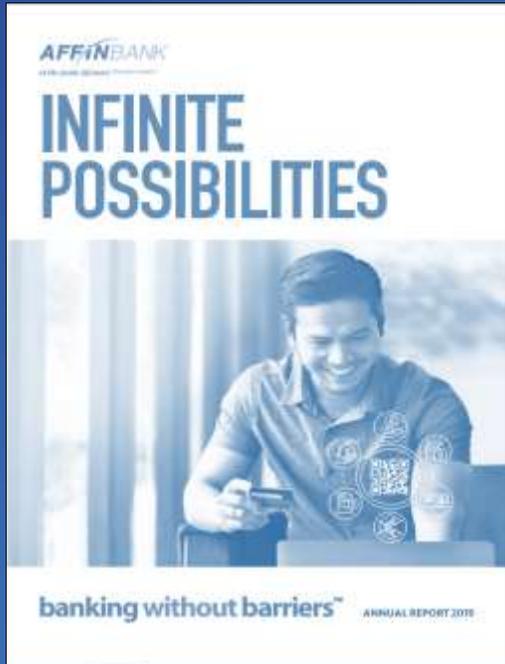


44TH ANNUAL GENERAL MEETING

AFFIN BANK BERHAD

27 JULY 2020



QUESTIONS BY MINORITY SHAREHOLDERS WATCH GROUP AND REPLIES

Strategy & Financial : Question 1

Affin Bank recorded a return on equity (ROE) of 5.42% in FY19 (FY18: 5.94%) which is the lowest in the industry. Meanwhile, its cost-to-income ratio (CIR) of 63.36% (FY18: 63.39%) is one of the highest in industry. How does Affin Bank plan to improve ROE while bringing down CIR to a level comparable to the industry average?

Response:

The Bank has implemented new efficiency measures with the establishment of an Efficiency Council in April 2020. The objective of the Efficiency Council is to drive cost saving and efficient practices throughout the Bank. The early initiatives of the Council range from reducing paper wastage, energy saving initiatives, right sizing of the workforce, automation and digitalization of processes to unlock productivity. All these initiatives go towards inculcating a Cost Conscious and High Performance culture within the Group. At the same time, in light of the COVID-19 pandemic, the Board of Directors and Senior Management have also volunteered for a salary reduction of up to 10%.

Strategy & Financial : Question 1 (Cont'd)

Response (Cont'd):

Simultaneously, the Bank is re-engineering its Balance Sheet to improve its Cost of Funds and consequently improving its Net Interest Margin (NIM).

On ROE, there is increasing focus on building the Bank's revenue base by focusing on segmentation of customer base, product bundling and intensifying marketing efforts.

The initiative on the Cost to Income Ratio, Cost of Funds and the ROE will take approximately 18 to 24 months before it starts to yield results.

Strategy & Financial : Question 2

Bank Negara Malaysia (BNM) has cut Overnight Policy Rate (OPR) by 125 basis points since the beginning of the year to 1.75% OPR currently. Further rate cuts are also expected, which would trickle into a contraction of net interest margins (NIM) of banks. Based on assessment done by the Group, how would the above affect the performance of Affin Bank in FY2020 especially in terms of loan growth?

Given that variable loans make up 71.5% (RM32.86 billion) of Affin Bank's total Loan Book, how would the NIM of Affin Bank be affected due to the substantial cut in OPR?

Response:

On loan growth, the Bank will adopt a conservative growth stance of flat or a slight increase given the weakening economic environment in Malaysia. The main priority will be to preserve Asset Quality in this uncertain condition.

Strategy & Financial : Question 2 (Cont'd)

Response (Cont'd):

At the same time, the Bank's NIM is negatively impacted by each rate cut as loans reprice faster than deposits. Management is focusing on acquiring CASA (Current Account/Savings Account) to better manage the cost of funds and this will be done through Corporate Internet and Retail Internet Banking Solutions. This will contribute to a lower Cost of Funds going forward.

