

# Group Managing Director's Statement

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*Dear Valued Shareholders, This 5<sup>th</sup> of May 2020 will mark the completion of my 5 years at the helm of RHB as Group Managing Director. Over this period, we went through many challenges and emerged stronger fundamentally, through the execution of our strategies and transformation initiatives. We identified and leveraged on our strengths, and mapped out what needed to be done to remain competitive and create sustainable value for our shareholders and all other stakeholders.*

**DATO' KHAIRUSSALEH RAMLI**  
Group Managing Director



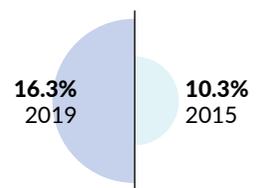
Our strategy is clearly delivering results. We see positive trends in our key metrics especially as reflected in the value we have created for our shareholders. Thank you to all RHBians, without whose commitment and determination this feat would not have been possible.

The **FIT22 strategy** has helped lift Group pre-tax profit by **30.9%** since it was launched in 2018. RHB Bank saw an improvement in 1-year total shareholder return ("TSR") to 14.2% in 2019, where RHB emerged top among local banks. Our 5-year TSR stood at 18.6%.

Consecutive historical highs for dividend payout ratios



Dividend payout: **31.0 sen in 2019 vs 16.3 sen in 2015**



Significantly higher Common Equity Tier 1 Capital Ratio ("CET 1") at the end of 2019 of 16.3% vs 10.3% as at end 2015

# Together we progress

Back in 2015, our net profit stood at RM1.7 billion, our cost-to-income ratio ("CIR") was at a high of 53.8% (excluding Career Transition Scheme ("CTS") cost), and our loan loss coverage ratio at 83.9%, which was a concern among investors. Our Common Equity Tier 1 ("CET 1") capital ratio was at 10.3%.

We went through a difficult period in 2016 and 2017 during the oil and gas industry meltdown. Nevertheless, we stayed focused on addressing the issues at hand and kept our head down in executing the strategies that we formulated. Fast forward to 2019, and the key indicators that I mentioned above had improved substantially. Our net profit stood at RM2.5 billion, CIR was at 48.9%, CET 1 stood at 16.3% and loan loss coverage ratio was comfortable at 107.9%. Our Return on Equity ("ROE") also improved to 10.3%.

Apart from financial performance, our efforts in other areas have not gone unnoticed. In 2019, we had improved our ranking in the Putra Brand Awards from Bronze to Silver, and increased our brand value by 45% to USD956 million. For this, I thank all RHBians for their commitment and support.

To say we went to the ground and rolled up our sleeves to get the work done to improve the business, would be an understatement. It in fact required a mindset shift. We went back to the fundamentals. What was it that we wanted to achieve? In simple terms - sustainable growth, a relentless focus on our customers and developing our talents.

This, as we realised even then, was just the first step in a long journey that constantly presented challenges to the Group such as increased regulatory compliance, persistent proposed merger distractions and speculation, and disruption from FinTech. However, we worked hard to strengthen and build upon our existing business. I remember constantly reminding colleagues to focus on the fundamentals and deliver the mandate that we have been given. I believe we have done well, culminating on one hand, our ability to increase the dividend payout to shareholders, and on the other hand, improving our CET 1 capital ratio to 16.3%, the highest in the country.

While a generally soft economy added to the difficulties of maintaining sustainable growth, it also gave us the opportunity to truly realise our core strengths. We examined our options and what we should do to make that next growth leap. We decided to go all in, resetting our then 3-year IGNITE strategic objectives, which had been in place since 2014.

In 2018, we introduced our five-year FIT22 strategy (Fund Our Journey, Invest To Win and Transform The Organisation). We decided to focus on strengthening our presence in Malaysia and winning in targeted segments, namely the Affluent, SME and the mid-cap and large-cap segments. Organisationally, we set out to build a winning operating model which entailed the introduction of the Agile way of working, enabling us to achieve faster speed-to-market, customer centricity, increased collaboration and productivity of our employees, coupled with our digitalisation programme that emphasised the customer journey and building a workplace of the future. We launched Agile@Scale in 2018, the first bank in Southeast Asia to do so. Agile@Scale empowers employees with accountability to introduce digitally enabled value propositions with a clear focus on customer centricity and brings about a greater sense of ownership and achievement amongst them.



