

MALAYSIA'S PREMIER
SHARIAH - COMPLIANT
FINANCIAL SERVICES GROUP



Q & A

23rd ANNUAL GENERAL MEETING



MSWG Q & A

QUESTION 1

On 11 December 2019, BIMB Holdings announced a series of major exercises including placement of new shares, internal reorganization, transfer of listing status to create separate and independent business entities with distinct business in Islamic banking, takaful and securities. The Proposals was expected to be completed in the third quarter of 2020. (Announcement dated 11 December 2019).

What is the current status of the proposals? Given current challenging environment, is the estimated timeline for completion of the exercises still intact?

ANSWER

We have submitted the corporate exercise proposal to BNM. Nevertheless, we understand that the pandemic crisis is an unprecedented predicament, hence decisions are of course, subject to the duration of Movement Control Order (MCO) and the containment of the pandemic crisis.

Therefore, barring any further unforeseen circumstances or hiccups, we can endeavour to complete the exercise within 4th quarter 2020 to 1st quarter 2021. An announcement will be made in due course once the approval received from BNM

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QUESTION 2

Revenue of the Group increased 19.1% in FY19 to RM5.4 billion, compared to RM4.5 billion the year before, driven by strong earnings from Islamic banking and takaful business. Meanwhile, net profit attributable to owners of the Company increased 15.37% year-on-year to RM786.92 million from RM682.08 million.

In view of economic slowdown which in turn translate to lower financing needs and demand for family and general takaful, does BIMB expect to post similar strong performance in FY20?

ANSWER

With the 25bp reduction in the OPR on 7th July 2020, Bank Negara has cut a total of 125 basis points for year to date in its 4 previous monetary policy meeting during 2020. An OPR of 1.75%, is considered the lowest OPR recorded since 2004. These cuts will potentially cause a drag on Bank Islam's and the banking industry's earnings. The Bank's floating rate financing comprises 91% of total gross financing as at end December 2019. Consequently, we would expect a compression on the Bank's Net Income Margin (NIM) for the financial year 2020.

FBMKLCI Index led laggards with a 1.6% weekly drop after settling at 1,578.1 points as of 1st week of August. Understandably, earnings visibility are less clear especially for Banks, Oil & Gas, Plantation and Telecommunication which are the main sectors in FBMKLCI.

Continue...

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Continued...

ANSWER

As of June 20, total financing growth for the banking industry was higher by 4.13% y-o-y compared to 3.91% growth recorded in the previous month. The upturn was supported by increase in financing for both Household and Non-household, rising by 3.54% (May:3.19%) and 4.95% (May:4.91%) in June.

Meanwhile, industry gross impaired financing ratio (GIFR) improved to 1.46% in June'20. The overall performance suggests that financing activities have been improving despite bleak economic prospects.

It is therefore perhaps more comprehensive to view the local bourse on a sectoral rather than an index level on returns generation. As such we can expect income performance from the banking sector and hence that of Bank Islam to moderate yet sustainable supported by the series of government stimuli cushioning the impact to businesses and BNM's accommodative stance.

Consequently, STMB's business is relying on credit related products and transaction, hence, the outlook for takaful business will be flattish for the remainder of the year.

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QUESTION 3

As of 12 August 2020, the Integrated Annual Report of Bank Islam Malaysia Berhad has not been made available on the Bank's corporate website. What are the key targets met and those not met by the Bank?

How has the Bank performed in FY19 in terms of return on equity, common equity tier-1 ratio, total capital ratio and cost to income ratio?

ANSWER

With the ongoing MCO, Bursa Malaysia has acknowledged the limitations in deliverables by listed entities hence reporting deadline was understandably extended. Bank Islam is not a listed entity, nevertheless, the Bank's audited financial statements has been made publicly available on Bank Islam's corporate website.

Both BIMB Holdings (BHB) and Bank Islam have satisfactorily met key targets set for the financial year 2019. This is further explained in BHB's annual report on pages 69 to 73; and that of Bank Islam on pages 68 to 74.

The Bank registered its return on equity at 15.3%, above industry's 13.0%, while sustaining its cost-to-income ratio at 52.9%. The Bank's capital remained sturdy with common equity tier-1 ratio (CET-1), total capital ratio (TCR) at 14.185% and 18.637% respectively (2018: CET-1 at 13.287%; TCR at 17.741%).

