

Maybank records pre-tax profit of RM1.67B for FY09

Publish Date: 25 August, 2009 - 10:56

Maybank records pre-tax profit of RM1.67 billion for FY2009

August 25, 2009

Maybank today announced pre-tax profit of RM1.67 billion for [the financial year ended 30 June 2009](#) compared to RM 4.09 billion in the previous year. Operating profit totaled RM3.06 billion for the year compared to RM4.57 billion previously.

The lower profit was largely due to higher loan loss provisions, interest on the additional RM9.1 billion capital securities and subordinated debts issued in 2008 and the impairment charges in relation to its investment in Bank Internasional Indonesia (BII) and MCB Bank of Pakistan of RM1.62 billion and RM353 million respectively.

Despite the impairment charges totaling RM1.97 billion, Maybank Group remained profitable with Group profit after tax and minority interest of RM691.9 million compared with RM2.93 billion previously. Excluding the impairment charges and the reversal of the allowance for the non refundable deposit for BII acquisition, Maybank Group's core profit after tax stood at RM2.18 billion.

Following the completion of the RM6 billion Rights Issue in April 2009, Maybank Group's shareholders' funds increased to RM24.9 billion as at 30 June 2009. Capital Adequacy Ratio strengthened further to 14.8% (after deducting the proposed dividend), the highest among the top 3 banks in Malaysia.

Dividend

The Board of Directors has proposed a final dividend of 8 sen per share less 25% income tax for the year ended 30 June 2009. This translates into a dividend payout ratio of 61% of the total Group profit after tax for the year.

Financial Results

Net interest income of the Group was 9% higher at RM5.92 billion this year compared to RM5.43 billion previously. This was achieved on the back of higher loans growth and improved lending margins contributed by the newly acquired BII.

The higher net interest income was also achieved despite the reduction in the Overnight Policy Rate which saw the Base Lending Rate being revised on three occasions during the year from 6.75% to 5.55% currently, as well as additional interest expense of RM445.3 million due to the issuance of capital securities and subordinated debts during the financial year. The net interest margin of the Group for FY09 remained relatively stable at 2.72%.

Non interest income of the Group for the year (including marked to market gain/loss on derivatives and securities held for trading) was RM3.38 billion compared to RM3.17 billion previously. The Group continues to benefit from its strong customer franchise with transactional fee income growing 4.2% to RM3 billion.

Overhead costs for the Group was higher at RM5.56 billion from RM4.25 billion previously mainly due to higher personnel costs which included salary adjustments for certain unionised employees, higher establishment cost, administrative and general expenses, increased insurance claims at Etiqa as well as the result of consolidation of BII in the current financial year. Excluding the expenses of BII, overheads grew RM584 million during the year.

The Group's loan loss provisions for the year was RM1,698.8 million or 109.7% higher than that for the preceding year mainly due to higher loan loss provision of RM401.4 million at Maybank as well as RM121.2 million at the subsidiaries level and the consolidation of BII loan loss provisions for the first time in the financial year by RM366.2 million.

Despite the increase in loan loss provisions, the Group showed greater prudence in its loan loss coverage which stood at 112.9% as at June 2009 compared with 101.1% in June 2008.

For the 4th quarter ended 30 June 2009, excluding the impairment charges, Maybank Group's core profit stood at RM612.4 million.

Loans & Deposits

Gross loans for the Group, including BII, grew 13% during the year. Loans at the Malaysian operations grew 6.4% while overseas loans including BII grew 28.9%. BII recorded a loans growth of 1.4% while Singapore operations saw loans grow by 5.0%.

The Group showed resilience in consumer and corporate banking segments as well as in maintaining asset quality. Consumer loans grew by 8.3% during the year led by increases in securities financing (+10.6%), credit card receivables (+11.3%), automobile financing (+11.6%) and mortgages (+1.6%). Loans to the corporate sector surged 30% offsetting a contraction of 27% in SME and business loans.

Total deposits from customers grew by 13.6% to RM212.6 billion while total assets increased by 15.4% to RM310.7 billion.

Domestic market share remained strong at 21.3% for current accounts deposits, 26.6% share in savings deposits, and 13% in fixed deposits. Market share for total traditional deposits was 16.8%.

Sectoral Review

Maybank's Malaysian banking operations remains the largest contributor to the Group's results, contributing 72.5% to total Group pre-tax profit.

Maybank ranked first in individual total deposits with market share of 18%. Maybank also retained its number one positions in unit trust loans, credit card and trade finance with 73.8%, 15% and 24.1% market share respectively.

