Maybank

Humanising
Financial Services
SINCE 1960

Together Through
Generations

60th Annual General Meeting

Presentation to Shareholders
Questions from the Minority Shareholders Watch Group
26th June 2020

Strategy & Financial Matters

1. **The COVID-19 outbreak has caused a slowdown in the global economy. Bank Negara Malaysia (BNM) had projected a -2% to 0.5% growth in real GDP for 2020. Private consumption is expected to slow to 4.2% in 2020, as compared to 7.6% in 2019.**

   In anticipation of economic slowdown that would consequently translate to slower loan growth and domestic consumption, BNM has cut Overnight Policy Rate (OPR) twice since beginning of the year to 2.5% currently. Economists also expect further rate cuts which would be expected to cause a contraction in net interest margins (NIM).

   a) Based on the assessment done by Maybank, how would the development above affect the performance of the bank in FY2020? Are the targets set by the Group intact?

   Our initial guidance announced at the start of 2020 was premised on a very different outlook. There were signs of potential economic improvement, with some optimism from the "Phase 1" trade deal between the US and China, as well as an expectation of more accommodative monetary and fiscal policies in the ASEAN region. We were mindful of the prevailing low interest rate environment globally and potential market volatility arising from geopolitical developments such as the US Presidential Election and tensions in the Middle East.

   With the COVID-19 virus quickly turning into a pandemic in March and resulting in widespread lockdowns globally, our primary focus has been to balance the needs of our customers and to ensure the sustainability of the organisation.

The impact to a broader range of sectors arising from falling global demand, lower commodity prices, supply chain disruptions, weaker domestic demand and labour market dislocation given social distancing, quarantines and lockdowns have started to show in 1Q and 2Q 2020 economic data. Economies globally, including our home markets, are now expected to either contract in 2020 or chart much lower growth rates than 2019. To mitigate the impact, economic stimulus packages and aggressive interest rate cuts have been undertaken by governments and central banks worldwide to provide assistance and relief to affected individuals and businesses.

In the first half of 2020, Malaysia's OPR has been reduced by 100bps to 2.0% while Indonesia's reference rate (7 Days Reverse Repo rate) was cut by 50bps to 4.5%. In Singapore, we have seen the 3-month SIBOR move down from 1.77% as at end Dec-2019 to 0.56% as at early June 2020. As a result of these sharp interest rate cuts, we do anticipate that the Group's net interest margin will compress potentially by 15bps in FY2020, with further downside pressure should there be more rate cuts in the second half of the year.

To mitigate the impact, the Group will continue to focus on growing low cost funds, CASA, across our home markets. Given the current macroeconomic uncertainty and market volatility, a key priority for us is to maintain liquidity strength and conserve capital.

Also, as per our prospects disclosure in the 1Q FY2020 Condensed Financial Statements, the Group will need to re-evaluate its Headline Key Performance Indicator for Return on Equity and will provide an update once the impact can be ascertained given the significant weakening outlook in the economic landscape arising from the COVID-19 pandemic and evolving developments in the marketplace.

b) What are the Group's views on its operations in other countries?

We expect the operations of the other countries to mirror the economic performance of the respective country. As explained previously, many economies are expected to contract in FY2020 or chart much lower growth rates than seen in FY2019. As loan growth tends to be a multiplier of economic growth, our expectation is for loan performance to move in tandem with economic performance of countries, as seen with our 1Q FY2020 loan trends.

Our focus remains on making financing accessible to support the economic recoveries of our markets. Meanwhile, we will continue to pursue opportunistic growth through non-interest income via our investment and trading portfolio and by supporting debt capital market deals.

c) Which countries (where Maybank has presence) are expected to rebound stronger than others once the crisis is over?

Several Asian countries, where the COVID-19 outbreak has peaked and pandemic curve has flattened, are gradually reopening their economies. Without a vaccine, policymakers will have to balance the benefits of resuming economic activity against the potential cost of another infection outbreak. Governments are adopting a gradual and sequenced approach to unlocking the economy, alongside containment measures, including social distancing and contact tracing.

