

# Recommendation for cimb group finance essay



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Maybank Bhd is the largest financial services provider in Malaysia since its incorporation. It has been leading in the banking industry for several years. Maybank was founded by Khoo Teck Puat on 31 May 1960 and commenced operations on 12 September 1960. On 17 February 1962, Maybank was listed on the Bursa Malaysia. The Maybank Group today has over 46, 000 employees serving more than 22 million customers globally.

Maybank offers a full range of commercials, corporate and private services including commercial banking, Islamic banking, investment banking, insurance, stock broking, offshore banking, leasing and hire purchase, factoring, nominee services, trustee services, asset management, venture capital and Internet banking.

Maybank has an international network that covering in 20 countries namely Cambodia, Vietnam, Uzbekistan, Indonesia, Bahrain, China, Papua New Guinea, Philippines and Pakistan of over 2200 braches. Maybank also enlarged its network to New York and London. Furthermore, Maybank was

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the first bank from Malaysia that success granted the right to establish a branch office in China.

The group's key operating subsidiaries including Maybank Investment Bank Berhad, Kim Eng Holdings Ltd, Maybank Islamic Berhad, Etiqa, Bank Internasional Indonesia Tbk. In addition, the key overseas unit subsidiaries of Maybank include PT Bank international Tbk (BII), Maybank Philippines Inc., Maybank (PNG) Ltd in Papua New Guinea and Maybank International (L) in Labuan. (Maybank Overview)

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## **Background of CIMB Group**

The creations of CIMB Group take more than 75 years since year 1924. It has merged few banks in Malaysia and finally forms CIMB Group until now. CIMB Bhd was listed on Bursa Malaysia in January 2003. And in year 2006, CIMB Group was launched as a Regional Universal Bank by the merger of Commerce International Merchant Bankers, Bumiputra-Commerce Bank and Southern Bank. Nowadays, CIMB Group is the second largest financial services provider in Malaysia. (History of CIMB Group)

Headquartered in Kuala Lumpur, CIMB Group retail network of over 1100 branches are covering 18 countries in ASEAN with over 43000 employees. CIMB Group's main markets are Malaysia, Singapore, Thailand and Indonesia by across the following areas which are Wholesale Banking, Consumer Banking, Treasury & Markets, Group Strategy & Strategic Investments, and comprising Investment Banking and Corporate Banking. (Profile of CIMB Group)

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CIMB Group offers a full range of financial products and services, covering corporate and investment banking, consumer banking, treasury, insurance and assets management. CIMB Group have operates under several corporate entities including CIMB Bank, CIMB Investment Bank, CIMB Niaga, CIMB Islamic, CIMB Securities International and CIMB Thai. (Profile of CIMB Group)

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## **Ratio of Maybank and CIMB Group**

May Bank

CIMB Group

Return on Equity Capital (ROE)

61. 78%

15. 17%

Return on Assets (ROA)

1. 12%

1. 36%

Net Interest Margin

1. 74%

2. 22%

Net Non interest Margin

1. 00%

1. 32%

Net Operating Margin

1. 49%

3. 55%

EPS

61. 4sen

54. 2sen

Earning Spread

2. 17%

3. 12%

Return on equity capital (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity capital measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The ROE of CIMB group is 15. 17% in 2011 and the ROE of May Bank is 61. 78% in 2011. In this number shown that the CIMB Group have a greater ROE compare to May Bank. This shows that CIMB Group has more shareholders invested and it generate more profit than May Bank. As a result, shareholder able to receive more return from their money invested in CIMB Group. As the net profit

increases, dividend pay to the shareholder will also increase since the corporation had made a great profit for the year. CIMB Group had shown a good financial position of the company based on the high return on common stock equity (ROE). They had spent wisely on their investment during the year. It is worth to invest as the higher stock price held by the company. It had success to maximize shareholder wealth.

Return on asset (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. In year 2011, ROA of CIMB Group and May Bank is 1.36% and 1.12% respectively. That indicates CIMB Group earning about RM 0.014 for each ringgit in assets and May Bank earning about RM 0.011 for each ringgit in assets. Comparing the numbers, CIMB Group has a bit higher ROA compared to May Bank. This means the CIMB Group gets a higher return generated in relative to the total capital provided than May Bank. Thus, CIMB Group is doing better in investment to generate profits than May Bank.