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QUESTION 4

Local banks have granted an automatic six-month moratorium for all their individual and SMEs customers starting from 1 April 2020 to 30 September 2020 to help relieve clients' financial burden.

4 (a)

What is the size of the loan involved under the six-month moratorium to Bank Islam's total financing, advances and others (FAO)?

ANSWER

BNM implemented measures to assist borrowers/ customers affected by the COVID-19 outbreak which includes automatic moratorium on all financing repayment for individuals and SME customers. Bank Islam is primarily retail-based, with 75:25 retail-to-non retail portfolio ratio. Total financing under the six-month moratorium is at 95%, 73% and 35% for retail, SME and non-SME portfolio respectively.

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QUESTION 4 (b)

What is the percentage of Bank Islam's total FAO that have been restructured and rescheduled (R&R) due to the COVID-19 pandemic? Under the R&R loan segment, which are the most affected sectors within Bank Islam's total LAF?

ANSWER

Any financing that is granted moratorium converted or restructured and rescheduled (R&R) as provided by BNM pursuant to section 47(1) of the Financial Services Act 2013 (FSA) and section 57(1) of the Islamic Financial Services Act (IFSA 2013), the financing need not be reported as "R&R" in the Central Credit Reference Information System (CCRIS) and the R&R financing need not be classified as credit-impaired in CCRIS.

The Bank has proactively engaged almost all customers in anticipation of the ending of the six-month moratorium in Sept'2020. Number of customers in need for R&R as at todate are at minimal level (Retail: 0.05%; SME: 7.7%; Non-SME: 9.3%). This is because of the Bank's business model is premised on package employer financing for retail portfolio, secured by way of salary deduction, hence a mitigating factor to buffer impact of asset quality deterioration. The Bank has approved a sizeable number of R&R applications received todate (Retail: 51%; SME: 30.%; Non-SME: 46%), where the rest are pending approval subject to fulfilment of eligibility criteria.

Currently, the Bank deemed Hotel, Transportation, Restaurant, Travel Agency and Oil & Gas as vulnerable sectors with exposure of close to RM1 billion (2% of Bank's gross financing).

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QUESTION 4 (c)

What is the expected size of day-one modification loss to Bank Islam due to the six-month moratorium on hire purchase loans?

ANSWER

We estimate a total modification of approximately RM100 million for the first 6 months of the financial year 2020 for all affected financing products.

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QUESTION 5

Gross impaired loan (GIL) of the Group remain low at 0.86% as at 31 December 2019, compared to 0.92% in the year before, while net allowance for impairment on financing and advances increased by 2.74% or RM2.23 million year-on-year to RM83.68 million from RM81.45 million the year before.

Based on BIMB Holdings' assessment, to what extent will its GIL and allowance for impairment on loan rise further in FY20 bearing in mind the COVID-19 pandemic?

With expected increase in allowance for provision after the six-month automatic loan moratorium on 30 September, how will the net credit cost trend in FY21?

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ANSWER

Industry impaired ratio stood at 1.5% in 2019, BNM's stress test revealed a range of post-shock impairment impact ranging from 2.8% for baseline scenario to 7.2% for adverse scenarios. As of June'20, industry gross impaired financing ratio (GIFR) improved to 1.46%. In line with industry's expectations, Bank Islam does expect a possible uptick in our GIFR ratio.

Nevertheless, our track record shows that Bank Islam has maintained its asset resiliency below industry average for almost a decade, and even below 1% in the past 2 years. As such, we do not envisage any uptick to be too significant this year, well within industry baseline projections. In addition, the Bank's financing loss coverage ratio stood at 179.3%. This is well above that of industry's 89% and serves to buffer any potential impact by asset deterioration. We expect the Bank's credit cost to be around 0.30% to 0.40% from 0.17% as at Dec'19.

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QUESTION 6

Deposits from customers declined 5.45% y-o-y to RM46.75 billion (FY18: RM49.43 billion) with the Negotiable Islamic Debt Certificates declined 73% or RM2.69 billion to RM991.55 million from RM3.68 billion the year before (Note 18 – Deposits from customers, Notes to the Financial Statements for FY19).

