61st Annual General Meeting

Presentation to Shareholders
Questions from Permodalan Nasional Berhad
As at 15th April 2021
1. Statutory audit fees increased by 5.2% from RM20.6 million in FY19 to RM21.6 million in FY20. What caused the YoY increase in fees? [Please refer to Ordinary Resolution 9 and Note 44 on Pg137 of Annual Report 2020 - Financial Statements]

Statutory audit fees increased by 5.25% from RM20.6 million in FY2019 to RM21.6 million in FY2020 mainly due to increased scope of audit, comprising:

a. Independent validation exercise including validation of models pertaining to first time adoption of International Financial Reporting Standards (IFRS) 9 and IFRS 16 at respective subsidiaries;
b. Additional audit procedures to meet regulatory requirements mainly for the subsidiaries;
c. Additional entities which were previously audited by non-Ernst & Young; and
d. Additional audit procedures involving new systems migration.
2. A closer look at Other Operating Income for FY20 reveals that a substantial portion is being derived from unrealised gains on revaluation of derivatives (FY20: RM1,014 mil vs. FY19: RM146 mil). [Please refer Note 42 on Pg 135 of Annual Report 2020 - Financial Statements]

a) What is the nature of these derivative instruments and what is the basis of this revaluation?

The Group enters derivative contracts such as interest rate swaps (IRS) to hedge its interest rate risk. It is important to manage interest rate risk/ rate of return risk in our books as most of the balance sheet items of the Group generate interest/profit income and interest expense/ profit distributed to depositors. The Banking book comprises assets such as loans, which would be largely based on floating rate. This book benefits when interest rate rises and the downside risk would have to be managed in a reducing rate environment. Meanwhile, the bond portfolio benefits in a reducing rate environment, as experienced in 2019 and 2020, and the portfolio risk would have to be managed in a rising rate environment, by reducing scale and duration of the bonds.

These IRS contracts are undertaken and managed by Global Markets, which would look to be a fix rate payer and floating rate receiver in a rising rate environment and a floating rate payer and fix rate receiver in a reducing rate environment (as seen in 2020).
When it comes to derivatives trading performance, both the realised (i.e. loss of RM626.94 million in FY2020) and unrealised (i.e.: gain of RM 1,014 million in FY2020) P&L entries should be added together for a complete picture. The unrealised portion reflects the value of projected positive cashflows to be received in the future. Only when the cashflow is received by Global Markets will the unrealised P&L entry reverse and be booked into realised. However, the realised P&L entry at that point will depend on the rate environment at the time of cashflow receipt.

The reason we recorded higher unrealised gains in FY2020, especially during 1Q 2020, was because the USD Swap Curves were in a downward trend and declined more than 100 basis points. Being a net Fixed Rate Receiver during the period, it resulted in the Group recording higher unrealised gains given our notional amount in USD.

b) Is this income sustainable going forward?

As mentioned above, our interest rate portfolio will be managed based on our risk appetite in accordance with a rising or reducing rate environment. Given the volatility of derivative instruments such as IRS, the Group will closely monitor the movement of the USD Swap rates and manage its trading portfolio positions in line with its business strategy.
3. After the lower GIL in FY20 due to moderate formation of new impaired loans arising from the moratorium and ensuing repayment assistance programmes, will we expect to see an increase in GIL for FY21? Can management give an estimate on where GIL will be for FY21 compared with FY20?

With reference to page 14 of Annual Report 2020 - Financial Statements, of the total relief and support measures provided to the Group’s borrowers, 68% have resumed repayments, 30% are on extended relief measures while the remaining 2% missed payments as at 31 December 2020. Total relief and support measures indicated here include all forms of assistance, comprising of payment moratoriums, repayment assistance as well as rescheduling and restructuring granted.

A significant portion of the Group’s FY2020 net allowance for losses on loans of RM4.60 billion was recognised proactively, in anticipation of the weakening credit environment based on the prevailing economic outlook. Of this, around RM950 million was set aside for management overlays from macroeconomic forecasts, while a further RM1.2 billion relates to management overlays from vulnerable borrowers impacted by the pandemic.
In terms of outlook, the Group does not provide forward looking guidance on GIL. Given that asset quality indicators such as impaired loans ratios have a lagging effect from the corresponding economic event, it would take some time before we see the full effect on impaired loan formation given that the relief measures are still currently active and the uncertainty in the economic recovery trajectory for some of our home markets. Our response to question 4 below would explain our guidance in terms of asset quality for FY2021.
4. What are the assumptions behind the credit cost guidance of 70 - 80bps for FY21? Does the guidance include any potential default for loans under the TRA once the relief measure is lifted? Can you give a bit more colour on this?

