Virtual
AGM

RHB BANK BERHAD 196501000373 (6171-M)

56th ANNUAL GENERAL MEETING

Minority Shareholders Watch Group ("MSWG")'s Questions via letter dated 19 April 2022

27 April 2022

RHB

1. The FIT22 five-year strategic roadmap is due in FY2022. What would be the key focus areas of RHB's next strategic roadmap?

   RHB Bank's Response:
   We are currently in the process of developing an updated corporate strategy which will take into account the latest market conditions and trends observed as well as maintaining alignment to our refreshed purpose statement "Making Progress Happen for Everyone".

   Looking ahead, we expect the financial services sector to continue to evolve rapidly, in part due to the acceleration of market trends as a result of COVID-19, for examples:

   - *Growth in affluent population that seek hyper-personalised experiences.*
   - *Increased demand for Islamic Banking services, particularly for end-to-end Islamic offerings.*

RHB Bank's Response cont'd:

- *ASEAN regionalisation with greater integration, signaling potential overseas opportunities.*
- *Heavy competition and disruptive technology.*
- *High digital expectations driven by changes in consumer behavior.*
- *Evolving workforce with different preferences and needs.*

These market trends as well as our commitment to continuously drive progress for the Group will guide our focus areas for the new corporate strategy. We will provide an update in due course once the new corporate strategy has been finalised.

2. Under Budget 2022, the Malaysian government had announced the one-off Prosperity Tax on companies with chargeable income over RM100 million for the year of assessment 2022.

   Under this tax regime, companies would be levied at a tax rate of 33%, instead of the blanket 24% rate previously, for chargeable income over RM100 million.

   i. To what extent will RHB's earnings and return on equity (ROE) be dampened by this one-off windfall tax in FY2022?

   ii. Having factored in this one-off tax, will the Group be able to achieve the FY2022 ROE target of 11.5% (page 21 of Integrated Report 2021)?

i. To what extent will RHB's earnings and return on equity (ROE) be dampened by this one-off windfall tax in FY2022?

RHB Bank's response:

Despite the expected impact of Prosperity Tax on profitability, the Group strives to deliver growth in 2022 albeit possibility of continued headwinds in the operating environment. Target ROE for FY2022 is 8.5%, or 10.0% after normalising for the one-off impact of the Prosperity Tax.

Our key focus areas for FY2022 are:

- *Continuing to be vigilant and grow asset responsibly as well as maintaining credit discipline. We still expect our key growth drivers to be mortgage, auto finance, SME and Singapore operations*
- *Remaining prudent by continuing to manage asset quality and monitor cost closely*
- *Maintaining robust capital and liquidly position*

ii. Having factored in this one-off tax, will the Group be able to achieve the FY2022 ROE target of 11.5% (page 21 of Integrated Report 2021)?

RHB Bank's response:

ROE of 11.5% refers to the original FIT22 target when we first announced our 5-year Strategy, FIT22 in 2018. However, the Group's performance was largely impacted by the pandemic over the last 2 years (FY2020: 7.7%, FY2021: 9.6%).

For FY2022, our ROE target is 8.5% or 10.0% after normalising for the Prosperity Tax impact.

Operational & Financial Matters

3. After a subdued year 2020, RHB achieved a gross loan and financing growth of 6.7% in FY2021, mainly driven by growth in mortgage, auto finance, SME, Commercial and Singapore market. Despite the robust growth, RHB sets a loan growth target of 4% to 5% for FY2022.

   a) As the year of FY2022 is dubbed as a year of recovery with stronger economic growth, has the loan growth target erred on the side of caution?

   b) Overseas gross loans increased by 22.1% in FY2021, mainly attributed to growth in Singapore and Cambodia. Does the Group expect the foreign markets to register similar loan growth momentum in FY2022?

a) As the year of FY2022 is dubbed as a year of recovery with stronger economic growth, has the loan growth target erred on the side of caution?

<u>RHB Bank's response:</u>

The asset growth in FY2021 was attributed partly by Pemulih RA which had resulted in lower portfolio loan repayment. This has indirectly contributed to the asset growth in FY2021.

Based on our in-house view, Malaysia's GDP is projected to grow by 5.5% with loans forecasted to grow by 5.2% in 2022. Despite the expectation of economic recovery in 2022, the Group remains cautious given the potential downside risks arising from geopolitical crisis, global inflationary pressures and potential emergence of Covid-19 variants.