Meanwhile, investment accounts of customers rose 94.49% to RM9.8 billion from RM5.04 billion due to increase in unrestricted investment amounts (maturity) to RM6.59 billion from RM2.44 billion (Note 19 – Investment accounts of customers, Notes to the Financial Statements for FY19)

Why is there a sharp drop in customers' deposits and a sharp increase in fund in investment accounts? Is there a change in the funding strategy of the Bank?

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ANSWER

The Bank is leveraging on funding strategy which strengthens both liquidity and capital preservation. Unlike conventional deposits, the Unrestricted Investment Account (URIA) is premised on the concept of profit loss sharing mechanism. As such, upon deriving at the capital ratio, the Risk Weighted Assets (RWA) of the underlying asset to the IA is excluded hence resulting in a more favourable capital ratio, by about 2%.

From our observation, the current economic condition has also influenced the customer preferences and appetite in relation to their deposits.

MSWG Q & A

QUESTION 7

BIMB Holdings paid 16 sen dividend per share to shareholders in FY19. This translated into a dividend payout ratio of 35.75%.

Will there be a significant change in dividend payout ratio in FY20 which has consistently hovered around 35% to 38% the past four years?

ANSWER

We do not foresee any significant change to dividend payout ratio. However, this is subject to BNM's approval.

MSWG Q & A

QUESTION 8

Other overhead expenses increased 21.2% to RM932.54 million from RM769.38 million with significant increase in:

	FY2019	FY2018	Increase
	RM'000	RM'000	%
Advertisement & publicity	181,164	125,311	44.57
Agency related expenses	60,210	13,642	341.36
Other expenses	53,964	12,336	337.45

What are the reasons for the increase in the above expenses? What is the measurable impact from increase A&P spending?

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ANSWER

	Remarks
Advertisement & publicity	<p><u>Bank Islam:</u></p> <ul style="list-style-type: none"> • Higher advertisement cost in 2019 with advertisement in 3 newspapers (The Star, Harian Metro and Sinar) compared to only a newspaper in 2018 (Sinar). • Sponsorship costs increased with 41 events sponsored in 2019. (2018: 21 events) • Higher marketing expenses for Al-Awfar Campaign. <p><u>STMKB:</u></p> <p>Higher marketing expenses in line with business growth from Bancatakaful and Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA).</p>
Agency related expenses	This in line with the increase in the credit related business of STMKB during the year.
Other expenses	<p>Mainly due to STMKB's other expenses which increased in line with the increase in the credit related business of STMKB.</p> <p>The measurable impact that can be seen is in the form of ease of doing business for customer and maintaining our presence in the marketplace together with some improvement in the process and IT infrastructure.</p>

PNB Q & A

A. FINANCING

- As at December 2019, 74% of Bank Islam gross financing are from retail/consumer financing with house and personal financing makes up approximately 40% and 30% of total gross financing respectively. Furthermore, around 90% of personal financing is via salary deduction programme.
- Under consumer financing, vehicle financing has been in a downward trend from RM2.2 bil in FY17 to RM1.7 bil in FY19.

Question A.1

Bank Islam financing portfolio are highly dependent on retail/consumer financing, which may pose some risk. Does Bank Islam has long term target for financing portfolio composition?

ANSWER

Bank Islam is a retail bank thus the financing portfolio composition is skewed to retail financing. Nonetheless, this risk is being mitigated by having a reasonable portion of package financing i.e. salary transfer and salary deduction. Our long term target for financing portfolio composition is 70:30 (consumer : non consumer financing)

PNB Q & A

A. FINANCING (continued)

Question A.2

Can management provide some colour on the vehicle financing declining trend? Is it part of Bank Islam strategy, if yes, why?

ANSWER

The focus prior to 2020 was to grow more on House and Personal Financing related products. In order to be more competitive in the market in 2020 there were a lot of strategies being implemented to improve the vehicle financing. Some of the key changes are the reduction of rates to both national and non-national cars, create awareness to Recondition Dealers and improvisation of process flow to accelerate the approval turn around time.

PNB Q & A

B. DEPOSITS

- As per Note 18 (page 235 of Annual Report (“AR”)), customer deposit declined by 5.4% mainly due to a reduction in term deposits by RM3.2 bil. On the contrary, Unrestricted investment account (“UIA”) grew by 94.5% to RM9.8 bil in FY19 from RM5.0 bil in FY18.