Strategy & Financials : Question 3

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.

a) What is the size of the loan involved under the six-month moratorium compared to the Group's total Loans Advances & Financing?

Response:

As at 30 June 2020, an estimated 63% of total Loans, Advances & Financing are under moratorium. This is due to Community Banking contributing 53% of the total loans.

Strategy & Financials : Question 3 (Cont'd)

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.

b) What is the percentage of Affin Bank's total Loans, Advances & Financing that have been restructured and rescheduled (R&R)? Under the R&R loan segment, which are the most affected sectors within Affin Bank's Loans, Advances & Financing sector?

Response (Cont'd):

Of the Bank's total portfolio of Loans & Financing, less than 3% have been restructured and rescheduled due to COVID-19. The most affected sectors being Real Estate, Education and Tourism. The number of R&R accounts will correlate with the recovery of the Malaysian economy.

Strategy & Financials : Question 3 (Cont'd)

c) Loan exposure to individuals and SMEs accounted for 65.8% (RM30.24 billion) of Affin Bank's total RM45.96 billion Loans, Advances & Financing 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?

Response:

It is still too early to predict the risk of an increase in provision, and it will be dependent on how fast Malaysia and the Global economy recovers from this COVID-19 pandemic. The payment behavior of the individuals and SME borrowers post moratorium will only be observed in Quarter 4 2020.

In anticipation of this possibility, the Bank is ready to assist all customers who are affected by the COVID-19 pandemic and we are already taking steps to contact such customers directly through our call centers and our email hotlines (yourvoice@affinbank.com.my).

Strategy & Financials : Question 4

As of FYE 31 December 2019, Affin Bank's Group gross impaired loans (GIL) and net impaired loan (NIL) ratios were 3.00% (FY18: 3.25%) and 2.28% (FY18: 2.59%) 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). Affin Bank's GIL and NIL ratio further increased to 3.11% and 2.37% as at end of March 2020.

- a) How has Affin Bank's asset quality change before and after the COVID-19 outbreak?
- b) To what extent are Affin Bank's GIL and NIL ratios expected to rise due to the economic impact arising from the COVID-19 pandemic? Are the currently higher than industry average GIL and NIL ratios a concern to Affin Bank?

Strategy & Financials : Question 4 (Cont'd)

Response to (a) & (b):

It is still too early to assess the impact on Asset Quality (Gross Impaired Loans & Net Impaired Loans) and Expected Credit Losses (ECL) as it will be dependent on how fast Malaysia and the Global economy recover from this pandemic. The payment behavior of the individual and SME borrowers post moratorium will only be seen in Quarter 4 2020. Management is taking precautionary measures by contacting our customers and providing financial assistance where necessary.

Management takes the overall Asset Quality of the book seriously and is monitoring the overall portfolio closely to ensure a healthy portfolio that is in line with industry levels. We have strengthened our collection, recovery and restructuring teams to focus on improving our Gross Impaired Loan & Net Impaired Loan ratios.

Strategy & Financials : Question 5

How does the current low interest rate environment hinder Affin Bank's effort to pursue the current and savings account (CASA) funding as depositors may prefer to put or invest their money in alternative investments to generate higher returns? Coupled with the six-month loan moratorium measure to borrowers, will a potential decline in CASA ratio result in liquidity pressure to Affin Bank?

Response:

As part of the AIM 22 metamorphosis plan, CASA is a key focus area for the Bank to lower its Cost of Funds. CASA initiatives range from enhancing its Internet Banking solutions and marketing CASA product offerings. The short term target will be to break the 20% CASA ratio. The low interest rate environment provides an opportunity for the Bank to lower its Cost of Funds as it reprices its high rate Fixed Deposits. The Bank also works closely with Affin Hwang Asset Management which is one of the leading Asset Managers in the Country with CASA product bundling.

Strategy & Financials : Question 5 (Cont'd)

Response (Cont'd):

The Bank's LCR is at healthy levels above the 100% thresholds and we do not expect any liquidity pressure. The Bank currently has close to RM15 billion in High Quality Liquid Assets as at June 2020.

