



Media Release

RAM Ratings reaffirms Public Bank's and Public Islamic's AAA ratings on resilient financial profiles

RAM Ratings has reaffirmed the AAA/Stable/P1 financial institution ratings of Public Bank Berhad (the Group) and its core subsidiary, Public Islamic Bank Berhad.

The reaffirmation reflects the Group's consistently superior asset quality and robust loss absorption buffers, underpinned by prudent risk management. Public Bank's solid financial and business profile is a testament to the strong execution capabilities of its management.

Public Bank is the third-largest banking group in Malaysia by asset size and one of the market leaders in residential mortgages, commercial property financing, automobile financing and retail unit trusts. Commanding a respective 17% and 16% of the domestic banking system's loans and deposits as at end-December 2021, the Group is one of the three domestic systemically important banks.

Public Bank's gross impaired loan (GIL) ratio of 0.3% as at the same date – the lowest in the industry (average: 1.4%) – demonstrates its exemplary asset quality. The proportion of the Group's domestic loans under forbearance dropped to 7% as at mid-April 2022 (end-2021: 25%). We view positively the low rate of reapplication for assistance (5% of expired relief loans), an early indication of stabilising credit trends.

As remaining forbearance measures gradually unwind, some credit deterioration is inevitable, although not likely to be significant given the Group's traditionally strong borrower profile and intensive collection procedures. Substantial management overlays over the last two years boosted GIL coverage to a lofty 383% (including regulatory reserves) as at end-December 2021. This together with healthy pre-provision profit will be more than ample to defend against anticipated asset quality weakening.

Public Bank's track record of profitability has been unbroken since its inception. Pre-tax profit for FY Dec 2021 rebounded to RM7.4 bil, higher than pre-pandemic levels mainly owing to a broader net interest margin. This came on the back of significantly reduced funding costs following successive interest rate cuts the year before. Lower modification losses of RM106 mil (FY Dec 2020: RM498 mil) also contributed to the better showing. Consequently, the pre-tax return on risk weighted assets improved to

2.5%. A one-off prosperity tax will however weigh on the Group's bottom line in FY Dec 2022.

With a strong retail deposit heritage and an extensive branch network, Public Bank boasts one of the largest proportions of retail deposits in the banking system. Individual depositors made up slightly over half of its customer deposits (industry: 38%), providing diversity and stability to the Group's funding.

Public Islamic's financial institution ratings are equated to those of Public Bank, considering its strategic importance to the latter. The issue ratings of the two entities have also been reaffirmed (Table 1).

Table 1: Issue ratings of Public Bank and Public Islamic

| Instruments | Long-term rating | Rating outlook |
|---|------------------|----------------|
| Public Bank Berhad | | |
| RM20 billion Senior MTN Programme (2013/2043) | AAA | Stable |
| RM10 billion Subordinated MTN Programme (2013/2043) ¹ | AA ₁ | Stable |
| RM10 billion Additional Tier-1 Capital Securities Programme (AT-1 Programme) ² | AA ₃ | Stable |
| Public Islamic Bank Berhad | | |
| RM5 billion Sukuk Murabahah Programme: | | |
| - Senior sukuk | AAA | Stable |
| - Subordinated sukuk ³ | AA ₁ | Stable |
| Notes: ¹ The one-notch rating differential between Public Bank's AAA long-term financial institution rating and the AA ₁ rating of its Subordinated Notes reflects the subordination of the debt facility to its senior unsecured obligations. ² The three-notch rating differential between Public Bank's AAA long-term financial institution rating and the AA ₃ rating of its RM10 billion AT-1 Programme reflects the subordinated nature and fully discretionary coupon payments of the capital securities, as well as our assessment that the Group possesses a high capital buffer level. ³ The one-notch rating differential between Public Islamic's AAA long-term financial institution rating and the rating of its subordinated sukuk reflects the subordination of the securities to the Bank's senior unsecured obligations. | | |

Analytical contacts

Lee Yee Von
(603) 3385 2503
yeevon@ram.com.my

Wong Yin Ching, CFA
(603) 3385 2555
yinching@ram.com.my

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