To learn more about the progress we have made on Agile@Scale, please refer to pages 50 to 51.

We continued to undertake various initiatives under our Employee Value Proposition ("EVP") to offer a conducive workplace. I believe that a good EVP goes a long way in ensuring that we are able to retain our talents within the organisation. Our EES score has improved significantly since 2016 from a score of 76 to a score of 90 in 2019, which is amongst the highest in the industry.



To learn more about our EVP, please refer to the People & Workplace section in our Sustainability Report 2019.

Improved  
Return on  
Equity



**10.3%**

in 2019  
vs 10.0% in 2015

Improved  
Cost-to-Income  
Ratio



**48.9%**

in 2019  
vs 53.8% in 2015  
(excluding CTS)

Loan Loss  
Coverage  
Ratio



**107.9%**

in 2019  
vs 83.9% in 2015

Increased  
Net Profit



**RM2.5**

billion in 2019  
vs RM1.7 billion  
in 2015

We have achieved a lot over the last 5 years, but I can assure you that our value creation journey continues. Our FIT22 initiatives continue in earnest, and customers are now benefiting from even more comprehensive products, services and holistic ecosystems. This has been driven by our continual investments into digitalisation, resulting in a much wider adoption of digital transactions by our customers.



To learn more about Our Strategic Roadmap - FIT22, please refer to pages 48 to 49.

# Group Managing Director’s Statement

## DIGITALISATION

Our customers are at the core of everything we do. Driving customer centricity requires more than just a shift in mindset and work culture, we need to reimagine the customer’s journey to deliver superior customer experience. This led to the development of our Digital Transformation Programme (“DTP”). DTP, which is part of our FIT22 strategic roadmap, kick started in 2017.

We continue to improve customers’ access to finance through the digitalisation of our products and services and to do this, we invested significantly in enhancing and building our digital capabilities, including developing our talent. In 2019, more than 400 RHBians received training to be Digital Leaders in order to future-proof our employees.

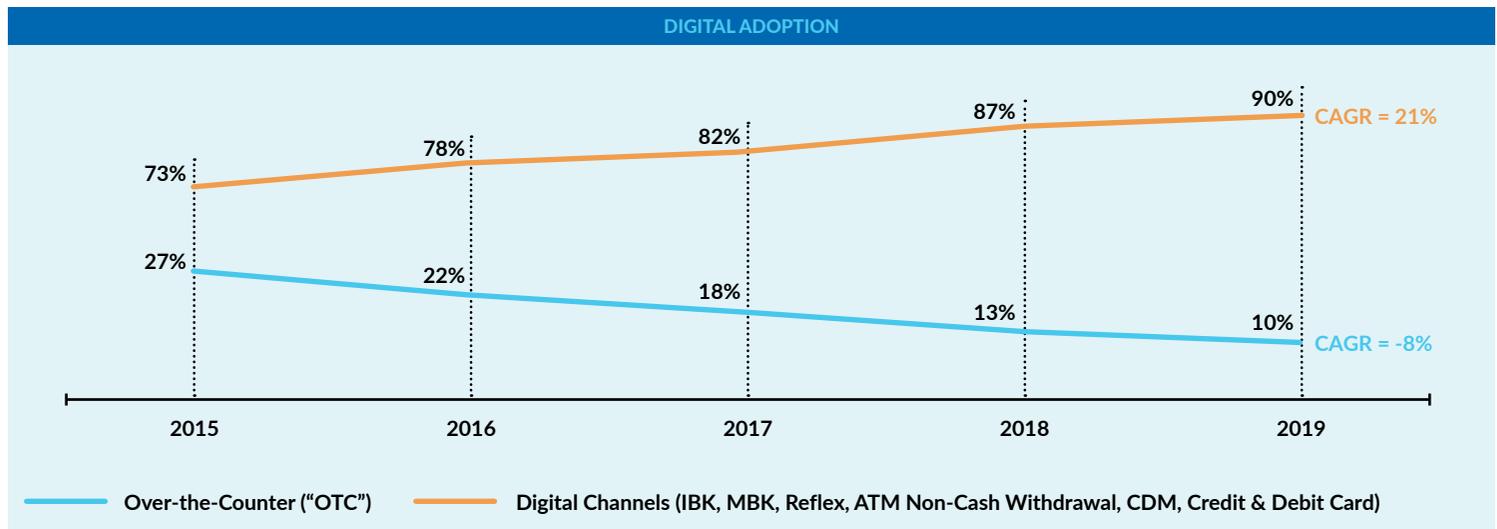
We have thus far made very good progress in our digital journey and had introduced holistic ecosystems to provide end-to-end support to fulfil our customer needs. Our SME Ecosystem had benefited over 100,000 SMEs

