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Media Release

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AmBank Group Records Net Profit of RM776.6 million for H1FY2016

AMMB Holdings Berhad (AmBank Group or the Group) today announced the financial results for the first half of financial year ending 31 March 2016 (H1FY2016).

H1FY2016 performance[1] highlights:

- Better Q2 results over Q1, profit after tax and non-controlling interests (PATMI) rose by 12.7% quarter-on-quarter (QoQ)
- Excluding one-off divestment gains in Q1FY2015[2], PATMI contracted by 6.9% to RM722 million underpinned by margin compression and subdued business sentiment
- Return on equity (ROE) of 9.8%, return on assets (ROA) at 1.2% and earnings per share (EPS) at 24.0 sen
- Cost-to-income ratio (CTI) was at 52.0% on slower top line growth albeit improved cost management
- Adjusted customer deposits grew 4.6%, above the industry average while CASA (current account, savings account) composition stable at 21.1%
- Net lending grew by 0.6% to RM85.3 billion as net loan disbursement picked up in Q2FY2016 driven predominantly by mortgage and corporate loans. Adjusted loans-to-deposits ratio (LDR) was 85.6% compared to 89.3% in H1FY2015
- Asset quality within expectation with gross impaired loans (GIL) ratio at 1.95% as corporate loans reflect the current economic environment. Loan loss coverage at 92.6%
- Capital levels of the aggregated banking entities are above current regulatory requirements with common equity tier-1 (CET-1) capital at 10.5%, tier 1 capital at 11.8% and total capital ratio at 15.6%, computed based on Basel III requirements

Delivering on FY15-17 growth agenda

Commenting on the Group's delivery of the FY15-17 growth agenda, **Datuk Mohamed Azmi Mahmood (Datuk Azmi), Acting Group Managing Director, AMMB Holdings Berhad** said, "The Group remains focused with the business showing momentum towards delivering on our FY2015-2017 strategic agenda."

1. Deliver on focused organic growth	On focused organic growth, Datuk Azmi said "Retail Banking will continue to focus on growing preferred customer segments such as the introduction of the TRUE customer proposition – targeted at young professionals. Wholesale Banking on the other hand targets CASA conversion and focuses on deposit repositioning opportunities in various segments and tenures."

[1] All growth percentages computed on year-on-year (YoY) H1FY2016 vs H1FY2015 basis unless otherwise stated
[2] Excludes one-off divestment gain and related disposal expenses of AmMetLife and AmMetLife Takaful

2. Leverage strategic partnerships & deliver on acquisitions	On leveraging on strategic partnerships and deliver on acquisitions, Datuk Azmi informed that "the General Insurance business saw the introduction of new products and cross selling programmes as one of the growth strategies to maintain its top 3 general insurer position. Meanwhile, Retail Banking continued to expand its Small Business Banking which recently introduced expanded merchant solutions (e.g. current account, lending facilities, merchant facilities) for the Credit Card business.
3. Continue to optimise efficiency	"On our effort to continue to optimise efficiency, the Group is well on its way to deliver better customer experience via process simplification and concurrently upgrading the collection, cash management and transaction banking systems to increase productivity and improve processing."
4. Build sustainability	Finally on building sustainability, Datuk Azmi affirmed that "Phase 2 of the core banking system replacement project is nearing its go-live date and this will enhance customer experience and access to multiple channels."