While it is difficult to predict which countries will rebound faster, some ASEAN economies have started to reopen their economies. For instance, Vietnam is showing faster signs of recovery in economic activities following the lifting of its partial lockdown in late April. Mobility metrics show that people movements in Vietnam are on a steady path to normalisation, with movements to transit stations and workplaces almost back to pre-pandemic levels.

In Malaysia, mobility is also improving following the partial easing of its MCO starting 4 May. Nearly all economic sectors were allowed to operate except for those involving mass gatherings. Singapore began exiting from its circuit breaker measures on 2 June, but is adopting a far more cautious 3-phase approach. Philippines started loosening a two-month lockdown on 16 May, while Indonesia plans to ease restrictions in 5 phases and restore "business as usual" by end-July.

For FY2020, our economics team at Maybank Kim Eng Research estimate a contraction of GDP across Philippines (-2.8%), Malaysia (-3.3%), Thailand (-5.5%) and Singapore (-7.0%), while Indonesia is expected to see marginal growth of 0.4%. Only Vietnam is estimated to grow, but at a slower rate of 3.6%.

2. **In the wake of the COVID-19 pandemic, banks will likely face an increase in the share of restructured and rescheduled loans, particularly by borrowers in the business segments that have been most affected by the outbreak. This is likely to increase allowance for impairment losses on loans over the short-term. In addition, millions of job losses are expected and there will be concerns on rising insolvency among businesses as the pandemic prolongs.**

   a) How well is the Group able to absorb the potential impact? How has the asset quality changed before and after the outbreak?

The Group's priority is to help support the domestic economies of our home markets and to work with borrowers to ensure viable solutions that can help support employment and prevent business failures in the near term.

Our 1Q FY2020 results released in May is not reflective of the impact of the pandemic, as March was just the starting point of movement restrictions and lockdowns emplaced until second quarter of 2020 in many countries to curb the spread of the virus. As such, we foresee elevated asset quality risk due to synchronised economic global slowdown for the remainder of the year.

Although there was no asset quality deterioration seen in 1Q FY2020 arising from this health crisis, we made the decision to absorb additional provisioning on forward looking assumptions based on weakening macroeconomic variables. Due to our strong pre-provisioning operating profit growth, we had the buffers to take in proactive provisioning charges in anticipation of a weakening credit environment. About RM600 million of the RM961.7 million loan loss provisioning was proactively provided and not attributed to specific borrower deterioration.

Our expectation is that the Group's net credit charge off ratio for the year would be between 75bps and 100bps, with the expectation that it will remain elevated in FY2021 as the moratorium periods end. However, the remaining provisioning for FY2020 will be subject to further refinement as our macroeconomic variable assumptions continue to evolve and as we make progress on detailed credit portfolio assessments currently undertaken across sectors and countries.

Meanwhile, the Group's capital positions are well above regulatory requirements, and with the capital easing measures afforded by BNM which allows banks to drawdown on the capital conservation buffer and utilise the regulatory reserve, we will be able to maintain sound capital positions to manage growth and potential asset quality slippage given the weak environment.

b) What is the percentage of the Group's total loans, advances and financing (LAF) that have been restructured and rescheduled? Which are the most affected sectors within Maybank's LAF portfolio?

As at 31 March 2020, restructured & rescheduled (R&R) loans constitutes a small fraction of around 0.06% of the Group's gross loans. From the current data, we do not see any significant concentration in any specific sector. However, with the impact of the pandemic on the current market environment and based on moratorium applications, we foresee potential increase to come from sectors such as Hotel & Tourism, Real Estate including malls, and Construction. The trend would be much clearer in the next one or two quarters upon expiry of the various relief plans and completion of the moratorium periods.

c) As of FYE 31 December 2019, Maybank's Group gross impaired loans (GIL) and net impaired loan (NIL) ratio was 2.65% and 1.33% respectively against an industry average of 1.5% and 1% in December 2019 (page 39, Bank Negara Malaysia's Financial Stability Review - Second Half 2019).