as of 2019 while our Homeowner Ecosystem, through the MyHome App, had contributed 19.5% of new mortgage originations while helping us achieve a 9.6% growth in housing loans for 2019.

## DIGITAL ADOPTION

From a consumer perspective, we now see digital transactions being favoured over branch transactions, in line with our digital transformation agenda. As at end-2019, the number of Internet Banking and Mobile Banking active users increased to 46.9% and 16.6% respectively from 29.7% and 5.4% as at end-2015.

 To learn more about our digital transformation journey, please refer to the Digitalisation section in our Sustainability Report 2019.



## ON THE SIDELINES

**Dato’ Khairussaleh shares his insights on the challenges of getting the Group’s FIT22 strategy off the ground, as well as his thoughts on talent management in the highly competitive banking industry.**

**Q1** Have adjustments been made to FIT22, RHB’s strategic roadmap since it was launched in 2018?

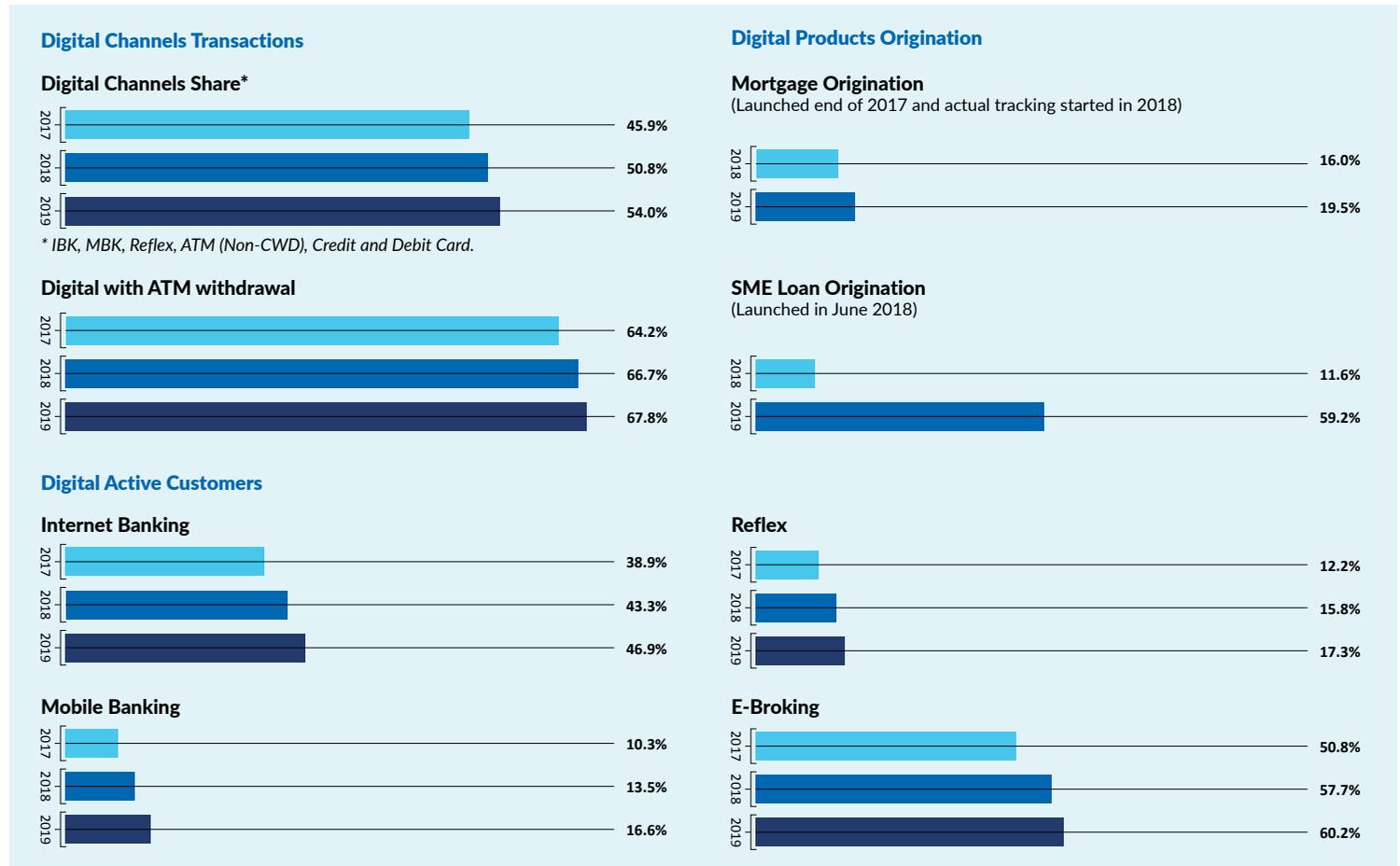
We reviewed the progress of our FIT22 strategies together with the Board of Directors in November 2019. The Board was updated on what we had done well and what needed improvement. We were honest with ourselves. Yes, we received some constructive feedback but the Board also commended the improvements we made. Since then, we have refreshed five (5) out of the 22 initiatives. One of the key things that we want to focus more on is digital banking, because we know that we need to respond quickly to developments in the digital space and place that as a priority.