Divisional performance for H1FY2016 compared to H1FY2015

Retail Banking: Focus on mortgage and main bank deposits	**Retail Banking**'s profit after tax (PAT) decreased 8.6% YoY to RM206.5 million mainly attributable to margin compression arising from portfolio rebalancing initiatives. Loan loss allowances reduced YoY from intensified collection efforts whilst expenses were 2.5% lower YoY through disciplined cost management. Retail Banking recorded a gross loan growth of 2.4%, excluding the auto finance segment. The growth was largely supported by mortgage loans which expanded 8.3% YoY. Deposits balance grew 1.1% as Retail Banking continued its focus on everyday main-bank relationships to drive deposit growth through AmBank@Work payroll solutions and Small Business Banking.
Wholesale Banking: subdued outlook but stronger loans momentum and grew CASA	**Wholesale Banking** consists of four sub businesses; corporate and commercial banking, markets, investment banking and fund management. The division's aggregate PAT at RM424.5 million, down 11.0% YoY, reflecting pressures on margin, cautious business sentiment and weaker fixed income trading. Operating expenses declined 19.3% YoY due to prudent cost management and benefits from right-sizing programmes. Higher recoveries from impaired loans partially mitigated the impact of slower income growth. Gross lending increased 5.2% YoY from higher disbursements driven by strategic tie-ups and new financing solutions. Deposits grew RM2.9 billion, 6.1% YoY.
Insurance: Reflecting lower car sales	**General Insurance**'s gross written premium declined 3.4% YoY corresponding to softer national motor sales data and de-risking of Retail Banking's auto finance loans. Claim expense was stable YoY whilst combined ratio stood at 90.1% (H1FY2015: 89.1%). PAT was lower YoY impacted by lower premium and investment income.

The Group’s share in results of the **Life Assurance and Family Takaful** businesses recorded a year-to-date loss of RM2.6 million. The current focus is to invest in building up the business, which include increasing distribution capacity and agency management productivity, expanding the bancassurance platform, improve data analytics and launch new products for the direct marketing segment.

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 double-digit growth in financing and deposits YoY. Profit after taxation and zakat (PATZ) was up by 2.8% YoY with a 10.0% increase in expenses.

<u>QoQ performance improved despite less favourable business sentiment</u>

Modest top line growth, margin compression persists	Top line growth was influenced by NIM compression as competition remains intense given the lower demand and focus on better quality assets. NIM was stable at 2.12% QoQ, as positive impact from asset repricing was offset by margin compression as higher-yield auto loans tapered off and increased contribution of wholesale loans.
Targeted loan growth predominantly driven by mortgage and corporate accounts	Responding to greater sales focus and relationship management, loans showed better growth momentum in Q2. Net lending grew 1.4% QoQ, reflecting our portfolio rebalancing and focus on preferred customer segments which lifted mortgage and wholesale banking loans.
Sustaining focus on CASA/low cost deposits	The Group’s CASA composition remained stable at 21.1% sustained through active relationship management and payroll acquisition programmes, despite outflow of term deposits as expected from rate competition (deposits declined 0.6% QoQ). CASA balance and the Group’s market share showed slight upward momentum QoQ despite the down trend in the industry’s CASA balance witnessed since June 2015.
Sound asset quality	Allowances were lower with higher recoveries as the Group’s collection efforts intensified. The Group’s GIL ratio was within guidance at 1.95% as retail assets quality continues to strengthen whilst corporate loans will require more vigilance under current operating environment. Loan loss coverage was 92.6% 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 above our internal targeted range and Basel III requirements. CET-1 stood at 10.5%, tier 1 capital at 11.8% and total capital ratio at 15.6%. Datuk Azmi 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.”

Update on the appointment of Group Chief Executive Officer

The announcement of the appointment will be made soon.

Prospects for financial year ending 31 March 2016

Malaysia's GDP growth moderate to 4.7%

In the second quarter of 2015, the Malaysian economy recorded growth of 4.9% (1Q2015: 5.6%) driven mainly by private sector demand. Both private consumption and private investment grew moderately at 6.4% and 3.9% respectively (1Q2015: 8.8% and 11.7%).

For calendar year 2015, the Group forecasts a modest annual Gross Domestic Product growth of circa 4.7% (2014: 6.0%) due to softer demand and lower commodity prices, mitigated by a resilient export sector and an expected increase in public investment.

Inflation is projected to hover around 2.1%, reflecting the impact of the implementation of GST and recent Ringgit depreciation, partially offset by the decline in oil and commodity prices. The US dollar rise, interest gap and the Chinese Yuan outlook will continue to weigh on Ringgit. The banking sector is expected to experience slower demand and narrowing net interest margins whilst asset quality may come under pressure. Private consumption is expected to grow moderately this year.

Datuk Azmi concluded "In the near term, business conditions are expected to be challenging against the backdrop of a slowing economy and increasing compliance requirements. Notwithstanding the above, the Group remains committed to our FY2015-2017 strategic growth agenda."

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