Net interest margin is a performance metric that examines how successful a corporation's investment decisions are compared to its debt situations. The net interest margin of CIMB Group is 2.22% and interest margin for May Bank is 1.7%. Both of them have generated a positive value of net interest margin. It denotes that the firm's make an optimal decision, because the amount of returns generated were greater than interest expenses by investments. The figure also shows CIMB Group has a higher net interest margin compared to May Bank. This means CIMB Group is more optimal in making decisions.

Net non-interest margin is the measurement of the amount of non-interest revenues of the financial firm has been able to collect relative to the amount of noninterest cost incurred. In 2011, the net non-interest margin of CIMB Group and May Bank is 1.32% and 1% relatively. The result shown that, CIMB Group has higher net non-interest margin. This mean CIMB Group shows better performance in the non-interest revenue compare to May Bank.

Net operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production. The net operating margin for CIMB Group is 3.55% and net operating margin for May Bank is 1.49% in 2011. This means that CIMB Group makes RM 0.036 for every ringgit of sales and May Bank makes RM 0.015 for every ringgit sales. In the calculation show CIMB Group have better operating performance compare to May Bank.

Earnings per share are a portion of a corporation's profit allocated to each outstanding share of common stock. EPS for CIMB Group is 54.2sen and EPS for May Bank is 61.4sen. Both companies have the positive value of EPS which indicates that they are earning profit. According to the EPS between these two banks, we found that May Bank has higher EPS compare to CIMB Group. This indicated that May Bank has higher profitability and performance compare to CIMB Group.

Earning spread is measurement of the effectiveness of a financial firm's intermediation function in borrowing and lending money and also the intensity of competition in the firm's market area. In 2011, CIMB Group has 3.12% of earning spread and May Bank has 2.17% of earning spread.

According to the calculation, CIMB Group has higher earning spread compare to May Bank. This mean CIMB Group is more effective in borrowing and lending money and also the intensity of competition in the firm's market area compare to May Bank.

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## **Risk Analysis for Maybank**

Malayan Banking Berhad (Maybank) is the largest bank in Malaysia. Maybank provides a wide range of service and product to their customers. Over the decades, just like other financial institutions, Maybank had undergone technologic revolution. Nowadays, customer can made transaction or payment through bank electronic support system (maybank2u). However, this system may not operate or function well. For example, some users have experience of unable to receive Maybank TAC number through their phone. It causes inconvenience to Maybank's customer because they cannot made payment via Maybank2u. There was an announcement on Maybank website. It stated, " We are experiencing a general issue with TACs from Maybank2u at the moment. Some users may experience delays in receiving it". The bank is exposed to operation risk.

Besides that, public receive fraudulent telephone calls, emails or SMS claiming to be from Maybank. Those fraudulent telephone calls, emails or SMS will request personal and confidential account details such as personal identification number, passwords, conformation of credit card transaction, and so on from Maybank user. Consequently, their money or credit card will be embezzled. There are a few cases happened and it caused public



unconfident to bank. Public will start panic and withdraw money from bank. The bank's liquidity condition will decrease and be exposed to liquidity risk.

According to Perbadanan Insurance Deposit Malaysia (PIDM), on May 2010, the Prime Minister Dato' Sri MohdNajib bin Tun Haji Abdul Razak, who is also our Finance Minister, had announced the increase in deposit insurance limit to RM 250, 000 from previous RM 60, 000 with effective from 31st December 2010. This will create credit risk, management risk and liquidity risk. Increase of deposit insurance limit cause moral hazard problem to rise. Maybank may invest in through those risky investments or holding risky asset. Maybank will be less incentive to protect bank's benefit and does not mind to hold high risky asset because PIDM will pay off insurance limit up to RM 250, 000.

Next, Bank Negara Malaysia (BNM) announces to raise Statutory Reserve Requirement (SRR) Ratio from 3. 00% to 4. 00%, effective from 16 July 2011. Increased in Reserve Requirement Ratio causes Maybank ability to lending out decreased. Thus, Maybank become more prudent in approving loan with appropriate review and documentation. It can be seen by nonperforming loan ratio of 1. 30% in 2011 compare with 1. 63% in 2010. When nonperforming loan ratios of Maybank decrease, it will cause credit risk to reduce too.