<u>RHB Bank's response cont'd:</u>

While the Group's loan growth target of between 4% and 5% seems conservative, we will continue to monitor and assess market developments closely as the year progresses and will revise the loans target if necessary.

b) Overseas gross loans increased by 22.1% in FY2021, mainly attributed to growth in Singapore and Cambodia. Does the Group expect the foreign markets to register similar loan growth momentum in FY2022?

RHB Bank's response:

Our key foreign market growth drivers for FY2022 are still Singapore and Cambodia. We are optimistic about our loans growth potential in both of the countries following a healthy performance in FY2021.

For Singapore, we expect loans to continue to expand although the pace of growth is expected to moderate, given the challenging global economic environment and coupled with the gradual reduction of government support for the Enterprise Singapore loans for SME program which looks set to end in September 2022. We'll continue to focus on secured lending as exhibited in our FY2021 Singapore loans portfolio where 64% of outstanding loans were secured.

RHB Bank’s response cont’d:

For Cambodia, we also expect growth momentum to continue into FY2022. We are focused on ensuring our asset quality remain robust given the pandemic challenges that still remain and will pursue growth responsibly.

4. The lower gross impaired loans (GIL) ratio of 1.49% in FY2021 (FY2020: 1.71%) was due to moderate formation of new impaired loans arising from the moratorium and ensuing repayment assistance (RA) programmes.

   i. As loans under RA are not classified as impaired, does RHB expect to see an uptick in GIL upon the expiry of various pandemic related RA programmes this year?

   ii. What is RHB's credit cost guidance for FY2022?

i. As loans under RA are not classified as impaired, does RHB expect to see an uptick in GIL upon the expiry of various pandemic related RA programmes this year?

RHB Bank's response:

The payment moratorium and RA programmes helped in keeping impaired position at bay in FY2020 and FY2021. However, the lower GIL recorded in FY2021 was also mainly attributed to higher recoveries and write-offs during the year.

With the expiry of the deferment repayment assistance (RA) under the PEMULIH package, the domestic outstanding RA reduced from 12% as at 31st Jan 2022 to 6% as at 31st March 2022.

RHB Bank's response cont'd:

We expect to see an uptick in GIL upon expiry of the RA programme, gradually towards a more normalised, pre-pandemic level. For example, around 95% of the borrowers who exited RA have resumed their repayments while only a small proportion of the borrowers have missed their payments.

As RA programme has ended in December 2021, to manage and mitigate impact on the loan servicing capability of our customers, we will continue to provide assistance to borrowers via internal repayment plan / R&R and referral to AKPK. RHB Bank is actively helping borrowers who are still facing financial constraints to reduce loan repayment amount and extend loan tenure. We expect GIL to normalized towards pre pandemic levels, with a slight but manageable uptick for 2022. In view of this, we expect GIL ratio to increase in FY2022 but not more than 1.70%.

RHB Bank's response cont'd:

Nevertheless, the Group will continue to focus on maintaining credit discipline and intensify efforts in recovery and collection. We will maintain regular engagements with our customers and offer R&R tailored to their specific requirements to minimise defaults and migration to Stage 3.

ii. What is RHB's credit cost guidance for FY2022?

RHB Bank's response:

FY2021 credit cost stood at 0.29% compared with 0.58% in FY2020 due to lower ECL on loans and higher bad debts recovered during the year.

For FY2022, the Group will remain vigilant and continue to exercise conservatism where provisions are concerned. We will continue to assess the situation and are willing to increase our management overlay should the need arise. We expect credit cost to remain elevated but lower than the FY2020 level, hovering between 0.30% and 0.35% for FY2022.

5. Despite higher total income of RM905.1 million in FY2021 (FY2020: RM839.3 million), RHB's Group Corporate Banking (GCB) business (under the Group Wholesale Banking segment) saw a 79.4% decline in pre-tax profit to RM103.2 million due to higher allowances for credit losses (page 76 of IR2021).

   What is the GIL ratio for GCB business? To which industries and countries do these provisions relate to? How does the asset quality of RHB's corporate clients look like in FY2022?

   RHB Bank's response:

   GIL ratio for GCB is around 2.3% and we were affected by the Tourism & Leisure sector which was directly impacted by the Covid-19 outbreak and multiple lockdowns. We expect the GIL ratio to maintain or improve for 2022 and are proactively managing GCB asset quality by continuing deployment of corporate task force.