**Q2** What were some of the challenges in its implementation?

Firstly, it was ensuring that the Board supported our objectives of putting in place a comprehensive 5-year roadmap - the FIT22 strategy. The next step was to communicate to our people clearly and make sure they understood why we were doing this. Now, it is more about ensuring our people appreciate that at the end of the day, these initiatives are about fundamentals and value creation. We do not want people to think it is the GMD’s strategy and because of that, I must do it. We want our people to understand and own this.

It is also about making hard decisions. As the oft-quoted saying by Albert Einstein goes, “Insanity is doing the same thing over and over again, but expecting different results”; we have

The Group has seen meaningful growth across all our digital channels over the past three years. The most significant growth has been the five-fold increase in SME loans originating through digital channels, largely due to our comprehensive SME Ecosystem and the services it provides. In 2019, almost a fifth of new mortgages originated digitally.



had to get people to appreciate that we have to do things differently to expect different outcomes.

**Q3 Are those the reasons why RHB decided to go into Agile? What was the thinking behind that? Do you think it has done well so far?**

If you notice, our strategy has three thrusts. I think we will not be able to achieve the first two thrusts without fixing the third thrust, the operating model. We needed to get people energised; to do things differently, faster, better. To have people who are empowered; people who look at things based on what the customer wants at all times.

This third thrust is about addressing the operating model so that it becomes the culture of RHB, its DNA. That is why we are

implementing Agile, so that later on it becomes institutionalised and the improvement is sustainable. Even if it were not the Agile method, the underlying concept would be the same - it is to create a faster and better operating model.

Overall, I think there has been improvement and in fact, feedback given by employees is that they like Agile.

**Q4 The Group already has a robust and comprehensive EVP programme; what else can be improved?**

To our employees, money in the pocket is important but I believe it is not everything. Beyond remuneration, it is about making sure our people are happy and committed to work as well.

We want to listen to them more. As a 53-year old, I could come up with initiatives but they may not be relevant to an employee in the twenties. One of the things we did by listening to them led to a FITCycle event.

Why? Because that is what they wanted. If you had asked me, I would have been interested in other things. Our young employees came to Management; we supported them with a small budget and they organised it themselves. I am happy that it was a success.

Therefore, I think more and more, we have to listen to our people about what they want, and whatever we can do support them we will do; and if we cannot do it, we will explain why.