Maybank2u.com topped the list as the most visited local site with more than 1 million visitors reaching nearly 12% of all Malaysians online. Maybank2u.com has 3.8 million registered users and commands a market share of 54.8%.

Domestic loans account for 67.2% of total Group loans. Loans to the corporate sector amounted to 24% of total Group loans while SME loans amounted to 10.7%, consumer loans 32.5% and international loans 32.8%.

Maybank Islamic remains the number one Islamic bank in Malaysia with total assets of RM37.7 billion as at 30 June 2009. For the financial year, the Bank recorded a profit before tax and zakat of RM482.1 million compared to RM273.2 million last year, driven by higher financing portfolio and customer deposits as well as improved returns on earning assets. Profit after tax and zakat for the period surged 81.6% to RM361.1 million. Maybank Islamic's financing to deposit ratio has improved to 105% from 113% and its capital adequacy ratio stood at 11.55%.

The Investment Banking Group showed lower pre-tax profit of RM120.1 million compared with RM170.8 million last year. Although net interest income was higher during the year and overhead expenses lower, the results were impacted by lower income in respect of Maybank Investment Bank's underwriting and brokerage fees which declined by RM14.4 million and RM30.6 million respectively. In addition, profit was also affected by lower write-backs in loan loss and provision this year.

Maybank Investment Bank (Maybank IB) ranked second by value in Mergers & Acquisitions, Corporate Finance, Underwriting and Fund Raising in the industry with market share of 35.4%, 30.4%, 30.2% and 29.4% respectively. In the Debt Capital Market category, Maybank IB ranked No 2 in issuance and amount raised as ranked by MARC.

The Insurance Group recorded a lower pre-tax profit of RM476.7 million compared with RM515.8 million last year. The performance was mainly impacted by higher insurance claims and lower investment yields.

Total premium, however, grew 12.4% in 2009 to RM3,634 million, with improvement in both Life/Family (14.5%) and General business (9.5%) while assets grew 5.4% in 2009 to RM19.9 billion.

In the insurance industry, Etiqa is among the leader, ranking No 2 as Overall Insurer, No 1 General (Conventional + Takaful) insurer, No 1 in Life / Family new business, No 1 Takaful Insurer with Family Takaful contribution exceeding RM1 billion for the first time. Etiqa's claims ratios in all classes are below industry average. Etiqa's ratio for motor claims is 73.5% (industry 83.3%), marine, aviation & transit is 13.3% (industry 48.1%) and fire is 16.0% (industry 28.6%).

In the international portfolio, Singapore contributed 61.9% of total loans, followed by Indonesia at 19.6%.

Pre-tax profit at the Singapore operations grew 5.9% to SGD247.7 million from SGD233.8 million previously, supported mainly by a 24.2% increase in fund based income. Although provisions rose 42.7% due to a tougher operating environment, the gross NPL ratio decreased to 1%, demonstrating improved asset quality whilst growing the loans base. Housing loans comprise 26% of Singapore's loans portfolio, followed by car loans at 22%.

The financial results of BII for the period ended 30 June 2009 are not available as BII, being a listed company, has yet to announce the results to the stock exchange.

MCB, Maybank's 20% associate, also reported a commendable profit after tax of PKR7,920 billion, despite a weakened economic environment. Total income recorded a growth of 34.5% but this was offset by higher provisions of PKR3,892 million. The gross NPL ratio stood at 7.6% while the loan to deposit ratio stood at 71.5%.

Asset Quality Improves

Despite the challenging operating environment, Maybank's asset quality continues to improve with net NPL ratio declining to 1.64% as at 30 June 2009 from 1.92% in June 2008.

The Group's risk weighted capital ratio stood at 14.8% as at 30 June 2009, after deducting the proposed dividend. At the Bank level the risk weighted capital ratio was 14.06%.

Impairment Charges

The Group completed the Purchase Price Allocation (PPA) exercise in accordance with the 'FRS3 - Business Combination' and 'FRS 138 - Intangible Assets' guidelines in relation to the BII and MCB acquisitions. An assessment of impairment was also conducted in accordance with the 'FRS 136 - Impairment of Assets' guidelines. Following the robust PPA and impairment exercise, the Group made the impairment charge of RM1.97 billion comprising RM1.62 billion for BII and RM353 million for MCB.

Following the impairment charges, the carrying amount of BII and MCB as at June 2009 in the books of Maybank Group stands at RM5.77 billion and RM2.23 billion respectively.