Question B.1

Can management provide some colour or the factors behind the decline in term deposits? Is it mainly coming from single customer account or from a broad retail segment?

ANSWER

The reduction in Term Deposits is mainly due existing customers have shifted their portfolio to UIA.

This is coming from all segments of customers. From our observation, the current economic condition has also influenced the customer preferences and appetite in relation to their deposits.

PNB Q & A

B. DEPOSITS (continued)

Question B.2

In view of strong growth in UIA, does the Group intend to focus its source of funding towards UIA instead of the traditional deposits? Why?

ANSWER

The Bank is leveraging on funding strategy which strengthens both liquidity and capital preservation.

The focus has shifted to UIA as source of funding in view of the following:

- i. **Al-Awfar's Profit Attributable To Depositors ("PATD").**
PATD for Al-Awfar is less than CA & SA since the Bank able to avoid PIDM charges.
- i. **Cost Saving.** For Investment Account, the Bank is not required to pay to PIDM.
- ii. **Marketing.** In term of marketing, the Bank able to offer attractive prizes to eligible winners.
- iii. **Wafiyah.** In view of the reduction in OPR, the rate for Wafiyah will be based on actual rate instead of expected rate.
- iv. **Profit sharing mechanism.** UIA is premised on the concept of profit loss sharing mechanism. As such, upon deriving at the capital ratio, the Risk Weighted Assets (RWA) of the underlying asset to the IA is excluded hence resulting in a more favourable capital ratio, by about 2%.

PNB Q & A

C. NET INCOME

- For 2020, BNM has already made 4 OPR cuts in January, March, May and July 2020 to 1.75% currently. This would further impact the industry's Net Income Margin (NIM) in 2020 including BHB, whose NIM had already declined by 10bps to 2.51% in FY19.
- Currently, the proportion of BHB's variable rate to fixed rate financing is approximately at 90%, which is the highest among the domestic listed financial institutions.

Question C.1

Considering the high proportion of variable rate financing, how would the NIM of BHB be affected due to the substantial cut in OPR?

ANSWER

- Base case OPR maintain at 1.75% with further down side risk.
- 2020's NIM expected to decrease between 35 to 40 bps against previous year NIM but the Bank is positive in maintaining its NIM above 2%.

PNB Q & A

C. NET INCOME (continued)

Question C.2

What would be the Bank's strategy to maintain/ improve net income in the midst of compressed margin and moderate financing growth?

ANSWER

The strategy is to diversify our revenue stream by increasing fee-based income, focusing on Treasury and Wealth Management which will contribute to that aim.

- i. In a declining interest rate environment, we can take advantage of our Treasury's investment income. OPR cut allows higher valuation of bond and sukuk, which will drive up their prices.
- ii. Growing our Wealth Management business will see us focusing on the portfolio of BIMB Investment Management (BIMB Invest), and how we further develop its fund products in a holistic manner. This will enable us to build and grow our AUM, which can significantly contribute to our bottom line. BIMB Invest's enduring partnership with Arabesque, a global asset management company, has since seen good traction in the company's business, with BIMB Invest able to take advantage of the expertise and technological platform by Arabesque to further develop its fund products, and create progress in its effort to attract more customers to Islamic financial offerings.

PNB Q & A

D. ASSET QUALITY

- Following the Covid-19 pandemic, borrowers affected by the outbreak might not be able to service their financing obligations. This is likely to increase provisions as well as deterioration in asset quality of existing Bank Islam financing portfolio.

Question D.1

What are the affected sectors and their percentage within Bank Islam's financing portfolio?

ANSWER

Refer to MSWG Q4b on page 7

Currently, the Bank deemed Hotel, Transportation, Restaurant, Travel Agency and Oil & Gas as vulnerable sectors with exposure of close to RM1 billion (2% of Bank's gross financing).

Question D.2

What is the percentage of the Group's total financing that have been restructured and rescheduled?

ANSWER

Refer to MSWG Q4b on page 7

PNB Q & A

E. PROPOSED CORPORATE EXERCISE

- With regards to the proposed corporate restructuring exercise of BHB Group (page 57 of AR FY20).

Question E.1

What is the current development and the expected timeline for the whole exercise to be completed?

