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AmBank Group Reports Full Year Results for Financial Year 2016

AMMB Holdings Berhad ("AmBank Group" or "the Group") today announced the financial results for the twelve months ended of financial year 31 March 2016 (FY2016).

FY2016 performance[1] highlights

- Net profit after tax and minority interests (PATMI) of RM1,302.2 million (translated to earnings per share of 43.3 sen), down 32.1%
- Return on equity (ROE) of 8.8%, return on assets (ROA) at 1.1%
- Cost-to-income ratio (CTI) was at 58.8% on slower top line growth despite tight rein on expenditure
- Robust mortgage loans growth of 12.7% and higher loans extended to SME sector, albeit overall loans growth remained muted from rebalancing initiatives
- CASA (current account and savings account) balance sustained with CASA composition improved marginally to 20.7% whilst customer deposits declined 1.8% to RM90.4 billion
- Notwithstanding continued improvement in retail asset quality with gross impaired loans (GIL) ratio strengthened from 2.01% to 1.68%, Group GIL ratio was higher at 1.94% due to sector stress experienced by the wholesale segment. Consequently, loan loss coverage declined to 81.1%
- Proposed final dividend of 10.5 sen per share. Coupled with the interim dividend of 5.0 sen per share, total dividend payout is 36%
- Capital levels of the aggregated banking entities are above current regulatory requirements with common equity tier-1 (CET-1) capital at 11.2%, tier 1 capital at 12.2% and total capital ratio at 16.1%, after deducting proposed dividend

AmBank Group Chief Executive Officer, **Dato' Sulaiman Mohd Tahir** commented, "This result sums up the tough operating landscape over the last one year, both internally and externally. Our underlying PATMI was lower as top line growth impacted by cautious business sentiment, net interest margin (NIM) compression and changes in consumer spending patterns.

NIM compressed higher than expected and reflects our de-risking initiatives and funding composition. Non-interest income decreased 11.7% mainly due to weaker fees contribution from credit cards, lower loans and advisory fees from wholesale banking and decline in insurance income.

Reaping the benefits from enhanced asset quality, our loan loss allowances were lower, which partially alleviated the impact from narrowing NIM. Although we have emphasised on cost

[1] All growth percentages computed on year-on-year (YoY) FY2016 vs FY2015 basis unless otherwise stated

management, slower income growth and increased regulatory and compliance expenses have weighed on our cost efficiency.

Despite all these challenges, our people have shown a great degree of resilience and positivity. I look forward to continuing to work together in building a stronger and more competitive AmBank Group."

Divisional performance for FY2016 compared to FY2015

Retail Banking: Performance lifted by better asset quality

Retail Banking's total income fell 14.2% as a result of margin compression and lower fee income, predominantly credit card and merchant related fees. This was in part corresponding with the downward adjustment in consumer spending post GST and subdued economic outlook. During the year, a number of new propositions were being rolled out and that both our cards businesses are now operating on one platform. This along with some business operating model changes should result in a stronger result in the coming financial year. Expenses, on the other hand, were relatively stable owing to vigilant cost management.

Profit after tax (PAT) however, increased by 10.4% to RM467.2 million underpinned by lower loan loss allowances as asset quality strengthened from portfolio rebalancing initiatives and intensified collection efforts led to better recoveries.

Excluding the auto finance segment, gross loans grew 6.6% anchored by robust growth of 12.7% in mortgage. Deposits contracted 2.8% as the banking system saw an outflow of liquidity intensifying. The business will continue to focus on driving growth in low cost deposits.

To augment our fee income base going into FY2017, we have:

- expanded our merchants-in-force by approximately 1,000 to 57,000;
- introduced dedicated insurance specialists at branches to enhance our bancassurance service delivery; and
- increased our cross-selling rate (as measured by multiple product holding index).

Wholesale Banking: Earnings down from subdued market

Wholesale Banking consists of four sub businesses – Corporate and Commercial Banking, Global Markets, Investment Banking and Funds Management.

Against the backdrop of heightened market volatility, cautious business outlook and pressures on net interest margin, total income declined 13.1%:

- Corporate and commercial banking business impacted by NIM compression on muted loans growth;
- flow business sustained, while Global Markets' performance was dragged down by weaker fixed income trading;

- cautious business sentiment and volatile markets have affected Bursa turnover and deal execution, which contributed to lower income from Investment Banking;
- fund management's income contribution was affected by lower asset under management (AUM) driven by weaker market performance and redemptions.

Operating expenses dropped 13.4%, reflecting personnel cost savings from right-sizing initiatives. PAT was weaker at RM821.3 million (-16.8%) amidst challenging operating environment coupled with lower recoveries.

Notwithstanding higher loans extended to the SME sector, gross loans growth was flat due to several large corporate repayments during the year. Low cost deposits registered modest growth of 6.2%, though total deposits decreased marginally.