To what extent are Maybank's GIL and NIL ratios expected to rise? Are the higher than industry average GIL and NIL ratios a concern to the Group?

It is important to note that Maybank Group's gross impaired and net impaired loan ratios include its overseas operation, which account for roughly 40% of its gross loans. As such, it would be more reflective to compare Maybank Malaysia's GIL ratio as at end-2019 of 1.95% to the Malaysia's industry GIL ratio of 1.5%. Maybank's domestic GIL would inherently be higher than industry, due to the composition of our portfolio which is about one quarter in large corporates compared to others in the industry. On the other hand, the GIL ratio trends of our consumer segments such as mortgage, auto finance and credit cards are consistently lower than the industry's average.

In terms of outlook, the Group does not provide forward looking guidance on GIL. As of current available data, the extent of asset quality deterioration is still uncertain and being closely monitored. Based on the 1997 Asian financial crisis where GIL peaked between 18 – 24 months post-crisis, the more pronounced impact arising from this health crisis is expected to be more visible towards the later part of 2021 into 2022. Generally, we share similar views with market expectation that asset quality will be under pressure post-moratorium period, particularly in Malaysia due to the automatic deferments in place.

Notwithstanding, the Group has implemented several measures to mitigate the impact and assist borrowers affected by the pandemic. Besides the automatic 6-month moratorium for retail and SME borrowers in Malaysia, the Group has also approved some non-retail moratoriums across various geographies within the Group. Measures are also in place to review the positions of these borrowers prior to moratorium expiry, which may include proactive R&R.

3. Maybank's Group loans expanded 1.2% year-on-year in FY19 (FY18: 4.8%).

What is the targeted growth rate for Maybank's overall group loan in FY20 given the lacklustre projected loan growth across the key operating countries (page 23, Market Overview, AR2019)?

Maybank Group does not provide targeted loan growth but instead guides for its loan performance in Malaysia to be in line with the industry's performance. As at 31 March 2020, we recorded loans expansion of 5.0% YoY in Malaysia, which was ahead of system growth of 4%.

Our two other home markets, Singapore and Indonesia contracted by 5.6% and 8.8% respectively for the same duration, resulting in flat Group loans growth of 0.3% YoY. The contraction in Singapore was attributed to a decline in Community Financial Services (CFS), owing to lower consumer and business banking financing, while Global Banking declined due to our intentional paring down of exposure through asset sales, write-offs and reduction in our structured trade business arising from the trade war. In Indonesia, the contraction mainly came from CFS on de-risking of our non-retail portfolio while market competition remain stiff in the consumer financing segment.

We anticipate that loan growth trends for FY2020 will be similar to 1Q FY2020, with growth coming out of Malaysia supported by our retail and non-retail franchise, while the overseas markets are expected to see a slowdown on the back of GDP contractions in our home markets.

4. Performance of Maybank Singapore was affected by increased impairment charges due to provisions made for several non-retail and corporate borrowers.

a) To which sectors do these impairments relate to?

Net impairment losses increased as the weakening external environment in the second half of 2019 resulted in some corporate borrowers in Singapore displaying asset quality weakness. We performed a review of our loans portfolio to identify potentially weak accounts and made the necessary loan loss provisions.

The bulk of the impairment charges relates to our Global Banking business, and were for specific borrowers in a few sectors, namely, General Commerce in structured trade, as well as the Transportation sector, largely in shipping container liners and the offshore marine segment. Weaknesses in these portfolios were due to the impact of the trade war which resulted in weak external demand.

We have improved data governance and risk reporting systems to ensure risks are comprehensively and accurately identified, while also tightening end-to-end credit processes to mitigate this moving forward.

b) How will a restructuring of Singapore's corporate book by paring down exposures in specific sectors (page 13, Key Messages to Shareholders, AR2019) help to uplift performance of Maybank Singapore which has seen a 94% drop in PBT and zakat to RM76.5 million in FY19 (FY18: RM1.33 billion)? Which are the sectors that Maybank Singapore is planning to reduce its loan exposure to?