Risk weighted capital ratio of Maybank in 2011 is 15. 36% (assuming full investment of Dividend Reinvestment Plan). Thus, it will expose to liquidity risk and credit risk. Risk weight also known as the capital adequacy framework. The minimum regulatory of capital adequacy requirement for the risk weighted capital ratio is 8% according to BNM rules. Since risk weighted

capital ratio of Maybank exceed minimum requirement of capital adequacy, we can know that Maybank is well-capitalized. Maybank has good liquidity condition and Maybank can loan this amount of money to generate more outcome. However, it will increase the credit risk. Maybank may lend loan to those customer who has high risk.

Furthermore, The star in 2011 stated that “ Maybank had issue RM 1 billion of subordinated notes under its notes programmer of up to RM 3 billion.” Maybank said the subordinated notes including two tranche. Tranche 1 is RM 750million with tenure of 10 years on a 10 non-called 5 basis and Tranche 2 is RM 250 million with tenure of 12 years on 12 non-called 7 basis. The subordinated notes received a strong support from investors. Capital of Maybank will increase by issuing RM 1 billion of notes. Hence, Maybank will not be facing capital risk. Maybank may face market risk due to change of market risk. Maybank may be able to determine the interest rate. Consequently, Maybank will face significant losses.

7From 11 May 2011, Maybank announced to increase its deposit and base lending rates (BLR). Deposit's rate will be risen up to 30 basis points. However BLR will increase by 30 basis to 6. 60% p. a from previous 6. 30% p. a. It will give impact to capital risk, liquidity risk and market risk. BLR is the cost of borrowing money. Increasing BLR causes addition payment added on shoulder on borrower. Deposit rate increase will attract depositors keep their money in Maybank. From Maybank annual report 2011, “ the Group's customer deposit grew 19. 0% to RM 282. 0billion while it increased 14. 9% to RM 201. 5billion at the Bank level.

Last but not least, Maybank also exposed to market risk. In June 2011, Board of director of Maybank had declared that they had stopped the plan that take over RHB Capital Bhd and would not to pursue the possible merger at this movement. When this merger negotiations breakdown, Maybank share price had decline 2 sen to close at RM 8. 82. It is due to great disappointment from investors.

## **Risk Analysis for CIMB Group**

As we know, every business will contain risk while for CIMB Group will also won't be in the exception. To prevent those losses, CIMB Group had employed Enterprise-Wide Risk Management Framework to manage the risk that might face by CIMB Group since year 2008.

At first, the most common risk that will face by a bank is credit risk. Credit risk is the risk which means the declining of assets value for a firm while the loan is one of the important assets that will face this type of risk for a bank. For CIMB Group, they had done some analysis to analyst the credit risk and try to figure out the way to reduce the increasing of the credit risk such as geographic distribution. Geographic distribution is the way of managing the portfolio differently according each country and the value of the loan that provide for each country also will be different. For example the CIMBBG in Malaysia and Singapore, due to headquartered for CIMB Group is in Kuala Lumpur, Malaysia therefore the main credit exposure is much higher for Malaysia which is RM191435925000 compare to Singapore which only have RM16373165000. Besides that, the group risk management will monitor the establish credit limits by daily in tend to reduce the credit risk that will take by CIMB too.

8 Next is about the liquidity risk. Liquidity risk is about the probability of firm can't transform the assets into fund in order to make profit or other purpose. From the risk weighted capital ratio that stated by CIMB Group in year 2011 is around 16.8% which shows the increase of value compare to year 2010 which only have 15%. The announcement of the amount will cause reduce of chance for CIMB Group expose to the liquidity risk and also credit risk as well. According the rule set by Bank Negara Malaysia which is the minimum regulatory of capital adequacy requirement for the risk weighted capital ratio is 8%. By comparing, we will know that the liquidity of CIMB Group is in good condition which will reduce the liquidity risk and credit risk too. This will increase the confident of customers and investment towards CIMB Group in the same time.

On April year 2011, one of the articles from "The Star" state out that CIMB Group had earlier secured several US dollar term loan facilities but will all-in pricing of 0.9%-0.98% per annum which is above the London Interbank Offered Rate (LIBOR). This situation tends let CIMB Group get reduce for liquidity risk but will increase the debt of CIMB Group. On 30 September 2011, CIMB Group announced that they had a market capitalisation of approximately RM51.8 billion. With this high amount of market capitalisation, the liquidity risk that will face by CIMB Group will be greatly reduced at the same time CIMB Group also been proved that dint face the capital risk as well.