Provisioning levels in FY2021 is expected to remain elevated, albeit with a slight improvement from the 88 bps recognised in FY2020. The Group’s net credit charge off guidance for FY2021 is between 70 bps and 80 bps, as we remain cautious on potential asset quality slippages given the uncertainty surrounding the trajectory of economic recovery in two of our home markets, Malaysia and Indonesia.

Both markets account for a collective 80% of the Group’s income and have seen a challenging start to 2021 with movement restrictions imposed in the first quarter, owing to rising COVID-19 cases. Our net credit charge off guidance has taken into consideration some potential asset quality slippage as repayment assistance packages, such as RA and TRA, progressively expire in the second half of this year. Meanwhile, Singapore has seen a quicker rebound from this pandemic and is likely to achieve herd immunity faster given its population size and economic structure.

Given the challenging environment, Maybank will continue to maintain stringent oversight of its credit portfolios as part of its robust risk management initiatives and continue to proactively engage with borrowers to address asset quality concerns early on, while supporting customers that remain affected by the pandemic-induced downturn.
5. The Management guided Group ROE for FY21 of ~9%. With the enlarged equity base arising from the DRP applied to the FY20 final dividend, is the Management still optimistic about achieving its Group ROE guidance? This is considering that BNM may continue to be cautious with regards to capital conservation in FY21. [Please refer Slide 22 of 4Q and Full Year FY2020 Investor Presentation]

Maybank Group will continue to prioritise capital and liquidity strength in FY2021, given the uncertain environment. Our guidance for Group ROE of ~9% in FY2021 is premised on our performance outlook for the year based on the prevailing economic outlook when we set the guidance. This would include the assumption of an increasing capital base due to the ongoing DRP, which includes the DRP applied for the final dividend of FY2020. Given that there has been no significant change in our outlook of the Group’s performance and macroeconomic fundamentals, our ROE guidance of ~9% remains intact.
6. Peers Comparison

In terms of total assets, Maybank is largest compared with domestic peers. However, it is still ranked in the middle when it comes to performance ratios such as NIM, ROE and GIL. Is being the best ranked in these performance ratios a priority for Maybank? Or does Maybank only target specific ratios in which it wants to focus at being the best? Which ones?

Our net interest margin (NIM) and gross impaired loan (GIL) ratio are a function of our regional business portfolio, which varies in composition and scale across different geographies. As the largest bank in Malaysia, we serve as a proxy to the industry and given our scale, our domestic franchise performs better than our peers in most segments, except Business Banking which is in the midst of a turnaround. In Singapore and Indonesia, given that we are not the largest banks in those markets, our strategy has been to focus on specific segments. As such, our performance ratios like NIM, GIL ratio and return on equity (ROE) are a function of our regional-play and portfolio composition between retail and non-retail segments, while most local peer banks are more domestically-inclined and retail-centric.

Against the six other domestic peer banks that form our internal benchmarking assessment, our ROE of 8.1% for FY2020 was ahead of five peer banks. The two local banks who outperformed our ROE have a more domestic and retail-centric portfolio, which have resulted in a lower cost-to-income ratio.
Maybank’s approach to invest in its regional footprint and digital endeavours is done on the expectation of diversifying its revenue streams and ensuring sustainability over the long-term, but has resulted in a slightly higher cost-to-income ratio in the immediate term. Also, given Maybank’s exposure to the corporate segment in our home markets, it has attracted higher provisioning charges when corporate impairments are made as these borrowers have higher loan exposures than retail customers. As such, these provisioning charges would impact profitability (and in turn ROE) as well as lead to higher impaired loan formation (which impacts GIL).

Meanwhile, our NIM compressed 17 bps in FY2020 given the falling rate environment. For FY2020, our home markets saw significant rate cuts of 125 bps in Malaysia and Indonesia and over 130+ bps in Singapore. As such, our asset pricing came under pressure across our markets while our liabilities repriced slower as maturities expired. Given our regional composition, our assets and liabilities mix would be more complex given the scale and tenures of our portfolio in comparison to local peers. In a rising or stable rate environment, Maybank typically performs better in NIM management in comparison to most domestic peers, given our emphasis on profitability over asset growth.
While we do endeavour towards being the best ranked performer on a benchmarking basis, we do prioritise operational resilience in uncertain operating environments as experienced in 2020. This would include our continued focus on preserving capital and liquidity resiliency, cost discipline through improved efficiency and productivity, as well as balanced growth based on our risk appetite in order to preserve asset quality and pricing.

As part of our long-term commitments identified under our five-year strategy, M25, the Group seeks to achieve a sustainable ROE of between 13% and 15%, a cost-to-income ratio of under 45%, and a net cash dividend payout ratio of between 40% and 60%.
7. Although the Asset Management business has increased in PBT for FY20, the profits are still small and the results have been historically volatile. What is Maybank’s long term strategy for the Asset Management business?

