Humanising Financial Services SINCE 1960

Maybank

Press Release

27 August 2020

Maybank 2QFY20 PBT at RM1.26b

2QFY20 at a glance (Y-o-Y)

- Net fund based income 7.8% lower at RM3.84b
- Net fee based income rose 5.0% to RM1.81b
- Net operating income declined 4.1% to RM5.65b
- Overhead expenses registered 4.1% drop to RM2.71b
- Pre-provisioning operating profit at RM2.94b from RM3.07b a year earlier
- Net impairment losses at RM1.74b from RM452m last year
- Profit before tax at RM1.26b, and net profit at RM0.94b
- Healthy liquidity position with Group LCR at 140.5%
- Robust capital position: 19.04% total capital ratio & 15.43% CET1 ratio
- Cost to income ratio flat from 47.9% a year earlier

Maybank, Southeast Asia's fourth largest bank by assets, today said that its profit before tax (PBT) for the second quarter ended 30 June 2020 (2QFY20) was 52.6% lower at RM1.26 billion compared with RM2.65 billion in the same period last year, as the Group booked in the impact from the movement restriction orders as well as the reductions in interest rates across most of its regional markets arising from the COVID-19 pandemic. Net profit for the quarter declined by some RM1 billion or 51.5% to RM941.7 million from RM1.94 billion a year earlier.

Net fund based income for the quarter came in lower by RM326.5 million compared to 2QFY19, mainly as a result of the Day-One modification loss arising from the blanket moratorium for fixed rate financing and the 50 basis points (bps) cut in the Overnight Policy Rate. This was offset by the higher loan drawdowns, particularly for the SME and mortgage segments, strong growth in our current and savings accounts (CASA) deposits which increased our CASA ratio to 40.2% as well the funding relief plans for the SME segment. As of 14 Aug 2020, the Group had disbursed a total of RM1.4 billion under the BNM Special Relief Facility loans to SMEs.

Fee-based income for 2QFY20, meanwhile, registered a 5.0% rise, buoyed by better investment and trading returns, as well as improvements in unrealised gain on financial assets and investments. Combined together, net operating income was 4.1% lower at RM5.65 billion from RM5.89 billion a year earlier.

Given the subdued operating environment during the quarter, cost control remained a key focus of the Group, which resulted in overhead costs registering a 4.1% drop to RM2.71 billion in 2QFY20 from RM2.82 billion in 2QFY19. Net impairment losses for 2QFY20, however, rose to RM1.74 billion compared with RM452.3 million a year earlier as the Group maintained a prudent stance and increased its forward looking assumption provisioning, given the heightened possibility of a drawn out pandemic which is expected to further affect businesses and individuals globally.

Maybank Chairman, Datuk Mohaiyani Shamsudin said, "The quarter under review has been one of the most challenging we have experienced as a Group and unfortunately, the outlook continues to remain uncertain given that a vaccine has yet to be found, although there are some indications of green shoots."

"Notwithstanding this, we are encouraged that our core business operations have progressed unhindered throughout this period, even as we have been rethinking our strategy for the future. While we are committed to working with our customers to navigate through this pandemic, we are at the same time preparing ourselves to come out of it agile and ready to operate as a reconfigured business, where necessary. We will have to thrive in a very different world, ensuring we can continue to create optimum value for our stakeholders," she added.

Meanwhile**, Maybank Group President & CEO, Datuk Abdul Farid** Alias said, "Our results are a reflection of what we have gone through, namely the movement control order which was necessary to contain the spread of the outbreak; the subsequent policies on interest rates as well as the proactive measure on the moratorium which was meant to help all of us to have the opportunity to re-group and redraw our plans. That period has given all of us the time to make the necessary adjustments for us to be productive again, albeit within what is now known as a new normal. Once these are done, we can now focus on helping our customers who are affected by the COVID-19 pandemic to be able to continue with their business operations and their lives."