The restructuring of Global Banking (corporate book) in Singapore is to achieve several goals:

i. To recalibrate our portfolio to have better diversification, reduce concentration risk and thereby have a better balanced risk/returns ratio;

ii. To focus on key client/industry segments which are of better credit and/or with larger pools of wallet for flow business as opposed to balance sheet; and

iii. To garner a bigger focus in growth areas such as healthcare, logistics, REITs & the financial institutions ecosystems.

Consequently, growth will also encompass regional connectivity leveraging on the financial centre status of Singapore, such as the Malaysia-Singapore corridor; tapping the Greater China-Singapore trade flows as well as intra-ASEAN flows.

Since the restructuring of our Global Banking portfolio, exposures to higher risk sectors have come down significantly from peak levels since second half of FY2019. Any incremental exposures to these sectors would be selective and subject to tight underwriting and credit monitoring criteria.

In addition, given the COVID-19 pandemic that has resulted in a slowdown of economic activities both in Singapore and globally, we have intensified our proactive account management efforts for our customers especially in the vulnerable sectors such as Hospitality, Tourism and F&B industries, as well as the Oil & Gas sector.

5. Maybank established its Responsible Lending Guideline in 2015 and slowly the guideline was expanded to form the environment, social and governance (ESG) policy in 2018.

a) What are the results that have been achieved by Maybank over the years to create positive impact on ESG issues? Has Maybank obtained any accreditation or recognition at the international/national levels for ESG?

Maybank's Board and management are fully committed to identifying and addressing ESG considerations in all aspects of our business and operations and we are working continuously to embed these elements Group-wide.

Notable achievements within our sustainability journey have included the 2014 establishment of our five-year 20/20 Sustainability Plan, which places emphasis on empowering communities in ASEAN, providing equitable access to financial services and building a talent pool that will ensure the Group's continued success well into the future.

In 2018 we also established the ESG Policy to guide responsible business in our lending activities. The Policy is supplemented by sector-specific financing criteria which have been created for the palm oil, oil and gas, forestry and logging and mining and quarrying industries.

Maybank is also actively increasing our involvement in green financing as well and we have helped to expand the regional ESG market by supporting the issuance of numerous deals. Two notable recent deals include Maybank's successful first sustainability-linked financing facility via Maybank Islamic Bank Berhad as joint mandated lead arranger for a Shariah-compliant syndicated multi-currency sustainability-linked term financing of up to USD800.0 million or its equivalent and Maybank's RM70 million loan to Ditrolic Solar Group's company, Ditrolic Energy Solution Sdn Bhd, to fund the group's SunLease programme, which involves construction and installation of 30MW rooftop solar photovoltaic systems to generate cheaper electricity for consumers in Malaysia.

In recognition of our progress, Maybank has been awarded an "A" rating in MSCI's ESG evaluation for six consecutive years based on 37 key ESG issues such as climate change, human capital, product liability, social opportunities and corporate governance. In addition, we have been included in the Bloomberg Gender Equality Index for four consecutive years, a testament to our commitment to ensuring diversity across all levels of the organisation. Additionally, Maybank is a constituent of 7 indices in recognition of our good corporate responsibility practices, namely FTSE All-World Green Revenues Index, FTSE Asia Pacific Green Revenues Index, FTSE Emerging ESG Index, FTSE Emerging Green Revenues Index, FTSE4Good ASEAN 5 Index, FTSE4Good Emerging Indexes and FTSE4Good Bursa Malaysia Index. Maybank has also been ranked 2nd among underwriters of ASEAN Green Bonds in the ASEAN Green Finance State of the Market 2019 report, prepared by the Climate Bonds Initiative.

Although we have achieved significant recognition in our ESG efforts, we recognise that we are on a continuous journey towards a more robust sustainability agenda.

b) Being the largest bank in Malaysia by asset size, Maybank is looked-upon as a "role model" to promote ESG agenda among industry peers. What are the specific targets set by the Group to promote responsible financing and to support Malaysia's transition to a low-carbon economy moving forwards?

