



# **RHB BANK BERHAD**

## **51<sup>ST</sup> ANNUAL GENERAL MEETING 2017**

26 April 2017



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Responses to MSWG  
Questions



# Responses to MSWG Questions

## Strategy/Financials

- 1. The Banking Group aspires to be Top 3 In Malaysia and Top 8 in ASEAN by performance. Since the start of IGNITE 2017 in 2014 and heading towards year 2020, how much progress has the Group achieved the targets set over the last 3 years to become a leading multinational financial services group in the region and given that the 2020 completion date is less than four years?**

**Please explain the importance of transforming the group into a multinational financial services and what it means and how does it provide the Group with the competitive advantage to its banking peers/competitors and attract the type of market segment, businesses and target customers within its strategy arising from potential opportunities from ASEAN Economic Community integration, going forward.**

**Has the recent global uncertainties and geo-political challenges affected the key progress of IGNITE 2017?**

# Responses to MSWG Questions

The Group has made significant progress across IGNITE 2017 initiatives.

On the business front:

- ◆ Mortgage loans grew by 13.3% vs industry growth of 9.2%, and market share has improved from 7.7% in 2014 to 8.6% in 2016.
- ◆ SME loans and financing grew 11.3%, with market share improving to 8.8% in 2016.
- ◆ Affluent Asset under Management (“AUM”) increased by 12% in 2016, and retail AUM has increased from RM21.3 billion in 2014 to RM24.7 billion in 2016.
- ◆ In Investment Banking, we are also among the top in DCM, ECM and M&A.

On cost effectiveness, our cost-to-income ratio improved from 53.8% to 50.0% as the Group continued to optimise its resources, which included human resources optimisation, streamlining EASY channels into the branch network and rationalising our office space needs.

The Group also managed to reduce its Risk Weighted Assets by RM5.9 billion in the last financial year, thus ensuring that the Group would require less capital compared to its asset growth as it continued to boost Risk Adjusted Return on Capital and drive portfolio optimisation.

# Responses to MSWG Questions

In the Digital space, the Group has continued to roll-out several new and innovative digital offerings with improved customer journey and experience at the forefront. This includes:

- ◆ The enhanced RHB Now mobile app, with new Pay Anyone feature which also has a first-in-Malaysia voice-enabled payment command via iPhone.
- ◆ Reflex Cash Management, an online service combining cash management, trade and payments solutions together as an integrated online solution for our business banking customers.
- ◆ SME e-Retail solution, which provides a Digital Point-of-Sales platform bundled with financial products to allow Retail SME's to start their business in 1 week (1<sup>st</sup> in the market).

Notwithstanding these achievements, it is important to note that our IGNITE 2017 and targets for 2020 were formulated before the slowdown in global economy and decline in the oil and commodity prices in late 2015. Given the changes in market conditions, we will be conducting a strategic review this year to chart our fresh mid-term plan to continue to deliver value to our shareholders.

# Responses to MSWG Questions

- 2. In the light of MFRS 9 and the compliance date in January 2018, please share on the Bank's preparation to comply with Basel III - Capital requirements as well as the assessment of its loans and impairment assets in FY 2018. Would there be any significant additional asset impairments by the Group for FY2017?**

## MFRS 9

With regards to MFRS 9, higher provisioning is expected as the standard brings forward the recognition of credit losses due to the forward-looking expected credit loss (“ECL”) model. The additional ECL arising from the adoption of MFRS 9 will potentially lead to additional capital requirements and lower profitability.

The Group is in the midst of finalising the impact assessment arising from the requirements of MFRS 9. Under the standard, the Group will be able to undertake a Day-1 adjustment of the increase in provision to reserves as the opening balance for its 2018 financial year while ongoing assessment for provisions under MFRS 9 will be done thereafter.

# Responses to MSWG Questions

## Basel III – Capital Requirements

RHB Bank's capital ratios are strong, and would be able to absorb the expected increase in provisions.