Besides that, markets risk also one of the risks that might face by CIMB Group. Market risk is about the probability that the firm loss the position in the market which is the value of firm's investment portfolio declining due to

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economic changes or some of the events that will impact the market. In year 2011, the Dato' Sri Nazir Razak, Group Chief Executive of CIMB Group stated " Our primary disappointment was our share price which significantly underperformed benchmarks." This situation will cause CIMB Group expose to the market risk. Public or investor might lose confidence toward CIMB Group.

9At 2nd February year 2011, one of the article stated that " CIMB said industrial production in emerging markets is growing faster than these developed countries, and this will support liquidity flows into the emerging markets." Furthermore, on April year 2011, CIMB Group had involve in " sukuk issue" and in the same time CIMB Group deputy CEO and treasurer, Datuk Lee K Kwan come out with a statement " The current market environment remains very conducive for corporate issuers including banks to tap the fixed income markets". This kind of statements will tend to reduce the market risk that face by CIMB Group

Reputation risk is about the negative publicity impact that might cause the customers of the firm not to use the services of the firm. For CIMB Group, in order to reduce this kind of risk, some of the activities were carry out in tend to maintain good relation with public. In year 2011, " Breakthrough" brought a van for benefit of 10 farming families in a remote village near Lundu in Sarawak by getting the fund that provide by CIMB Foundation. This activity had reduced the chance that CIMB Group expose in reputation risk.

Operational risk is about the losses that cause by the failures happen in organisation's internal activities. Basel II Pillar 3 disclosures for year 2011

stated that in July 2011, CIMB Group had strengthened their infrastructure and the operational risk management department had been created to taking care the measure of operational risk for CIMB Group. Therefore CIMB Group has greater chance to reduce the operational risk.

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## **Recommendation for Maybank**

### Market risk

Market risk composes by 4 elements which are interest rate risk, foreign exchange rate risk, commodity price risk and equity price risk. In order to reduce the risk, Maybank need to determine whether Maybank has interest-sensitive assets or interest-sensitive liabilities in the period. Market rate of interest is determined by the market and bank only can become price taker and accept the interest rate given. If Maybank has interest-sensitive asset, Maybank will suffer losses if the interest rates decrease. While if Maybank has interest-sensitive liabilities, Maybank will suffer losses if the interest risk increase. From the annual report of Maybank, we can know that Maybank has a negative gap of cumulative interest rate. In order to reduce the risk, Maybank should try to increase interest-sensitive assets and reduce interest-sensitive liabilities. Besides that, Maybank can use various hedging tools to reduce the effect of the currency exposure in the appropriate circumstance. In addition, Maybank can reduce the exposure to market risk through swaps and features or offset it from the on and off balance sheet activities.

### Operating risk

Fraud management is the main cause of increase operating risk. In year 2011, there are many cases about fraudulent telephone calls, SMS or emails requiring bank users' personal financial information. Many people had been cheated and lost a huge amount of money. This cases increase the fear of public. To minimize the fraud, announcement made on the website of Maybank is insufficient. Maybank should undertake a series of initiatives to ensure that the risk arising from the fraud can be reduced as lower as possible. Maybank can implement Anti-Fraud Road show, Awareness Programme and Introduction of Fraud rules to reduce the fraud. It can increase the awareness from public about fraud and criminal activities. Besides that, it also can prevent Maybank employees cooperate with those criminal group by disclose Maybank users' information.

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### Credit Risk

Maybank need to have strong emphasis in creating and enhancing credit risk awareness to reduce the exposure of credit risk. Besides that, Maybank also need to maintain weighted capital ratio at 8%. In order to minimize the credit risk, Maybank should be more prudent on screening borrower's application, repayment ability of borrower, credit standing, valuable of collateral and guarantor of borrower. If the borrower unable to offset the loan, the collateral may reduce the credit risk as much as possible. Furthermore, Maybank can use debt restructuring to reduce non-performance loan. Bank's balance sheet may be burden and facing credit risk due to increase bad loan. Those borrowers who are unable to repay the loan can negotiate with

Maybank. Debt restructuring can reduce the bad loan and provide a win-win situation for Maybank and borrower who unable to offset the loan or mortgage.

