Deliver on focused organic growth	On focused organic growth, Dato' Sulaiman said "Retail Banking continues to focus on growing CASA and targeted segment plays such as positioning of Business Specialists at branches nationwide to drive Small Business Banking (SBB) growth. Wholesale Banking on the other hand prioritises SME segment and growth on "Customer

[1] All growth percentages computed on year-on-year (YoY) 9MFY2016 vs 9MFY2015 basis unless otherwise stated

Share of Wallet" with special emphasis on cash management and trade finance/FX business."

2. Leverage strategic partnerships & deliver on acquisitions	To leverage on strategic partnerships and deliver on acquisitions, Dato' Sulaiman informed that "the General Insurance business continues to focus on growing non-motor insurance through cross-selling to existing motor customer base and Banca channels to maintain its top 3 general insurer position. Meanwhile, Retail Banking recently developed and expanded its small business solutions for customers and merchant base."
3. Continue to optimise efficiency	"As part of our ongoing effort to optimise efficiency, the Group is expanding its process simplification initiatives across all lines of business to deliver better customer experience. The continual upgrading of collection and recovery systems is aimed at increasing productivity and improving asset quality. Focus is on identifying the right areas to improve efficiency and drive sustainable cost-reduction.
4. Build sustainability	Finally on building sustainability, Dato' Sulaiman affirmed that "Phase 2 of the core banking system replacement project has been designed to improve experience and productivity. Infrastructure modernisation programmes are being put in place to improve security, reliability and efficiency of our data centre."

Divisional performance for 9MFY2016 compared to 9MFY2015

Retail Banking: Focus on mortgage and main bank deposits

Retail Banking's profit after tax (PAT) increased 13.8% YoY to RM345.6 million driven by the reduction of loan loss allowances from intensified collection efforts whilst expenses were relatively stable YoY.

Retail Banking recorded gross loan growth of 4.9%, excluding the auto finance segment. The growth was largely supported by mortgage loans which expanded 10.7% YoY. Deposits balance contracted marginally at 0.9% as the division shied away from rate competition.

Retail banking continues its on-going focus on everyday main-bank relationships to drive deposit growth through AmBank@Work payroll solutions. Efforts will be focused on preferred customer segments and SBB to promote loan growth and cross-selling opportunities.

SBB's 'Small Business Transact' proposition which saw its launch in December 2015 has seen a 42% QoQ growth in sales.

Wholesale Banking: subdued activities in loans and capital markets

Wholesale Banking consists of four sub businesses; corporate and commercial banking, markets, investment banking and funds management.

The division's aggregate PAT stood at RM605.5 million, down 15.7% YoY from lower recoveries and margin compression. Operating expenses declined 17.2% YoY due to prudent cost management and benefits from right-sizing programmes. Deposits grew RM1.5 billion or 3.0% YoY through initiatives on growing cash management business.

Gross lending was stable YoY as new loan disbursements have mitigated the impact of lumpy corporate repayments experienced in Q1FY16.

Task forces have been established to optimise funding structure and to drive loans growth in key segments with better margins such as small and medium enterprises and mid corporates.

Insurance: Reflecting lower car sales

General Insurance's gross written premium registered a decline of 3.1% YoY mainly contributed by motor line of business and implementation of GST in the first half of 2015. Combined ratio increased to 93.8% YoY whilst PAT was lower by 31.4% YoY impacted by higher claims experience and lower investment income.

The Group's share in the results of the **Life Assurance and Family Takaful** businesses recorded a year-to-date loss. The current focus is to invest in re-building the business, which include increasing distribution capacity, agency management productivity and increasing brand presence.

Islamic Banking: Continued growth in financing and deposits

Islamic Banking business forms an integral part of Retail Banking and Wholesale Banking divisions. The business registered robust growth in financing of 8.1% YoY and deposits growth of 9.2% YoY. Profit after taxation and zakat (PATZ) decreased by 7.0% mainly due to margin compression.