ANSWER

Refer MSWG Q1 on page 2

Question E.2

Post restructuring, Bank Islam and STMKB would no longer be under the umbrella of BHB Group. How would this impact the current and future bancatakaful arrangement between the two entities?

ANSWER

The bancatakaful arrangement between the two entities will be status quo.

PNB Q & A

F. STRATEGY

- Page 106 of FY20 Annual Report, “Malaysia would be facing economic challenges in the wake of Covid-19, compounded by the adverse reactions from global economic conditions”.

Question F.1

What is Key Financial Target for FY20 and FY21, assuming that the proposed corporate restructuring exercise is completed after FY21?

Answer

- i. GIF of below 1.2%
- ii. Cost to Income ratio of 52% or below.
- iii. Net income Margin of above 2.00%
- iv. Non fund based income over total income >11%
- v. Composition of CASATIA at 35% of the total deposits

PNB Q & A

F. STRATEGY *(continued)*

Question F.2

Currently BHB recorded one of the highest cost to income (“CIR”) (FY19: 57%) among its peers. What are BHB, Bank Islam and STMKB long term target on CIR?

Answer

Bank Islam CIR:

- Target FY2020 < 53%
- Long term target < 50%
- **Question F.3**

Digitalisation is one of the key driver in your Business Model (page 65) in order to be agile and adaptive. Could you elaborate on the following:

Q F.3(i) Parameters used to measure the effectiveness of digitalisation efforts?

Answer

There are a few measures that are currently used. For example, with regards to back-end processing of financing application, we will monitor the improvement in term of the turn around time (TAT) for approval. While apps such as “GO”, our team is consistently monitoring the amount and frequency of transactions via the platform. This is an on-going effort in ensuring the bank is able to maximise its potential via digitalisation and automation

PNB Q & A

F. STRATEGY *(continued)*

Question F.3 *(continued)*

Q F.3(ii) How much has been spent?

Answer

We have allocated RM300m for 3 years ending 2021 and have spent a significant amount from that allocation.

Q F.3(iii) How much more would be allocated in the next 3 years?

Answer

We will draw that down by the end of the year for the next 3-year planning.

Q F.3(iv) The impact of digitalisation on CIR?

Answer

Longer term trajectory for digitalisation impact on CIR.

PNB Q & A

G. SUSTAINABILITY

- Page 61 of FY20 AR with regards to BHB's Sustainability Framework, "Responsible Finance: Provide financial solutions that effectively deliver economic and social benefits, without bringing harm to the people and environment"
- Page 115 of FY20 AR, Bank Islam had breached the internal RM1bil target for Green Financing, an increase to RM1.76bil from RM632 mil in the previous year.

Question G.1

Can management provide some example on the sectors or financing that fits BHB's criteria of Responsible Finance?

ANSWER

Our involvement in Green Financing is our effort in ensuring responsible finance and contributing to good business practices, and to stay away from businesses that are harmful to environment, create negative social impact and non-Shariah compliant.

As of now, our Green financing portfolio are as follow:

- 63.42%: Renewable Energy (Solar & Hydro)
- 25.51%: Green Buildings / self-sustaining building
- 10.45%: Sustainable waste management
- 0.61%: Transportation

The exposure for our Green financing portfolio is about RM 1.8 bil, and the potential green financing limit for 2020 is RM800 mil and this number is for financing asset.

PNB Q & A

G. SUSTAINABILITY (continued)

Question G.2

What is BHB's plan on the existing customers that have yet to fulfil BHB's Sustainability Framework?

Question G.3

Does BHB have an internal target for the proportion of Green Financing against total gross financing?

ANSWER

For Bank Islam, growing green financing portfolio is one of the key tactics under the first of the six strategic pillars, "Sustainable Prosperity". The Bank is adopting Value-based Intermediation (VBI) as a business model, which is an extension of BHB's Sustainability journey. While the Bank has exceeded RM1 billion target in green financing, we are looking into potential inclusion of Environmental, Social, and Corporate Governance (ESG) factors as part of credit assessment for corporate portfolio. This is aimed to advocate ESG initiatives among customers, where the Bank has currently put in place a preliminary VBI criteria in credit assessment process.

Q & A SESSION

23rd AGM

Thank You والسلام