6. Under the Group's Community Banking, the mortgage segment's overall sales contribution from branches grew from RM37 million in 2020 to RM937 million in 2021 (page 68 of IR2021).

   What were the reasons for the year-on-year sharp increase in mortgage sales contribution from branches?

   RHB Bank's response:

   The increase in sales was attributed to the Bank's strategy to drive incremental growth in mortgage by expanding geographical through our branches nationwide. This is to complement our prevailing strategy of focusing on market centres.

   In addition to this, the increase was also supported by the Government's Home Ownership Campaign which ran until Dec 2021. We have also benefited from our digital transformation where 55% of sales was through our RHB MyHome app.

7. In line with RHB's digitalisation agenda, RHB had onboarded over 300,000 new customers in FY2021 on its RHB Mobile Banking application, which takes the total onboarded customers to over one million since the new mobile app was launched in 2019 (page 53 of IR2021).

   Based on our channel check, the RHB Mobile Banking application received low ratings among mobile users with just 2.6 stars out of 5 stars on Google Play and 1.8 stars out of 5 stars on App Store. Users mostly complained about the user experience of the app e.g., account login, unable to perform fund transfers.

   What were the reasons of unsatisfactory user experience towards this app despite RHB's significant investment in pursuing the digitalisation agenda?

RHB Bank's response:

We place great importance on customer feedback and we build it into the end-to-end process of designing and developing our digital channels and features.

In line with that, the RHB Mobile Banking app and RHB Online Banking provides a rating feature to capture customers' feedback during the utilization of our new online channels. Based on the ratings received throughout 2021, 94% of our customers are happy with the Mobile Banking experience (564k users rating 4 or more out of 5). Additionally, based on the recent Annual Customer Survey through IPSOS, our Mobile Banking App customer satisfaction score is at 82% on par with industry satisfaction score (83%). This follows the IPSOS survey released by BNM in 2020 that showed our then new Mobile Banking app Net Promoter Score (NPS) of +45 (+20 ahead of industry).

Cont'd RHB Bank's response:

The ratings on Apple AppStore and Google Playstore are based on algorithms that takes into account number of downloads, duration on store, etc on top of user rating, and therefore may not reflect the actual/realtime customer feedback.

In 2022, we will continue to improve the features of both our Mobile Banking and Internet Banking by providing improved digital experience for our customers and reducing friction (i.e. transaction failures, system downtime).

8. RHB has partnered with Boost Holdings Sdn Bhd to vie for a digital banking licence from Bank Negara Malaysia (BNM).

   Should the digital bank joint venture be granted licence by BNM, how would the JV complement and create synergy with RHB's existing business?

   RHB Bank's response:

   The application for a joint venture digital bank should be viewed as an extension of RHB's Digital Transformation Plan. RHB plans to accelerate the deployment of innovative capabilities developed in the joint venture digital bank (e.g. credit risk management model, servicing model etc.) into RHB to further enhance our competitiveness.

Cont’d RHB Bank’s response:

From a customer standpoint, we aim for synergies by nurturing underserved and unserved customers who might eventually become RHB’s customers in the future. Similarly, we expect the joint venture digital bank to complement our existing businesses through cross-referrals across both banks with customers seeking more complex products being referred to RHB (e.g. mortgage, auto finance, asset management).

We look to leverage the joint strengths and ecosystems of RHB and Boost Holdings to deliver innovative digital solutions to the underserved and unserved. We feel that the joint venture digital bank provides a unique proposition which combines the best of both worlds:

RHB Bank's response cont'd:

RHB Banking Group:

- *Many years of established trust with customers and regulators*
- *Extensive experience in running a bank with proven expertise across core banking services, risk management and compliance, liquidity, capital, operational and credit management, product management and responsible financing*

Boost Holdings:

- *Extensive fintech experience developed through Boost Credit, a digital micro-financing and micro-insurance brand by Axiata Digital*
- *Strong capabilities in learning about customers via analytics and artificial intelligence to provide better customer solutions, product personalisation and risk-based pricing*

9. As of end-December 2021, RHB had extended RM4.32 billion out of its RM5 billion Green Financing Commitment by 2025 in support of green activities, of which 20.7% of the financing provided was related to renewable energy projects (page 98 of IR2021).