QoQ performance moderate amid weak business sentiment and margin compression

Margin compression persists

NIM has compressed 18bps QoQ and 31bps year-to-date compared to full year FY2015. The compression was mainly attributable to the portfolio re-balancing strategy which saw legacy higher yield auto finance loans tapered off with increased composition of mortgage loans and wholesale banking loans. Additionally, there was some impact from higher overall deposit costs although the Group had mostly stayed away from chasing high-cost deposits

Sustaining focus on CASA/low cost deposits

The Group's deposit balance grew 1.8% during the quarter as a result of active relationship management and payroll acquisition programmes whilst CASA composition was sustained at 20.4%.

Sound asset quality

The Group's GIL ratio improved to 1.80% compared to 1.95% in Q2FY2016 as retail asset quality continues to strengthen. Loan loss coverage was 94.8% reflecting adequate coverage based on current servicing assessment discounted with internal buffers on potential seasonal impacts.

Sound funding and capital

The Group's capital levels for the aggregated banking entities are favourable against our internal targeted range and Basel III requirements. CET-1 stood at 10.8%, tier 1 capital at 12.1% and total capital ratio at 16.2%.

Dato' Sulaiman said that "the Group is proactively managing our capital in line with expectations of Basel III financial holding company requirements which will come into effect in 2020."

Appointment of Group Chief Executive Officer

Dato' Sulaiman Mohd Tahir was appointed as the Group Chief Executive Officer (Group CEO) of AMMB Holdings Berhad (AMMB or AmBank Group) and Chief Executive Officer (CEO) of AmBank (M) Berhad on 23 November 2015.

Dato' Sulaiman has a wealth of knowledge backed by 28 years of experience of managing and spearheading growth in consumer banking, as well as in commercial and corporate banking in Malaysia.

As Group CEO of AmBank Group, Dato' Sulaiman is responsible for the management of all businesses in AmBank Group, including Wholesale and Retail Banking, General Insurance and Life Assurance & Family Takaful.

An accounting graduate from the Royal Melbourne Institute of Technology in Australia, Dato' Sulaiman served Price Waterhouse before positioning his career in banking with the Bank of Commerce (M) Berhad (now known as CIMB Bank) in 1987.

Prospects for financial year ending 31 March 2016

In the fourth quarter of 2015, the Malaysian economy recorded a growth of 4.5% (3Q2015: 4.7%) driven mainly by private sector demand. Both private consumption and private investment grew moderately at 4.9% and 5.0% respectively (3Q2015: 4.1% and 5.5%).

Malaysia's 2016 GDP growth to moderate @ 4.25%

For calendar year 2016, the Group forecasts a modest annual Gross Domestic Product growth of circa 4.25% (2015: 5.0%) led by softer demand and lower commodity prices but will be supported by domestic demand, mainly from public expenditure and complemented by exports. Inflation is projected at 2.8% in 2016.

Dato' Sulaiman concluded "This my first financial results announcement with AmBank Group. In my first '100 days' in AmBank, I have met various customers from across all lines of business and I spoke about our appreciation of their business and I feel encouraged by our strong relationship with them.

It was important for me to meet our people, which I met through various business review sessions with senior management and their respective teams.

I spoke to them about challenges in the current business conditions, which are expected to be tough against the backdrop of a slowing economy and stringent compliance requirements. My message was clear, that I am focused on building up AmBank Group's performance, becoming more customer focused and enhancing collaborative work across the Group.

We will pursue immediate opportunities and quick wins to drive revenue uplift whilst reinforcing compliance and there are some bright spots in the economy that we will focus on immediately.

Most importantly, I have initiated comprehensive reviews of our current business operating models to develop our FY2017-19 strategic priorities and growth plans. We have much to do.

Ultimately we will create a leaner organization through process reorganization and structural reform with a focus on 'making it happen' – achieving quantum leaps to implement faster, smarter and more innovatively.

I believe AmBank Group will put in place the right strategy and we are taking the right actions to adapt to the current business conditions and build our business now, and in the future, to deliver stronger performance for all our stakeholders."

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