### Liquidity Risk

Basically liquidity risk can be defined as funding liquidity risk and market liquidity risk. If bank has a high level of liquidity risk, the bank will face short-of cash and bank run. According to annual report of Maybank 2011, exposure to liquidity risk can be reduced through contracting derivatives where the underlying items are widely traded. Maybank should not hold too much high risky assets because heavier use of purchased funds will cause a shortage of liquidity. Maybank also can diversify funding source to raise the fund. In the point of view, Maybank will have sufficient amount to meet those daily transaction. Furthermore, Maybank can implement a plan or strategy to handle different liquidity crisis scenarios especially during economic crisis.

12 In conclusion, those various risks that exposed in Maybank are influencing to each other. If the management is inefficiency, it will increase the management risk. The management risk will create market risk. Maybank unable to determine the market interest rate, Maybank will face significant losses and affect bank capital. Credit risk may increase and the liquidity conditions of Maybank reduce. Reduce in liquidity condition causes Maybank in ability to fully approve loan demand. Asset quality may decrease and affect the earning performance of Maybank.

## **Recommendation for CIMB Group**

### Credit Risk

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In order for CIMB Group get expose into the credit risk, CIMB Group can try to strengthen up the condition for their customer to get the loan. The detail of financial statement of customers should be checked clearly before lending out the loan. Training for the staff should carry out, so the staff can know the way how to keep follow up with the customer if the loan haven pays back on time. With this way the chance getting the charge-offs will be reduce and the losses of firm will tend to reduce too. Those analyses that done before should be carry on so that CIMB Group can easily figure out those “ problem” customers and avoid getting into the risk. CIMB Group can even try to have the credit insurance so that they can claim from the insurance for to cover the losses.

### Liquidity Risk

As we know, a firm with high liquidity risk will bring the firm get into bad situation. Therefore CIMB Group should try their best in managing their assets in tend to reduce the liquidity risk. By maintain or keep increasing the risk weighted capital ratio will be helpful to CIMB Group. High risk weighted capital ratio would means the firm will had large amount of cash to carry out the activities. CIMB Group can try to come out with a small group that only deal with liquidity of the firm. This might help CIMB Group to know more the liquidity status for their firm. Besides that, by not holding too much of the high risk assets can reduce the liquidity risk too. This is due to high risk assets will cause firm get losses and the fund will be stuck with those high risk assets. Maintain a good relationship with other competitors also a way to prevent increase the risk. For example, CIMB Group and May Bank maintain

a good relationship. When something went wrong for CIMB Group, May Bank might willing to help CIMB Group in order to solve the problem.

### Market Risk

13Market risk had involved two types of risk which is price risk and interest rate risk. For price risk, market survey can be always carrying out for get to know the need of the market. Market survey might let CIMB Group get to know the trend of the market and the reason or fraud might affect the market price. So CIMB Group can react faster to capture the market before others. While for interest risk, CIMB Group has no choice but to be aware with the economic changes or the event that might affect the market. This can help CIMB Group to avoid suffer from the losses due to the changes of interest rate.

### Operational Risk

For CIMB Group to avoid the operational risk, one of the solutions is training for the staff. After training, those staffs will be knows well for the whole operating system of CIMB Group. Therefore the human mistake can be lower down. For those data and networking system should be always been taking care by those qualify skilled worker. This will be lower down the system error that might occur. Even got error occur, those qualify skilled worker can try to fix it in time to prevent the huge amount of losses. For those ATM machine should always been taking care for time to time to prevent error occur and can repair in time if any problem with the machine.

### Reputation Risk

CIMB Group should always be aware when dealing with public. This is because if misunderstanding or problem occur will tend bring negative impact to the image of CIMB Group. When this situation happen, the confident of customer towards CIMB Group will be pulling down and CIMB Group will expose in the reputation risk as well. Therefore those activities such as raising fund for people who needed be carry out in order to build up a good image for the public.

As conclusion, to prevent CIMB Group get into different type of risks, the risk management department in CIMB Group had played the important role. Risk measurement should be done time by time so that when problem occur, the series of actions can be taken just in time. While for the insurance is to cover the losses when something unexpected occur so that the firm can be more focus on their main business.