Maybank Asset Management Group (MAMG) closed FY2020 with PBT of RM31.6 million compared to RM1.8 million in the prior year. This marks a record since its establishment, capitalising on the investment team’s strong funds’ performance with total net performance fees of RM28.0 million recorded in FY2020. MAMG’s PBT/AUM for FY2020 is 0.10%, and this is comparable to our competitors who are within a range of 0.10% to 0.20%, where most have at least twice the AUM size of MAMG.

Looking ahead, MAMG will remain focused towards becoming the leading ASEAN & Islamic asset manager, where in the short- to medium-term, it recognises the importance of deepening its market share in the higher yielding retail client segment to improve profitability. In the longer term, MAMG will continue to build its AUM and scale by solidifying its product manufacturing capabilities; infused with ESG & Shariah principles.

MAMG’s five-year growth imperatives are split into three. Firstly, it will be product-focused, with strategies customised to the respective countries’ unique operating environment while tapping on internal capabilities and strategic partners’ strengths.
This will aim to deliver Sustainable/ESG investment solutions covering both the conventional and Shariah space, investment advisory services, alternative (commodities) and Machine Learning (Quant/AI capabilities) investments, as well as complete cradle to grave investments solutions.

Secondly, it will look to enhance its distribution strategy by building an extensive distribution network. This is aimed at penetrating the client base through third party financial institutions, third party online distribution platforms, leveraging Maybank’s investment management reach and sales capabilities, the insurance sector, as well as establishing an Undertakings for the Collective Investment in Transferable Securities (UCITS) platform in the long run. Furthermore, by leveraging Maybank Group’s strategic focus in the wealth segment, MAMG will aim to become the preferred solutions provider for the Group and its clients with our customisable product suite across all asset classes.

Finally, MAMG will look to grow and establish international presence in the Philippines, Indo-China, Europe and the Middle-East by offering product manufacturing and advisory services.
8. **Capital Allocation**

a) **Does Maybank have a capital allocation framework?**

Maybank adopts an internal capital allocation method to ensure that the businesses are disciplined in managing their risk profile, hence achieving capital efficiency across the Group.

b) **How does Maybank allocate its capital? Is it by business segment or geography or...?**

Following the direction set by the Group’s strategy, capital and return requirements would be allocated based on:

i. Business units/ country level
ii. Line of business level
iii. Customer level (at pre-deal)

c) **How does Maybank decide which segment should receive more/less capital?**

Capital allocation is driven by the respective businesses’ risk profile, which covers risk-weighted assets and stress testing, along with local regulatory requirements of the respective entity, for those which have regulatory capital adequacy requirements.
d) What are the return requirements from each segment?

The returns are expected to meet the targets set forth for each segment during the annual budget exercise. In particular, for Return on Equity Allocated (ROEA)/ Return on Equity (ROE), ideally, it should be at minimum aligned to the Group ROE or meeting the segment’s cost of equity.
9. Negative loans growth

Both Singapore and Indonesia recorded negative loans growth for the past two financial years which dragged down the Group’s total loans growth. What are the steps that are currently being undertaken to reverse this situation and can we expect these home markets to contribute positively to Group’s total loans growth in FY21?

The loans reduction in Singapore between 2019 and 2020 was due to our tighter risk posture for the Global Banking (GB) portfolio, through intentional paring down of exposures and loan redemptions in specific segments, including our structured trade business. In 2021, Singapore’s growth is expected to be driven by GB, through a focus on recalibrating the portfolio with key driver sectors and industries, as well as through its role as the trade hub to capitalise on Maybank’s ASEAN franchise in connecting with Greater China. Meanwhile, the Community Financial Services (CFS) book is expected to see growth in Retail SME and Business Banking, while for Consumer, the momentum is expected to continue for mortgages.

For Indonesia, it is important to note that the decline seen in 2020 was a result of both slower growth opportunities given the pandemic, as well as the de-risking and re-profiling of the non-retail CFS segment since late-2019.
In 2021, focus will be made on maintaining healthy assets and loans growth, employing a selective approach in the GB segment especially through growth in sectors which are considered to have favourable prospects during the pandemic and the subsequent recovery phase. The Bank will also look towards adjusting the CFS Retail segment business model, which is expected to positively contribute to the Bank's profitability. For Shariah, the Bank will continue its Leveraged Business Model, including the “Shariah First” strategy which has proven to be effective in growing the Bank’s Shariah portfolios.