We recognise that we can play a role in limiting climate change by improving the environmental efficiency of our operations. We are taking a phased approach to identifying and managing climate risk. This means that we focus on having the right policies in place, understanding risk and contributing to low-carbon initiatives. Monitoring our carbon footprint is one of the key areas of tracking our impact. We have participated in the CDP (formerly the Carbon Disclosure Project) for eight years and are committed to this process.

We are also supporting the transition to a low-carbon economy in our core business activities through the proactive financing of green projects. We participate in Malaysia's Green Technology Financing Scheme (GTFS) which seeks to support the development of green technology in Malaysia and of the 28 financial institutions which have funded projects under GTFS, Maybank and Maybank Islamic rank 5th and 6th respectively in terms of the number of projects financed. To support Malaysia's green agenda, we will continue to provide financing to eligible companies that meet this scheme's criteria.

In addition to the funds distributed through the GTFS, Maybank is dedicated to supporting the advancement of renewable energy industries through our Corporate Banking and Global Banking divisions' financing of renewable energy projects. In mobilising capital to support the growth of renewable energy, Maybank is contributing to Malaysia's pledge to reach 20% electricity generation from renewable sources by 2025.

c) Is Roundtable on Sustainable Palm Oil and/or Malaysian Sustainable Palm Oil certification a pre-requisite before lending to the plantation sector?

Being a regional financial institution focusing on emerging economies, Maybank recognises that the palm oil sector is an integral part of economic growth in the ASEAN region. As a responsible financier, we are aware that we can play a role in encouraging sustainability by implementing a stronger responsible financing policy for the palm oil sector.

Under the Group's ESG Policy, our approach with clients is to engage them to ensure that we progressively transition together into adopting sustainable practises in all areas of operations. We do recognise that our clients are at different stages of this process and are operating in countries which have different stages of development. Hence, we remain steadfast in our commitment to accompany our clients on this important journey to collectively ensure a sustainable future for all.

For Maybank Group, ESG considerations are incorporated into the Risk Acceptance Criteria (RAC) for our palm oil financing, which includes, but not limited to, ESG-related certification requirements from reputable international or local independent bodies. Roundtable on Sustainable Palm Oil (RSPO) and/or Malaysian Sustainable Palm Oil (MSPO) certifications form part of the mandatory criteria in our lending to the plantation sector. Maybank has been very selective and applies stringent key ESG principles in establishing business relationships with customers across the Group.

6. Maybank Malaysia has been identified as one of the Domestic Systemically Important Banks (D-SIB) in Malaysia.

a) What is the significance of such categorisation to Maybank?

As part of being categorised as a D-SIB, Maybank will be required to hold and maintain capital buffers, in the form of Common Equity Tier 1 capital, to meet the Higher Loss Absorbency ("HLA") requirement at the consolidated level. Maybank has been placed under Bucket 2 of the HLA requirement, where the applicable HLA requirement is 1% of risk-weighted assets. The HLA requirement will come into effect on 31 January 2021.

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

In our current position, Maybank is already in compliance with the HLA requirement and we do not foresee any issues in meeting the requirement when it comes into effect. Maybank has consistently maintained capital levels well above the regulatory minimum requirements, and will continue to do so especially in the current climate of uncertainty and financial markets volatility.

Corporate Governance Matters

1. **A total 50 whistleblowing complaints were received through Maybank's Integrity Hotline in FY19 (Practice 3.2, CG Report). Out of the 50 complaints, 46 cases have been resolved while investigations are ongoing for the remaining four cases.**

   What are the key issues raised by complainants? How long has the four unresolved cases been outstanding?

   In terms of key issues raised by the complainants, the complaints received are mainly related to the breach of the Group's Policies and Guidelines (i.e.: non-adherence of standard operating procedures) and Misuse of Positions (i.e.: related to favouritism, unfair treatment to staff or ineffective leadership). All of the cases except for one have been resolved, as the remaining case is dependent on the outcome of another investigation being conducted.

Thank you

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