He added, "What has assisted us greatly has been our strategy in maintaining superior liquidity and capital levels, and we will continue to maintain a strong balance sheet to give us the capacity to pursue business opportunities when the cycle picks up. At the same time, we will continue to seek growth opportunities – whether in the consumer and global banking segments, insurance and Islamic banking - while accelerating our digital offerings to capture an even larger market share. In addition, we will intensify our focus on managing costs and risks to help us remain resilient for the long-term."

Dividend
Given the fluidity of the current environment owing to the COVID-19 pandemic, Maybank will continue to prioritise capital and liquidity preservation. The Group is therefore not proposing an interim dividend for the six month period ended 30 June 2020 as we are just beginning to emerge from the pandemic.

1HFY20 at a glance
For the half year ended 30 June 2020 (1HFY20), the Group's net operating income grew by 5.3% to RM12.37 billion on the back of a 27.8% rise in net fee based income, mitigating a 3.4% decline in net fund based income. Pre-provisioning operating profit improved 9.9% as cost discipline yielded flat overheads year-on-year (Y-o-Y).

Net impairment losses, however, rose to RM2.77 billion from RM1.09 billion a year earlier on account of proactive provisioning recognised in the first half, coupled with some account write-offs. This resulted in a 20.6% dip in PBT to RM4.05 billion, while net profit came in at RM2.99 billion compared with RM3.75 billion last year.

Sustained efforts in cost management resulted in the Group's cost-to-income ratio improving further to 45.6% in 1HFY20 from 47.9% a year earlier, as income growth far outpaced overheads growth by some 5% Y-o-Y.

Loans & Deposits
The Group's Malaysian operations recorded a steady loan growth of 4.4% year-on year as at 30 June 2020, although this was offset by an 8.4% contraction in its overseas market as part of an ongoing strategy to ensure portfolio growth was in line with the current risk posture arising from the pandemic outbreak. This resulted in a marginal 1% dip in Group gross loans from a year earlier.

Deposits, however, increased 2.2%, led by strong increases of 7% and 1.2% in Singapore and Malaysia respectively, as the Group continued its focus on growing its lower-cost funding base in home markets. This resulted in the Group's CASA ratio surging to 40.2% as at June 2020 compared with 34.9% a year earlier.

In spite of the steady growth in deposits, particularly CASA deposits, net interest margin (NIM) for 1HFY20 declined by 15 bps to 2.09% compared with 2.24% a year earlier arising from the interest rate cuts as well as net impact from the Day-One modification loss for fixed-rate financing assumptions. For 2QFY20, the compression in NIM was higher by 24 bps to 1.95% from 2.19% in 2QFY19. Nevertheless, the Group continues to maintain active oversight on the management of assets and liabilities as well as pricing discipline to minimise NIM compression given the heightened pressures which are expected to remain throughout the year.

Liquidity & Capital Strength
Maybank maintained robust liquidity and capital strength during the period under review, with its CET1 ratio at 15.43%, and total capital ratio of 19.04%, remaining as one of the best capitalised banks in the region. The Group's liquidity coverage ratio was also a healthy 140.5% - well above the regulatory requirement of 100%.

Asset Quality
Notwithstanding the increase in provisioning, the Group saw an improvement in asset quality with Gross Impaired Loans (GIL) ratio improving to 2.49% in June 2020 from 2.62% in June 2019. This was also significantly better when compared with the preceding 1QFY20 where the Group's GIL was 2.71%. While new non-performing loan formation remained relatively benign in 2QFY20, the Group took the proactive stance to increase management overlay for specific business and corporate borrowers in home markets displaying weakness, as well as for some retail portfolios in markets where weaker macroeconomic variables are foreseen.

The Group continues to ensure stringent monitoring of its credit portfolios, undertaking proactive engagements with clients who may be impacted by the challenging business conditions to ensure they are able to manage their financial obligations through this period.