Strategy & Financials : Question 6

Affin Bank's SME Banking division registered a strong growth in FY19 with the acquisition of 9,000 new-to-bank customers or 25% growth year-on-year. Of the new customers, 7,000 of them are start-ups.

Given that there is a risk of prolonged impact of the COVID-19 pandemic, how will the SME Banking business be affected? Does the SME Banking division face a heightened risk of loan default by SME customers especially the start-up segment?

Response:

The 9,000 new-to-bank customers are predominantly CASA accounts. This is part of our strategic initiative to build our CASA franchise where we are introducing product bundling and cross selling and these 9000 accounts have contributed to our CASA growth. At the moment, the loan portfolio for start-ups is small. Our financing extended to these companies are guaranteed by SJPP and we have registered no default to date.

Strategy & Financials : Question 6 (Cont'd)

Response (Cont'd):

The SME business spectrum is the bedrock of our economy and they provide the jobs and economic activity that drives the Malaysian economy. This is why the government is supporting them with soft loans through all the PRIHATIN (RM7 billion) and PENJANA (RM10.95 billion) initiatives.

During this period of the COVID-19 pandemic and the rest of 2020, SME Banking is expecting to see a modest growth in its loans and deposits as the business continues on its targeted customer approach across selected industries and sectors. At the moment, SME Banking is in a proactive engagement mode with their customers for any assistance and relief arrangements that they may require due to the COVID situation.

Strategy & Financials : Question 7

It is reported that some parties have expressed their keen interests on Affin Bank's insurance and asset management businesses. Is Affin Bank keen to divest its stake in the insurance and asset management businesses especially the loss-making AXA Affin Life Insurance Berhad?

Response:

There are no plans for the bank to divest its stake in the insurance and asset management businesses.

Strategy & Financials : Question 8

Remuneration paid to directors of subsidiaries increased by 60.38% y-o-y to RM2.57 million in FY19 from RM1.6 million the year before. What is the rationale for the sharp increase in remuneration paid to directors of subsidiaries?

Response:

The YoY Difference in the Disclosure line 'Remuneration paid to Directors of Subsidiaries' is RM970k. This is due to:

- In 2019 we have enhanced the accounting disclosures and included other benefits that are attributable to the directors of subsidiaries which include medical, car allowances and appreciation which would have amounted to RM770k of 'Other Emoluments' for directors of subsidiaries in Financial Year 2018.
- RM192k is the remuneration paid for the additional 2 directors appointed on the subsidiaries' boards in Financial Year 2019.

Corporate Governance Matters : Question 1

As a Large Company, Affin Bank has not adopted Practice 8.4 – Step Up which states the audit committee should comprise solely of independent directors (IDs). Given the number of IDs appointed on Board, Affin Bank has sufficient IDs to sit on the Group Board Audit Committee. When does Affin Bank expect to apply Practice 8.4?

As at the date of the Corporate Governance Report (22 May 2020), Group Board Audit Committee comprised four Independent Non-Executive Directors and one Non-Independent Non-Executive Director.

Mr. Ignatius Chan Tze Ching (Mr. Chan), a Non-Independent Non-Executive Director, was appointed as member of the Group Board Audit Committee in November 2019. Mr. Chan, who is a Certified Public Accountant, possesses extensive knowledge in internationally acceptable practices on audit monitoring processes. His appointment was to ensure the Bank continues to comply with the requirement under the Bursa Malaysia Main Market Listing Requirements for Group Board Audit Committee to have at least one member with accountancy background at all times.

Following the appointment of Mr. Gregory Fernandes as Chairman of Group Board Audit Committee on 1 May 2020, Mr. Chan has recently stepped down as a member of Group Board Audit Committee. I am pleased to inform that the Bank has applied the Step-Up recommendation under Practice 8.4 of the Malaysian Code of Corporate Governance issued by the Securities Commission Malaysia for the Group Board Audit Committee to comprise only Independent Directors.