	<b>RHB Bank Group as at 31 December 2016 (after proposed final dividend)</b>	<b>Minimum Regulatory Requirement (including Capital Conservation Buffer)</b>
CET 1 Ratio	13.11%	5.75%
Tier 1 Ratio	13.40%	7.25%
Total Capital Ratio	17.19%	9.25%

# Responses to MSWG Questions

- 3. The proliferation of FinTech companies and related activities last two years into the banking sphere had created excitement and challenges to traditional banking activities. How would the Board react to these new challenges and what would be the impact on the overall Group's strategy in the domestic front as well as regionally? What is the total investment that the Bank has allocated for the above and what would be the measurable criteria/results?**

It is inevitable that digital will shape the future of banking. As for RHB, the Board had in November 2016 reinforced the Group's digital strategy, with emphasis on customer connectivity, better analytics and ecosystem partnership.

On Fintech, we take a pragmatic approach through ecosystem partnership to leverage on each other's strength. For example, the Group has earlier this month entered into a partnership with Funding Societies Malaysia, a P2P financing platform, to expand funding opportunities for SMEs in the country and provide them with banking services.

Internally, the Group's digital agenda has been strengthened with the appointment of a Chief Digital Officer.

Our investment in digital will take into account focus on customer journey and will leverage on the overall IT investment that has been planned out.



# Responses to MSWG Questions

- 4. One of the key strategy initiatives under its "Customers First" is the use of digital technology and the aim for digital growth. Could the Board share on the significance milestones achieved by the Group's operations in Malaysia and its overseas entities to enhance customers' experiences across regional frontiers.**

Enhancing customer experience and providing a digital ecosystem for our customers are embedded in our mid-term strategy. We have launched several initiatives on this front:

- ◆ Enhanced the RHB Now Mobile app in May 2016, introducing the RHB Pay Anyone feature which allows customers to transfer funds via mobile phone, e-mail or Facebook (1<sup>st</sup> in market).
- ◆ Launched RHB TradeSmart, a multichannel online equities platform in September 2015, enabling customers to trade on multiple markets with enhanced features including eSettlement and eDeposit.
- ◆ Launched RHB Smart Account and Smart Account-i in March 2017, a formless online account opening, providing added convenience for customers to open accounts with RHB while expanding our CASA growth.

# Responses to MSWG Questions

- ◆ Launched the SME e-Retail solution which provides a Digital Point-of-Sales platform bundled with financial products to allow Retail SME's to start their business in 1 week – 1<sup>st</sup> in the market.
- ◆ Launched an enlarged ecosystem via integrated Financial Supply Chain (“FSC”) & Reflex to capture customers' value chain by establishing domestic and international FSC partnerships and enhancing Reflex capabilities to support regional readiness of large corporates.

# Responses to MSWG Questions

**5. In respect of the Bank's total credit exposures to vulnerable sectors of oil and gas as well as steel In particular:**

**a) What are the latest loan exposures in these sectors? Is the Bank exposed to any concentration of risk to any one single borrower or group?**

a) The loans exposure as at 31 December 2016 are as follows:

	Oil and Gas	Steel
Loan exposure based on outstanding	3.6%	1.4%

The Bank is not exposed to any concentration of risk to any one single borrower or group.

# Responses to MSWG Questions

**5. In respect of the Bank's total credit exposures to vulnerable sectors of oil and gas as well as steel In particular:**

**b) Was there any exercise to reschedule or restructure these loans in FY2016? Please elaborate. Based on the latest review and performance of these loans, would there be any additional impairment or charge-off to be made in FY2017?**

b) Loans rescheduling and restructuring (R&R) exercise is ongoing based on the needs of the customers and we will continue to monitor the market development and customers' performance in 2017.

For the steel sector, impairment has been adequately made and we do not foresee any additional impairments to be made in FY 2017.

For the oil & gas sector, we are closely monitoring the performance of our customers and the adequacy of the allowances will be assessed periodically. We are comfortable with our current impaired loan coverage.

# Responses to MSWG Questions

## Corporate Governance Matters

### 1. Directors' Remuneration

We refer to Resolution 7 on the payment of Directors' remuneration (excluding directors' fees and Board Committees' allowances) up to an amount of RM1.3 million for the period 31<sup>st</sup> January 2017 until the next AGM of the Company to Non-Executive Directors,

Please provide the breakdown of the amount of RM1.3 million payable to Non-Executive Directors.