Sectoral Review
Group Community Financial Services (GCFS) registered a 4.8% decline in net operating income to RM6.33 billion as overall business activities have slowed down due to the movement restrictions imposed. As a result, net fund based income dipped 3.2% while net fee based income declined by 9.7%. For the Malaysian operations, loans expanded by 5.6%, lifted by 6.1% growth in the Non-Retail segments and a 5.4% rise in the Consumer segment, contributed mainly by the growth in Mortgage portfolio of 11.8% Y-o-Y. Group Wealth Management, another key focus segment for the Group, maintained its upward trajectory with Total Financial Assets rising 8.9% to reach RM227.1 billion compared with a year earlier.

Group Global Banking (GGB) recorded a 15% increase in net operating income to RM5.21 billion for 1HFY20 on the back of a robust 32.7% rise in net fee based income to RM2.45 billion and a 2.8% rise in net fund based income to RM2.77 billion. This revenue growth is supported by the resilience of the Global Markets, Corporate Banking and Brokerage business amidst the challenging market landscape. Pre-provisioning operating profit rose by 23.4% to RM3.73 billion. Corporate banking loans in Malaysia recorded a 0.7% rise to RM81.0 billion on the back of a 6.3% increase in term loans. The focus for the business in 2QFY20 was to ensure that we facilitate our clients to weather through the economic impact of Covid-19.

The **Group's Islamic Banking** business recorded a profit before tax of RM758.3 million in 1HFY20 compared with RM1.60 billion a year earlier on the back of a 3.9% dip in total income, net Day-One modification loss impact and higher impairment loss. Financing and advances, however, rose 6.5% while Deposits & Investment Accounts saw a 4.4% increase. Gross financing at **Maybank Islamic** rose to RM196.5 billion on the back of a 10% increase in CFS financing. As at June 2020, Islamic financing constituted 61.7% of Maybank's total domestic financing, with Maybank Islamic ranking No. 1 in Malaysia in terms of market share of Islamic assets at 29.2%.

Etiqa Insurance & Takaful registered a PBT of RM450.3 million for 1HFY20 compared with RM528.2 million a year earlier, on the back of an 8.1% decline in net operating income and due to a more moderate increase in the value of fixed income investments. Total net adjusted premiums rose 3.0% lifted by a 7.4% increase in Total Life & Family premium while Total General premium declined 2.2% Y-o-Y. Total assets as at June 2020 meanwhile, rose 15.1% Y-o-Y to hit RM44.7 billion from RM38.8 billion a year earlier. Etiqa maintained its top position in terms of market share for General Insurance and Takaful (Gross Premium) and fourth in terms of Life/Family (New Business).

Key Home Markets

PT Bank Maybank Indonesia Tbk reported that its Profit after Tax and Minority Interest rose by 7.0% to Rp809.7billion for the first half ended 30 June 2020 despite the significant market volatility and disruption as a result of the Covid-19 outbreak. The improved performance was on the back of improvement in fee based income as well as sustained strategic cost management. The Bank reported growth of 1.4% in fee based income to Rp1.2 trillion in June 2020. In the previous year, the Bank included a one-off fee income from the settlement of domestic arbitration which amounted to Rp101.0 billion. Excluding last year's one off fee income, the recurring fee based income increased by 11.0% which came mainly from Global Market related fees, bancassurance, investment, and e-channel transaction fees.

Profit before tax for **Maybank Singapore** rose by nearly five times to SGD85.84 million in the first half of 2020 compared with SGD17.19 million in the same period last year. This was on the back of a 17.4% Y-o-Y rise in net fee based income mainly attributed to investment gains and wealth management, which offset the lower contribution from treasury, trade and cards related income, as well as lower loan loss allowances. Net fund based income, however, was 18.3% lower Y-o-Y owing to a 9.1% contraction in loans. Deposits rose 7.0% Y-o-Y to SGD48.8 billion, with the CASA ratio rising to 34% in June 2020 from 29% in December 2019.

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