   What are the other industries/projects that RHB extended the green financing to? What is the breakdown of RHB's green financing exposure according to industry and country?

<u>RHB Bank's response</u>:

RHB had committed RM 5 Billion in Green Financing through core activities of lending, capital markets advisory and fundraising, together with investment for the period of 2020 to 2025. The objective was to have tangible impact directly and indirectly on projects and developments that would counter or address climate change.

Below is the summary of the types and industries that was covered under this commitment:

RHB Bank's response cont'd:

Eligible Green Activities under RHB's Green Financing Commitment as at 31 Dec 2021	*Total RM (Million)*	*%*
Renewable Energy	*894.6*	*20.7%*
Pollution Prevention and Control	*8.64*	*0.2%*
Clean Transportation	*2.5*	*0.1%*
Sustainable Water and Wastewater Management	*1,735*	*40.2%*
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	*20.5*	*0.5%*
Green Buildings	*1,654.7*	*38.3%*
Total	***4,316***	***100.0%***

The financing exposure was largely in Malaysia.

10. The Group also launched the RHB Sustainability Finance Programme which provides various green financing solutions to retail and SME customers. The scheme targets to grant RM1 billion in new financing by 2025.

    As of end-December 2021, a total of RM44.36 million has been provided to customers, or equivalent to about 4.44% of the committed amount.

    Was the scheme well-received by customers? If not, what are the reasons of the lukewarm reception?

RHB Bank's response:

The Group's Sustainable Financing Programme focusing on Green financing solutions – Green Energy, Green Buildings, Green Process and Green Products for Retail and SME customers was launched in 2021. Within a period of 4 months of its launch, the Group had extended a total of RM 44.36 million of facilities to customers. This include the Hybrid / EV financing package offered under Auto Finance specifically designed for green vehicles which is well received by the customers.

As of Q1 2022, SME banking has a total pipeline of RM360 million in Sustainable Financing programme, at various stages of approval process. This represent 72% of the RM1billion target and is classified as environmental and social aspects of ESG programmes ranging from renewable energy, recycling and manufacturing. There will be concentrated effort for SME Banking to create, develop, enhance and implement Sustainability financing opportunities for the SME business community over the next 5-years as part of RHB's Sustainability journey.

11. Referring to Resolution 5 of Notice of Meeting dated 30 March 2022, RHB is seeking shareholders' approval for a proposed increase in directors' fees and board committees' allowance, as well as the payment of directors' fee, board committees' allowances and directors' remuneration to non-executive directors.

    The proposed increase in fees and allowance was upon a benchmarking analysis conducted by an external consultant in 2021, taking into account the demands, complexities and performance of the Company as well as skills and experience required.

    What was the outcomes of the review done by the independent external consultant? What were the banks or financial institutions that RHB benchmarked against in considering the appropriate revision?

RHB Bank's response:

*RHB Banking Group's Non-Executive Directors ("NEDs") fees were last reviewed more than 3 years ago. Willis Tower Watson ("WTW"), the appointed independent external consultant, conducted a benchmarking exercise at the end of 2021 on the directors' remuneration against comparator major local banks, which included **Maybank, Public Bank, CIMB, AmBank, Affin Bank** and **Alliance Bank**.*

RHB Bank’s response cont’d:

Below are the Key Principles taken into consideration by the independent consultant behind the latest proposed revision of RHB Bank's NEDs remuneration structure:

i. Reflective of RHB’s Outlook

Macro-economic events and COVID-19 have caused significant market volatility and uncertainty in the foreseeable future. Board of Directors now must frame the post crisis strategy and deliberate about where they focus their attention.

ii. Recognise unique complexity, requirement and responsibility

Remuneration should commensurate with time, effort and complexity where additional fee should be established for lead role positions such as Board chairperson, Board committee chairperson and senior independent non-executive director.

Cont’d RHB Bank’s response:

iii. Must be justified, appropriately valued and suitably disclosed

Compensation must pass the strict test of being in the shareholders and relevant stakeholders’ interest and periodically reviewed to avoid obscurity.

iv. Benchmark against comparable peers

Periodic review against suitable and relevant peers based on comparable nature of business operations and size of organization.

*The benchmarking exercise revealed that the **current fee levels for the directors are below market median** based on the latest data available. In line with the expected role of the Board, time commitment and complexity, the proposed fee structure has been updated to align with the market and sustain over the near future.*