RHB BANK BERHAD 196501000373 (6171-M)

54th ANNUAL GENERAL MEETING

Response to Minority Shareholders Watch Group ("MSWG")'s Questions

via letter dated 6 May 2020

29 May 2020

1. The COVID-19 outbreak has caused slowdown in 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 the economic slowdown that will consequently translate to slower loan growth and domestic consumption, BNM has cut Overnight Policy Rate (OPR) by 100 basis points since beginning of the year to 2% currently. This would definitely cause a contraction in net interest margins (NIM).

a) Based on the assessment done by the Group, how would the policies above affect performance of RHB Bank in FY2020?

RHB Bank's Response:

We expect the current economic situation to weigh down on the financial industry. For RHB, it will likely have a negative impact on loans growth, total income and asset quality, with potentially higher provision for expected credit losses required.

NIM is expected to decline in FY2020 to around 2.00% from 2.12% in FY2019 as a result of the 100bps OPR cut in FY2020 with some positive offset through the reduction in Statutory Reserve Requirement (SRR) by 100bps to 2%. BNM has also allowed banks to place MGS / GII as placements for SRR.

RHB Bank's Response (continued):

Our immediate focus at this point is to ensure business continuity, care for our employees and assistance to our customers. This include, among others, keeping our staff safe while ensuring critical services continue, expediting the approval of loans under the various relief measures, working proactively with our customers to explore rescheduling and restructuring (R&R) where appropriate, and reducing our discretionary spend.

In any event, the full impact of Covid-19 is still difficult to assess at this point.

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

RHB Bank's Response:

We expect the economy of the other countries in this region to be similarly affected by the global pandemic situation and hence our overseas operations are likely to face headwinds too in FY2020 with regards to loans growth, total income and asset quality.

Our initiatives to mitigate the effects in our overseas operations are guided by the measures implemented by the local regulators, but they are broadly consistent across the entire Group, which is to focus on business continuity while taking specific steps in keeping our staff safe, expediting the approval of loans under the various relief measures (if any), working proactively with our customers to explore R&R where appropriate, and reducing our discretionary spend.

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

RHB Bank's Response:

It is too early to predict but the general view is that economies are expected to gradually recover starting from H2 2020 onwards as economic sectors get re-opened following the various countries' movement control measures.

However, the speed at which each country is able to recover would depend on the ability of the countries to contain the outbreak at a manageable level and the respective governments' stimulus packages taking effect.

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 provision over the short-term.

   Also, MIER earlier projected potential job losses of 2.4 million as a result of the outbreak. There is also concern 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?

RHB Bank's Response:

Asset quality is expected to be negatively impacted by the global pandemic situation and provision for expected credit losses (ECL) is expected to increase in FY2020.

However, BNM and MASB have issued guidance to banks to take into account, among others, the following factors in their ECL provision estimates:

- *Any impact from COVID-19 incorporated into the estimates is reasonable and supportable.*
- *Estimates of ECL must incorporate the expected positive mitigating impacts of government measures (including the payment moratorium).*

RHB Bank's Response (continued):

- *If the shock is estimated to be temporary and market conditions expected to recover over the term(s) of the receivables, its impacts should be mainly on the 12-month ECL.*
- *Not appropriate to simply assume that R&R would automatically mean that lifetime ECL is to be applied.*

Given the above, we believe any increase in ECL provision will be manageable. Our capital levels are also in position of strength and should be able to absorb any potential impact.

For RHB, our focus is to work closely with our customers to ensure they get the support they need via appropriate R&R options that provide them with a sustainable repayment profile to match the longer time period for their business to recover.

b) RHB Bank has expected its gross impaired loans (GIL) ratio to trend upwards in 2020 (2019: 1.97%). To what extent is your GIL ratio expected to increase based on the above (and current) scenario?

RHB Bank's Response:

We expect GIL ratio to increase but it is too early to be provide a definitive guidance as it remains to be seen what the situation will be like when the payment moratorium ends.

Our focus at this time is on implementing the moratorium and proactively engaging with customers with a view of offering R&R options to see them through this challenging period.

c) What is the percentage of the Group's total loan, advances and financing (LAF) that have been restructured and rescheduled? What are the most affected sectors within RHB Bank's LAF portfolio??

RHB Bank's Response:

Total R&R accounts are around RM5.7 billion out of which non-impaired accounts are around RM4.6 billion, and impaired accounts are around RM1.1 billion as at end Dec 2019.

Breakdown of the R&R accounts by main sectors as at end-Dec 2019 is as follows:

RHB Bank's Response (continued):

Sector	%
Manufacturing	30%
Construction	29%
Electricity, Gas & Water	10%
Mining & Quarrying	7%
Sector N.E.C.	7%
Household	6%
Education, Health & Others	6%
Primary Agriculture	3%
Wholesale and Retail Trade, Restaurant & Hotels	2%
Total	**100%**

As for R&R that arose as a result of Covid-19, it is still early days although we expect the number to be material, especially for the vulnerable sectors such as tourism and hospitality, and retail trade.

3. RHB Bank's five-year strategic plan - FIT22, has identified the retail and SME segments as key growth areas, where it plans to grow loans and financing portfolio share from 69% to 77% by 2022.

   Is RHB Bank on track to achieve this target in view of current economic headwinds, lukewarm business confidence and consumer sentiment?

