PUBLIC BANK BERHAD
Company Registration No. 196501000672 (6463-H)

PUBLIC BANK 54TH ANNUAL GENERAL MEETING (AGM) HELD ON 29 JUNE 2020

MSWG QUESTIONS AND ANSWERS PROVIDED

MSWG (Question 1)

Bank Negara Malaysia (BNM) has cut Overnight Policy Rate (OPR) thrice since beginning of the year to 2% currently. Further rate cut is also expected which would trickle to a contraction in net interest margins (NIM).

What is the proportion of the Group's fixed rate and variable rate loans? Based on ratio of variable rate loans, how would the NIM (FY2019: 2.15%) of Public Bank's be affected due to the substantial cut in OPR?

Public Bank's Response (Question 1)

The Public Bank Group's fixed rate loans accounted for about 21% of the Group's total loans. With the 100 basis points cut in the OPR this year, the Group expects a NIM compression of about 15 basis points in 2020, mainly arising from the effect of time lag on the repricing of deposits. However, this will be subject to any further change in OPR during the year.

MSWG (Question 2)

Local banks have granted an automatic six-month moratorium for all their individual and SMEs customers starting from 1 April 2020 to help relieve clients' financial burden due to COVID-19 pandemic.

a) What is the size of the loan involved under the six-month moratorium to Group's total gross loans, financing and advances (LAF)?

b) Given substantial loan exposure in residential properties, passenger vehicles and commercial lending to SMEs (which in total accounted for 74.4% of the Group's total gross LAF in FY19), what is the likelihood of increases in provision of 12-month and lifetime expected credit losses (ECL) due to the loan moratorium and the challenging economic outlook?

   To what extent is the gross impaired loan ratio (GIL) (FY2019: 0.5%) expected to increase in FY2020?

Public Bank's Response (Question 2)

a) As at end-May 2020, total loans under moratorium amounted to about three quarters of total domestic LAF.

b) Provisions are expected to increase arising from the impact of the COVID-19 pandemic. However, as the pandemic has subsided and many economic activities gradually resume, coupled with the Government and BNM's significant economic stimulus, financial and monetary assistance, a gradual economic recovery expected in the second half of 2020 would certainly mitigate some adverse pressure on asset quality. In addition, the Public Bank Group is actively engaging borrowers for restructuring & rescheduling of loan accounts to meet their respective present conditions. The extent of the impact on the Group's impaired loan and ECL is dependent on the effectiveness of the various measures taken.

   With the Group's prudent lending policy and resilient credit risk profile, coupled with the proactive engagement with borrowers, Public Bank believes the potential increase in ECL for the Group is manageable. In addition, the Group's large reserves for loan losses will help to cushion any potential higher credit charges.

MSWG (Question 3)

Deposits from individuals and SMEs are key source of stable funds to Public Bank making up 64.4% of the Group's total deposits from customers.

In view of current prevailing low interest rate, does the Group expect a decline in core customer deposits as customers prefer to invest their money in alternative investment to generate higher returns instead of saving it in traditional deposits?

Coupled with the six-month loan moratorium measure to borrowers, will a potential decline in customer deposits result in liquidity pressure to Public Bank?

Public Bank's Response (Question 3)

The Public Bank Group expects deposits growth to be in line with its loans growth. Despite a potential moderation in deposits growth in 2020, the Group will continue to sustain a healthy funding pool underpinned by its strong deposits franchise and resilient depositor base.

While the loan moratorium will result in a decline in liquidity coverage ratio, it will not cause any liquidity pressure to the Group. The Group's liquidity position is still expected to be sustained at a healthy level. The Group has been managing its funding and liquidity profile diligently to ensure sufficient liquidity buffer at all times.

MSWG (Question 4)

Public Bank's Indochina operation has registered strong performance in FY2019 with 9.5% and 25.8% loan growth in Cambodia and Vietnam respectively. Meanwhile profit before tax rose 15% and 48.2% in Cambodia and Vietnam.

Amid the COVID-19 pandemic, will the Indochina operation be able to register the same strong performance this year?

Public Bank's Response (Question 4)

Under this unprecedented COVID-19 pandemic, the region's GDP growth forecast has been revised downwards. Banking business regionally is expected to be affected by this challenging operating environment. However, the Public Bank Group is in good position to weather the challenge with its sound fundamentals and strong footing in Indochina.

In Vietnam, despite the adverse impact from the pandemic, its economy is likely to remain on positive trajectory supported by its strong manufacturing sector, resilient domestic consumption and continuous inflow of foreign direct investments. These will continue to create business opportunities for the Group's banking business. To make further inroads into Vietnam, the Group is opening another 6 new branches to expand the existing 20 branches to 26 by end of 2020.

While in Cambodia, Cambodia Public Bank Plc (Campu Bank) is one of the largest foreign banks in the country. Tapping on its strong market presence and brand equity, Campu Bank is well positioned to continue capturing any business opportunities in this emerging economy.

MSWG (Question 5)

Public Bank has been identified as one of the Domestic Systematically Important Banks (D-SIB) in Malaysia.

a) What is the significance of such categorisation to Public Bank?

b) Is the Group on track to meet the Higher Loss Absorbency (HLA) requirement which will come into effect on 31 January 2021?

Public Bank's Response (Question 5)

a) In line with BNM's Domestic Systemically Important Banks Framework issued on 5 February 2020, an additional capital buffer of 0.5% of risk-weighted assets will be required to be maintained by the Public Bank Group with effect from 31 January 2021. The capital buffer shall be maintained above the minimum regulatory requirements and be in the form of CET-1 Capital.

b) Based on the Group's current capital position which is at a comfortable level above the existing minimum regulatory requirements, there is adequate capital buffers to meet the additional HLA requirement when it comes into effect on 31 January 2021.