Insurance: Higher claims experience and lower investment income

General Insurance's gross written premium was sustained at RM1,567.4 million despite consumption growth moderating post-GST implementation affecting vehicle sales. Nevertheless, PAT decreased 24.3% to RM194.0 million as investment income was lower during the year, aggravated by an increase in claims expenses and GST imposed on expenses.

The Group's share in the results of the **Life Assurance and Family Takaful** businesses recorded a year-to-date loss. The business aims to strengthen its core business model, operations and systems to achieve the vision in becoming the preferred insurer in Malaysia.

Islamic Banking: Profit sustained on lower allowance for impairment

Islamic Banking business forms an integral part of Retail Banking and Wholesale Banking divisions.

Profit after taxation and zakat (PATZ) reported at RM252.7 million. Excluding the administrative monetary penalty imposed by Bank Negara Malaysia, PATZ increased 21.7% from improvement in asset quality. To prevent the recurrence of such regulatory breach, the Group has initiated a Group-wide compliance programme to reinforce compliance culture and awareness.

Gross loans expanded QoQ, profit lower from higher expenses and loan loss allowances

Gross loans grew RM1.0 billion in Q4FY16

Gross loans increased RM1.0 billion during the quarter mainly driven by wholesale banking. Income was relatively stable QoQ, though profit lower from higher operating expenses and loan loss allowances.

Margin compression eased QoQ	NIM contracted 2bps this quarter (Q4FY16: 1.92%, Q3FY16: 1.94%). On a year-to-date basis, NIM compressed 35bps[2] to 2.02%. The margin compression stemmed from our portfolio rebalancing strategy which saw the higher yield legacy auto finance loans taper off with increased composition of mortgage and wholesale banking loans. In addition, there are some pressures on the funding costs due to outflows of liquidity in the market, although the Group had mostly refrained from chasing high-cost deposits.
Retail asset quality continued to strengthen	GIL ratio for retail banking has steadily improved to 1.68% from 1.74% in Q3FY16 whilst Group GIL deteriorated marginally to 1.94% due to new impairment from well-collateralised corporate loans.

Prospects for financial year ending 31 March 2017

Moderate GDP growth of 4.2% projected for 2016	For calendar year 2016, the Group forecasts a moderate annual Gross Domestic Product (GDP) growth of circa 4.2% led by domestic demand mainly from private expenditure and counter balanced by softer exports from lower commodity prices. Inflation is projected to rise 2.0% in 2016 on the back of low commodity prices, slower demand and high base effect in 2H2015. Against the backdrop of a challenging and uncertain global environment with downside risk still on the table, domestic monetary policy will remain supportive and accommodative of economic activity. The banking sector is poised to experience slower growth as the economy expands at a more moderate pace and subdued business sentiment. Dato' Sulaiman added, "Despite the potential headwinds in the economy, there are still some bright spots and opportunities such as the SME sector which has consistently outpaced the GDP growth since 2005, and still has room for growth. The recalibrated Budget 2016 has also provided some impetus to the domestic consumption, as well as emphasis on affordable homes and implementation of infrastructure projects."

AmBank Group Strategic Growth Plan

To help individuals and businesses in Malaysia grow and win together	As we have just entered a new financial year - FY2017, Dato Sulaiman said, "Over the past few months, we have developed a Group-wide strategy which charts our vision towards 2020 and redefined our purpose which is to help individuals and businesses in Malaysia grow and win together.

[2] Excluding one-off items.

Beginning FY2017, AmBank Group will embark on a new growth trajectory and strengthen its franchise value. Our "Top 4" aspiration can be encapsulated as follows:

1) Top 4 in our growth segments – Retail's mass affluent and affluent, SME and mid corporate;
2) Top 4 in our 4 key products – cards, transaction banking, markets and wealth management;
3) Sustain Top 4 in our current engines – corporate loans, debt and capital markets and asset management; and
4) Top 4 employer in Malaysia.

Using multiple growth strategies, the Group plans to expand its market share in selected target segments while growing in line with the market in other segments.

We are determined to achieve our aspirations by '**running the Bank better**' and '**changing the Bank**', with clear targets and milestones to measure our progress. Emphasis is on building up business momentum and showing early progressive results.

Through 'running the Bank better', we focus on unlocking latent values and prioritizing quick wins across the organisation leveraging on our customer base and internal collaboration opportunities. Simultaneously, we need to increase our efficiency and distribution productivity by streamlining operations and attracting top talent to build our capability.

The 'changing the Bank' strategy will centre on delivering a unique 'segment-of-one' value proposition to our preferred customer segments. We plan to harness the power of digital transformation and leverage on analytics to capture new sources of competitive advantage. Other initiatives entail constant review of front-back office operating models, capital structure efficiency and marketing capabilities whilst continuously emphasising people development and culture.

We are confident of our future. We have a strong base to build on – brand value, loyal customers that have grown with us, extensive branch network, capable management team coupled with ongoing investments in new technology and digital platforms. It will be an exciting journey for AmBank Group over the next few years."

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