The breakdown of the payment to Non-Executive Directors per Resolution 7 is as follows:

# Responses to MSWG Questions

## Meeting Attendance Allowance (RM1,500 per meeting)

	No. of NEDs		No. of Board Meeting		No. of Board Committee Meeting		Total RM'000
	2017	2018	2017	2018	2017	2018	
Board	9	8	15	8			<b>299</b>
Board Audit Committee*	4				14	8	<b>132</b>
Board Nominating & Remuneration Committee*	5				12	6	<b>135</b>
Board Risk Committee*	1				14	8	<b>33</b>
Board Credit Committee*	2				40	21	<b>183</b>
Board Technology Committee*	2				6	4	<b>30</b>

*Note:*

\* The abovementioned Board Committees are centralised Committees which are shared by RHB Bank and its relevant subsidiaries. Hence, each of the relevant entities will have fair representation on the said Board Committees.

# Responses to MSWG Questions

Directors' Remuneration (Excluding Directors' Fees and Board Committees' Allowances)	2017 RM'000	2018 RM'000	2017 + 2018 RM'000
Monthly fixed allowance + Meeting attendance allowances	716	366	<b>1,082</b>
On-Going Recognition & Appreciation Service Award	4	-	<b>4</b>
Farewell Pot	18	8	<b>26</b>
Others (Directors & Officers Liability Insurance, driver, car and fuel allowance, club membership, telephone charges for Chairman)	90	13	<b>103</b>
<b>TOTAL</b>	<b>828</b>	<b>387</b>	<b>1,215</b>

**Estimated total (RM1.215 million + Contingency 7% [RM0.085 million or RM85,000]):**  
**= RM1.3 million [RM0.9 million (2017) + RM0.4 million (2018)]**

# Responses to MSWG Questions

## Corporate Governance - Boardroom Diversity Policy

### 2. Tenure of Independent Director

**We noted that one of the Independent Non-Executive Directors has served the Bank for more than nine years.**

**Please comment on the requirements under Bank Negara's Guidelines on Corporate Governance for Licensed Institutions on the tenure limit for Independent Directors.**

As disclosed per page 221-222 of the Statement on Corporate Governance in our Annual Report 2016:

“Mr. Ong Seng Pheow has served the Group more than 10 years and shall retire at this Annual General Meeting (AGM) of the Company. However the Board after due consideration and upon the Board Nominating & Remuneration Committee’s recommendation, has recommended for his re-appointment as Director and retention as Independent Non-Executive Director of the Company, pursuant to the Internal Guidelines, for shareholders’ approval.”

Under the Guidelines on Corporate Governance for Licensed Institutions issued by Bank Negara Malaysia, Mr. Ong Seng Pheow has been approved by the regulator to serve the Board of RHB Bank Berhad as Independent Non-Executive Director (INED) for three years from 20 November 2014 until 19 November 2017, as follows:



# Responses to MSWG Questions

No.	Chronology of Mr. Ong's Appointment per Bank Negara Malaysia's approval	Date of Appointment	Durations Approved
i.	Appointment as INED	20 November 2006	2 years
ii.	1 <sup>st</sup> re-appointment as INED	20 November 2008	3 years
iii.	2 <sup>nd</sup> re-appointment as INED	20 November 2011	3 years
iv.	3 <sup>rd</sup> re-appointment as INED	20 November 2014	3 years

Upon reaching the tenure of nine years, Mr. Ong Seng Pheow retired at the next AGM which was held last year and was subsequently retained upon the shareholders' approval, in line with the Internal Guidelines.

While we intend to strictly enforce the requirement of the nine years' tenure in future by revisiting the Internal Guidelines, we aim to retain Mr. Ong Seng Pheow until his approval as INED by Bank Negara Malaysia (BNM) lapses in order to ensure continuity, as we expect a new incumbent will be available by then to replace him on the Board.

# Responses to MSWG Questions

This practice is consistent with the regulatory requirement per BNM's latest policy on corporate governance, issued on 3 August 2016. This policy document which superseded the above BNM guidelines, mentioned that "The Bank [Negara Malaysia] expects that tenure limits for independent directors should generally not exceed nine years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the financial institution."