Overall, the Group’s expectation is for loans growth in our three home markets to be in-line with industry growth in FY2021.
10. **Gross Impaired Loans (GIL)**

What is the reason behind the higher GILs recorded in Singapore and Indonesia vs Malaysia?

In the recent past years, the weakening external environment arising from declining oil prices, trade war volatility and liberalisation of policies for specific sectors (i.e.: power sector in Singapore) did result in some corporate borrowers in Singapore and non-retail clients in Indonesia display asset quality weakness, thus increasing the level of impairments in those markets.

With reference to the response in Question 9, our decision to reshape our Singapore corporate book through paring down of exposures, as well as our de-risking and re-profiling of the Business Banking book in Indonesia resulted in the total loans of both markets contracting, exacerbated by the impact of the pandemic. As such, impaired loans as a proportion of total loans would appear larger.

We have performed a review of our loan portfolios in Singapore and Indonesia and tightened data governance and risk reporting systems to ensure that we are better equipped to accurately identify risks moving forward.
11. One of the Business Strategic Thrusts under M25 is to be a Global Leader in Islamic Finance. Maybank is already the largest Islamic finance provider in Malaysia and Asia Pacific, and consistently near the top of the Sukuk League Table for the past 5-years.

a) How will Maybank expand its leadership position in Islamic Finance going forward? Is Maybank looking to go into specific markets outside of Asia Pacific?

In the immediate to medium term, Maybank Group Islamic Banking (MGIB) will continue to focus on its core markets i.e., Malaysia, Indonesia, and Singapore in growing its Islamic Banking business. In Malaysia, we will be focusing on our Islamic Signature initiatives such as investment accounts, Islamic Wealth Management, Halal Economy, Islamic Social Finance, and digital banking solutions. MGIB’s business in Indonesia and Singapore will cover both retail and non-retail, serving all segments of the population and we remain positive on the growth prospects even amid the pandemic. In these countries, there will be in-country growth strategies as well as initiatives to link our 3 core markets, through products and services.

In addition to these core markets, MGIB has also recently established an Off-shore Branch at the DIFC Dubai (officially launched in February 2020), which focuses predominantly on wholesale/Non-Retail business activities.
Dubai’s presence is also intended to serve as a gateway for the Maybank Group to foray deeper into the GCC/Middle East markets. Given Maybank Group’s significant presence in ASEAN, the Dubai Office is also expected to pave the way for a better linkage between ASEAN and GCC, especially in the areas of Islamic Trade Finance, the Halal Economy and Islamic Wealth Management. Other than the core markets and Dubai/GCC footprint, MGlB will continue to look at opportunities to participate in Islamic transactions in other markets and regions, not confining itself to markets where it has physical presence only.

b) What is the strategy for Maybank opening the branch in Dubai and how is the performance of this business doing so far?

Our Dubai office focuses on wholesale banking, including provisions of Sukuk, financing and trade finance to top tier clients such as Government, Government-related entities and financial institutions with a focus on UAE, Saudi Arabia, Qatar and Kuwait. The slowdown in economic activities in 2020 reduced Sukuk issuances in GCC to USD 48 billion compared to USD 51 billion in 2019, representing a drop of circa 6%. The same applied to Islamic financing and global trade export volumes from the GCC, which witnessed a reduction in 2020 by 42% (2020: USD 15 billion, 2019: USD 26 billion) and 11% (2020: USD 687 billion, 2019: USD 772 billion) respectively. Moving into 2021, Sukuk, financing and trade flows are expected to see an increase on the back of record-low interest rates, recovery in oil prices and flush liquidity.
Despite the challenging economic landscape, we remain optimistic for GCC economic recovery which reacted very swiftly to announce multiple economic stimulus packages to support the economy and mitigate the effects of the crisis. Tourism is also expected to pick up soon, especially in the UAE, where it has been reported by ‘Our World in Data’ dated 13 March 2021 that UAE is the second country globally with the highest number of vaccination doses administered per 100 people.

Maybank Islamic (via Dubai office) has been mandated as one of the Joint Lead Managers for Dubai Islamic Bank Sukuk and distributed Republic of Indonesia Sukuk in 2019. It has also linked Maybank Group to a few transactions namely feeding investors from GCC region for Petronas Bond, and securing joint lead manager role for APICORP bond and several letter of credit advising transactions in 2020. In 2021, Dubai office started the year with participation in a syndicated financing for a government related entity in Sharjah, UAE and currently closing a financing transaction for an Islamic bank in Qatar.
12. Could you point out to us where we can find the “...standalone Sustainability Report 2020”? We could not locate the report on Maybank / Maybank Foundation’s website. [Please refer to Pg 99 of Annual Report 2020]

Maybank Group’s Sustainability Report 2020 is targeted to be published on our website by end of day on 14 April 2021.