The recoverable/carrying amount is computed based on the value-in use method which applies the discounted cash flow model using Free Cash Flow to Equity projections prepared by management, covering a 10 year period with a certain compounded annual growth rate derived on historical data and economic outlook of the country in which the subsidiaries or associates operate. The impairment charges are the difference between the recoverable/carrying amount and the cost after taking into consideration foreign exchange fluctuation loss and movement in net assets and amortisation of intangible assets from the acquisition date to 30 June 2009.

The impairment charge is a non-cash charge and does not affect the capital position of Maybank because of the manner in which the Risk Weighted Ratio is calculated which has already negated any effect of impairment.

Despite the impairment, the Group continued to show steady operating profit for the financial year just ended. Had the impairment charge not been taken, the Group would have otherwise recorded a profit after tax of RM2.66 billion for the year ended 30 June 2009.

LEAP 30 Performance Improvement Programme Update

The first wave of tactical initiatives launched by LEAP 30 has successfully generated significant financial impact and created momentum for business improvement throughout the Group. As at end June 2009, total financial benefits amounted to RM40 million in pre-tax profit contribution as well as RM143 million in cost savings/avoidance.

To date, LEAP 30 initiatives include the Tactical Sales Simulation for Consumer Banking which achieved 100% increase in sales performance for pilot branches involved, deepening share of corporate customer's wallet for Corporate Banking and people initiatives to enhance leadership skills and build a talent execution culture for the Group.

Prospects

Global economic recovery is anticipated to pick up towards the end of 2009 and record positive growth in 2010 given that the United States and other developed economies have begun showing signs of stabilising following contraction in real GDP in Q109. The Malaysian economy is expected to experience a similar recovery pattern. Together with the upturn in the external sector, the recovery in domestic consumer demand and positive impact of the government stimulus plan bodes well in lifting the economy back into positive territory in 2010.

The banking industry in Malaysia is expected to remain resilient despite slower economic growth as banks continue to be supported by strong capitalisation, excess liquidity and healthy asset quality. Loans growth is expected to remain positive with improving domestic demand and higher government spending. However, the industry will remain competitive especially with the gradual introduction of liberalisation measures. Risk of margin compression and asset quality deterioration is expected to be well contained.

Maybank's core commercial banking operations will remain the dominant revenue contributor and is expected to be supported by better performance from the investment banking and insurance divisions. Capitalising on its extensive network, human capital resources and brand strength, the Group is confident of enhancing loans growth and capturing lower cost deposits in the new financial year. Its prudent risk management practices and stringent asset quality management should restrain risk of deterioration in asset quality.

International operations is also expected to be a key driver of growth with special emphasis on Bank International Indonesia, which has identified various initiatives to improve loans growth and fee based income as well as derive synergies to enhance revenue generation.

The initial positive effects of the LEAP30 performance improvement programme is expected to gain traction to deliver further enhancement in the financial and operational performance of the Group, hence strengthening Maybank's core business and franchise.

Against the backdrop of an improving economic environment towards the end of 2009 and into 2010, the Group expects its financial performance for the current financial year ending 30 June 2010 to improve significantly.

Key Performance Indicators - FY 2010

- ROE of 11%
- Revenue growth of 8%.

Comments by Chairman

It has been an extremely challenging time for the Group in the wake of global financial crisis and weakened economic situation in the financial year. Nevertheless, the Group's ability to continue to record steady operating profit and reinforce its capital strengths via a successful rights issue that was the biggest in Malaysian corporate history despite the difficult market environment, proved encouraging. We have made some bold moves this year in the interest of future growth and I am confident that we will see a transformed Maybank in the years ahead, stronger in financial leadership both in the country and region.

Comments by the President and CEO

We made the firm decision to take the necessary cuts this year both in terms of higher provisioning and the impairment for our investment in BII and MCB. Despite the challenges of the economy and increased competition, the Group's solid foundation in terms of capabilities, resources and financial strength, puts us in good stead to achieve the goals we have set for ourselves in the near and long term. I am confident that with the continued support of our employees in executing our LEAP 30 performance improvement initiatives, customers and shareholders, we will see Maybank emerge stronger as we continue our pursuit to seek new grounds and opportunities for greater growth in Malaysia and abroad.

Moving forward, we are optimistic that our overall financial performance will improve both domestically and internationally as reflected in our target ROE of 11% on our enlarged capital base (post our RM6 billions rights issue) for the financial year ending 30 June 2010.

Links ():

<http://www.maybank.com.my/investor-relations/news-releases/maybank-records-pre-tax-profit-rm167b-fy09>