Bernama - Malaysian Banks Record Subdued Performance But Remain Resilient

Tuesday, Sep 08 2020

KUALA LUMPUR, Sept 8 -- Clouded by the fragile global economic situation resulted from the COVID-19 pandemic, the Malaysian banking sector has shown a subdued performance but remains resilient and continues to generate profit.

As the economic downturn, resulted from lockdowns and limited economic activities, is showing signs of abating, governments around the globe have come out with economic stimulus packages and measures to cushion the impact, including providing loan moratorium and cutting interest rate, which have directly impacted banks earnings.

Malaysian Government Measures

Malaysia is no exception. The government has introduced stimulus packages, which included an automatic blanket loan moratorium which came into effect on April 1, 2020 and ended on Sept 30, 2020.

Finance Minister Tengku Datuk Seri Zafrul Aziz said the value of the moratorium on loan repayments by financial institutions stood at RM78.14 billion as at Aug 21, 2020.

On the other hand, Bank Negara Malaysia (BNM), since January this year, reduced Overnight Policy Rates (OPR) by a cumulative amount of 125 basis from 3.00 per cent to 1.75 per cent, the lowest level since 2004.

“These were to help ease the debt service of borrowers and support financing activities, so that the financial system in Malaysia continues to remain orderly.

“Such moves were crucial to avoid economic shocks as experienced during the Asian Financial Crisis (AFC), which saw a contraction of 7.36 per cent in gross domestic product (GDP) in 1998,” BNM Governor Datuk Nor Shamsiah Mohd Yunus said.

BNM also announced a reduction in the Statutory Reserve Requirement (SRR) ratio of 100 basis points to two per cent in March 2020, as well as additional SRR flexibility given to Principal Dealers by recognising MGS and MGII as part of SRR compliance.

This move has added liquidity worth about RM30 billion to the banking system and it is part of BNM's ongoing efforts to ensure that liquidity is sufficient to support financial intermediation activities.

Commenting on the readiness of certain quarters to extend the automatic moratorium, the central bank governor said it is very important for the banks to support the recovery by not being too risk-averse.

Nor Shamsiah said Malaysia is probably the only country in the world that has implemented an automatic moratorium and could afford to do

so because the banks have invested a lot during good times "to build our buffers and for the banks to build their practices and infrastructure."

"This has allowed them to have that space and buffers to use but it is also important for us to be prudent in utilising these buffers (savings).

"When your buffers are very thin, the banks are going to be very risk-averse," she noted.

Nor Shamsiah added it was also crucial to ensure that banks have enough buffers to absorb the possible increase in nonperforming loans (NPLs).

Malaysian Banks' Performance

On the back of this scenario, top Malaysian banks, Malayan Banking Bhd (Maybank), Public Bank Bhd and CIMB Group Holdings Bhd Q220 had all posted a drop in their net profit in the second quarter by 51.55 per cent, 24.84 per cent and 82 per cent, respectively.

Maybank saw its net profit dropped to RM941.73 million from RM1.94 billion a year earlier, Public Bank's net profit reduced to RM1 billion from RM1.33 billion last year, and CIMB's net profit slipped to RM277.08 million from RM1.51 billion.

The banks, among others, attributed the weaker performance to lower net interest income, significantly higher allowance for impaired loans amid a COVID-19 pandemic-driven weaker economic outlook, and the automatic loan modification loss.

Performance
- Links
- HRMIS
- Malaysian Anti-Corruption Commission (MACC)
- Microsoft Master Licensing Agreement
- MSC Malaysia
- MyGovernment
- MyTradeLink
- Official Website of KSN
- Open Data Portal
- Public Sector Data Dictionary
- Portal Registrar Office Of Credit Reporting Agencies (PPK)
- Agency
- Accountant General's Department of Malaysia (JANM)
- Bank Simpanan

It was worth noting also that these top banks did not declare interim dividend payments for the June quarter, but despite the move Maybank and CIMB assured that they remain committed to their dividend payout policy such as of 40 per cent to 60 per cent of net profit to shareholders.

Last year, the banks with a Dec 31 financial year-end -- Maybank, CIMB, Public Bank and RHB Bank Bhd -- declared dividends in that quarter.

The banks also continued to post moderate loan growth with Maybank registering 4.4 per cent, Public bank growing 3.4 per cent and CIMB rising 3.9 year-on-year, driven by consumer laons, particularly morgages.

Regionally, Singapore's three largest banks, namely DBS Group Holdings, Oversea Chinese Banking Corp and United Overseas also reported a sharp fall in the second quarter net profit compared to a year ago as they beefed up reserves in anticipation of the challenges ahead.

DBS Group Holdings reported a 22 per cent fall in the second-quarter net profit while smaller rival United Overseas Bank recorded a 40 per cent year-over-year decline in the second-quarter net profit

Commenting on the sector's performance, Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the Q2 performance has been very much anticipated.

The Malaysian economy saw the sharpest contraction in history during June quarter by 17.1 per cent, reflecting the dire impact of the coronavirus lockdown imposed through the three-month period.

"This would have an impact on financing growth and asset quality, while the reduction of OPR by 125 basis point would have a major impact on banks' net interest margin (NIM)," he said.

Nasional (BSN)
- Bursa Malaysia Berhad
- Employees Provident Fund (KWSP)
- Inland Revenue Board Of Malaysia (LHDNM)
- Labuan Financial Services Authority (Labuan FSA)
- Public Private Partnership Unit
- Public Sector Home Financing Board (LPPSA)
- Retirement Fund (Incorporated) (KWAP)
- Royal Malaysian Customs Department (JKDM)
- Sabah Federal Treasury
- Sarawak Federal Treasury
- Securities Commission

However, Malaysian banks remained resilient with sufficient buffers, while the bond markets, which have been doing well, continued to provide some support to their earnings following the actual gains in the marketable securities such as bonds and Sukuk, he told Bernama.

“The subsequent period, especially post moratorium will be closely watched -- whether the repayments trend will continue or otherwise.

“Banks have been very proactive by blasting their messages to existing clients to come forward should they faced financial difficulties. In that sense, banks will remain guarded in their financials as the economic uncertainties remain elevated and risk of higher impairment is clearly visible,” he noted.

Meanwhile, Bank Muamalat Malaysia Bhd economist Izuan Ahmad opined that essentially, moving forward downside risks to the earnings projections for the local banking sector would come from modification losses for the financial year (FY) 2020.

“A slower-than-expected economic and financial recovery could also lead to a weaker operating income, higher-than-expected impairment allowances and further OPR cuts that reduce NIM (net interest margin).

“In addition, other factors that could also adversely affect the projected rebound in banks’ earnings include possible resurgence of virus infections, ongoing geopolitical tensions, as well as continuous domestic political uncertainty,” he said.

He also projected that revenue growth, which comes from loan/financing, to reduce to 1.5 per cent in 2020 versus 3.9 per cent in 2019 and stays subdued at 3.1 per cent in 2021.

Malaysia
- The Central Bank of Malaysia (BNM)
- Valuation and Property Services Department Of Malaysia (JPPHM)
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The NIM is expected to remain flattish in 2021 after narrowing by circa 15 basis points in 2020. On the other hand, banks' investment portfolios could potentially reap healthy trading gains from the likelihood of further downtrend of bond yields in Q2, he added.

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