   RHB Bank's Response:

   Yes, part of the FIT22 strategy is for the Group to have greater percentage of Retail and SME loans as a proportion of domestic gross loans and we are on track to achieve our target (75% by 2020). As at end-Dec 2019, the proportion of Retail and SME is 73.0% compared with 72.1% as at Dec-2018.

RHB Bank's Response (continued):

As an example, with BNM's Special Relief Fund (SRF) to SMEs adversely affected by Covid-19, we have approved 1,677 of borrowers with total loan amount of RM1.1 billion (as of 11 May 2020).

4. Last December, BNM issued the Exposure Draft on Licensing Framework for Digital Banks (Exposure Draft) to encourage innovative application of technology in the financial sector. Meanwhile, The Monetary Authority of Singapore (MAS) is issuing up to five virtual banking licences by June 2020. More countries are paving ways to set up standalone digital banks to keep up with times.

a) What is RHB Bank's view on the development above? Does RHB Bank see the necessity to acquire digital banking licences in the countries where it has presence to complement its operation?

RHB Bank's Response:

The Group is still evaluating all options and the viability of applying for a digital bank licence. It is relevant to note that our existing banking license allows us to undertake digital banking activities.

Our FIT22 strategy includes one key initiative of digitisation through customer journeys and we have seen early success from this initiative. Key to our digitalisation roadmap is our ability to focus on the needs of customers for efficiency, convenience and cost effectiveness.

b) Digital banks are expected to offer products and services that could help to address market gap in the underserved and unserved segment which may include micro and Small and Medium Enterprises (SMEs) in a sustainable manner (page 6 of the Exposure Draft).

Are the underserved and unserved segments worthwhile for RHB Bank to address as these segments are generally perceived to incur high servicing cost and low revenue potential?

RHB Bank's Response:

Kindly refer to our response in Question 4 (a) above.

c) Do you foresee digital banks posing formidable challenges to conventional banks like RHB Bank in the future? What are the possible strategies to adopt to address this industry development?

RHB Bank's Response:

As mentioned, banks are already allowed to conduct digital banking activities under existing licenses. We believe that digital banks, whether incumbent or new player will need a combination of factors to succeed.

For example, a big pool of customer base, an agile technological platform, ability to conduct robust analytics, and a strong regulatory framework. Banks can decide to pursue this business and build these capabilities on their own or partner with suitable partner to bring in the capabilities that are not available.

RHB Bank's Response (continued):

The catalyst for digital transformation is further amplified by the Covid-19 pandemic as more Malaysians have adopted digital channels/commerce under MCO.

5. RHB Bank distributed 31 sen dividend per share in FY19, translating into a dividend payout ratio of 50.1% which is also the highest in its history.

   Is the dividend payout ratio sustainable in FY20 and FY21?

RHB Bank's Response:

Our aim is to maintain the same payout amount of 31 sen per share. However this will be subject to the usual regulatory requirements on capital and liquidity, and the net profit after tax we report.

As part of the COVID-19 measures announced, BNM has also reminded banks that the temporary flexibilities provided under the measures should not be used for higher discretionary distribution of profit.

6. Based on the Corporate Governance (CG) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (MCCG), please provide clarification on the following ***extract***:

- Practice 4.2: The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

  If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

  RHB Bank Berhad's CG Report Disclosure: <u>Not applicable</u> - Step Up 4.3 adopted

- Practice 4.3 - Step Up: The board has a policy which limits the tenure of its independent directors to nine years.

  RHB Bank Berhad's CG Report Disclosure: <u>Adopted</u>. The Board has adopted a policy where INEDs may be re-appointed for a new term provided that such service tenure does not exceed a consecutive or cumulative term of 9 years. Computation of the service tenure will commence from the date of his/her appointment in the Group.

  For the Financial Year 2019, the Board has no Independent Directors who had exceeded the 9-year term limit. Information on the tenure limit of INEDs for the Group can be found in RHB Bank's Board Charter downloadable from RHB's corporate website.

MSWG's comment on the above extract from RHB Bank Berhad's CG Report 2019:-

Mr. Abdul Aziz Peru Mohamed has served the Board for more than nine years since his appointment to the Board on 7 February 2011 (page 98 of AR2019). Should not the Board seek annual shareholders' approval at the forthcoming AGM to retain Mr. Abdul Aziz as an INED?

RHB Bank's Response:

Mr Abdul Aziz Peru Mohamed was appointed to the Board on 7 February 2011. As at 31 December 2019, his tenure stood at 8 years and 10 months. He reached 9-years tenure on 7 February 2020 but his position as an INED will be until the 54th Annual General Meeting ("AGM") as allowed by Bank Negara Malaysia. In line with the Group's policy, En Aziz will step down and is retiring from the Board of RHB Bank Berhad at the conclusion of the 54th AGM.

RHB Bank's Response (continued):

Along with En Aziz, Tan Sri Saw Choo Boon, a Non-Independent Non-Executive Director, will also be retiring from the Board as part of the Board's succession planning. This is further evidenced with the appointment of two new directors to the Board in 2020, namely Datuk Seri Dr Govindan Kunchamboo as an Independent Non-Executive Director (w.e.f. 1 January 2020) and Dato' Mohamad Nasir Ab Latif as a Non-Independent Non-Executive Director (w.e.f. 16 March 2020).

The Board endeavors to comply with the 9-years tenure limit for Independent Directors in line with Bank Negara Malaysia Policy Document on Corporate Governance and the Malaysian Code on Corporate Governance.

"We valued all your inputs and concerns."

Thank you for your active participation in the 54th AGM.