# Group Managing Director's Statement

## SUSTAINABLE & RESPONSIBLE BANKING

The Group has begun integrating Environmental, Social and Governance ("ESG") considerations into our decision-making process. While we address matters that are important to our business and to our stakeholders, we believe that the difference we want to make should be practical and achievable. Our commitment is outlined through three thematic pillars under the Group Sustainability Framework - Sustainable and Responsible Banking, Embedding Good Practices, and Enriching and Empowering Communities – with focus areas that will assist us in driving progress in our sustainability practices.

The Sustainable and Responsible Banking pillar has focus areas that have been designed to maximise our sustainability efforts in the context of our core businesses. It also ensures we carry out our role as a financial services provider by integrating ESG considerations into our business strategies and decision-making processes. We have identified opportunities with a positive impact and provide solutions that contribute to sustainable development.

We began ESG integration where it matters most and we are committed towards promoting sustainable finance. Among our more significant achievements, we have:

- Identified ESG - risk-related activities and have included those activities in our list of Prohibited Credits.
- Introduced General ESG Risk Assessment for our identified ESG-Sensitive Sectors and developed Industry-Specific ESG Risk Assessments for three of these sectors to-date.

We will be taking a progressive approach moving forward and will further integrate ESG considerations into our business and operations in line with the development of local and regional standards. The Group is committed to support green activities that will facilitate the transition to a low carbon economy either through lending, advisory and/or investment, with a total commitment of RM5.0 billion by 2025. As at December 2019, we provided RM246.2 million in loans for renewable energy projects. We will continue to support Malaysia's Green Technology Financing Scheme ("GTFS") as a participating financial institution to facilitate lending to green technology companies.

Delivering superior customer experience and ensuring the fair treatment of our customers is one of the core components of our FIT22 strategy. In 2019, we rolled out the RHB Way Service Culture nationwide, contributing to service and operational excellence and an improvement in our Net Promoter Score ("NPS") by 9 points for Malaysia and by 20 points for RHB Singapore.

The Group has also made considerable progress in our two other sustainability pillars: Embedding Good Practices and Enriching and Empowering Communities in our Sustainability Framework.

Testament to this, the Group was upgraded to AA rating during the year under review (from A rating in the previous year) by MSCI ESG Ratings.



To learn more about Our Approach to Sustainability, please refer to pages 92 to 93.

## OUTLOOK AND PROSPECTS

Even as we face the prospect of a very challenging economic environment moving forward, I believe that banking will always play a significant role in the business community because we support development and we mobilise funds from savers to investors and businesses. How it is being done, however, will depend on the needs of the customer and increasingly, the technological means needed in delivering our products and services.

Regulation will also continue to be tightened as regulatory authorities seek more protection for consumers and customers. We are already seeing the need to enhance "Know Your Customer" processes, anti-money laundering controls and confidentiality of information, to which we need to make sure we comply.

The other big challenge is expertise. As the industry evolves, and as we embark on our digital banking agenda, we are re-skilling our workforce and at the same time reinforcing it with skills that we had hardly heard of 10 years ago in banking. We are already getting engineers, data scientists and system architects, into our workforce.

As a whole, we have put in place a robust 5-year strategic roadmap - FIT22, which has been further refined to better reflect our strategic aspirations and the evolving market and competitive environment. Our resolution is to stay the course.

I am confident that our strategies will continue to create value for you. My team and I are committed to our role of steering the Group in the right direction.

## ACKNOWLEDGEMENTS

I would like to take this opportunity to thank our shareholders for their continued trust and also to our customers and business partners, for their support and loyalty.

Our sincere appreciation to the Ministry of Finance, BNM, Securities Commission Malaysia, Bursa Malaysia and other regulatory authorities in the countries we operate, for their continued guidance. We look forward to greater cooperation moving forward.

Our utmost gratitude goes to our Group Chairman and the Board of Directors for their unwavering support, wisdom and trust. We appreciate your insight and leadership, and we look forward to your continued guidance.

Last but certainly not the least, my sincere appreciation also goes out to my fellow colleagues on the Group Management Committee, and to our employees - RHBians, your devotion and dedication is key to the Group's achievements today.

## Together We Progress!

**DATO' KHAIRUSSALEH RAMLI**

Group Managing Director

3 March 2020