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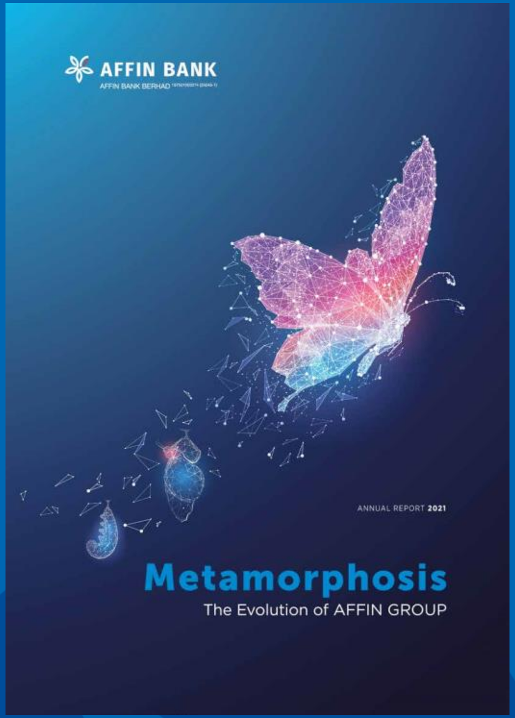
# 46TH ANNUAL GENERAL MEETING

## AFFIN BANK BERHAD

**25 MAY 2022**




QUESTIONS BY
**MINORITY SHAREHOLDERS WATCH GROUP**
AND REPLIES

# OPERATIONAL & FINANCIAL MATTERS

## *Question 1*

*Affin Bank posted a profit before tax of RM703.9 million in FY2021, representing an increase of RM317.1 million or 82.0% compared to the previous year, while net profit rose 112.7% to RM580.3 million.*

*The exceptional financial performance was due to improved net interest income, Islamic Banking income, net fee and commission income, lower modification loss and allowance for impairment losses (page 68 of Annual Report 2021).*

*Does the Group expect similar earnings momentum in FY2022?*

*With a loan growth of 11.1% recorded in FY2021, does the Bank expect the loan growth momentum to normalise in FY2022?*

# OPERATIONAL & FINANCIAL MATTERS

**AFFIN'S Reply** :

The Group's core revenue stream of Net Interest/Financing Income is expected to continue to grow in FY2022 as the Group expects loan growth for FY2022 to be circa 12%. Affin Group will continue to build on its income growth to achieve its AIM 22 targets and beyond. Our aspiration is to be a modern and progressive bank whilst increasing the scale of our business in line with A25 plans of a RM90 billion loan book. This translates to a double digit CAGR.

# OPERATIONAL & FINANCIAL MATTERS

## *Question 2*

*The year of 2022 marks the end of Affin Bank's AIM22 three-year plan. Judging from the Bank's performance in FY2021, it is likely to be falling short of achieving the targets set, particularly the cost-to-income ratio (CIR) and profit before tax (if not for the one-off gain from proposed divestment of its 63% stake in Affin Hwang Asset Management (AHAM).*

| AIM Financial Indicators | FY2020 Performance | FY2021 Performance | Target Under AIM22 |
|---|---|---|---|
| Return on Equity | 2.44% | 5.42% | 7.0% |
| Cost to Income Ratio | 59.70% | 60.30% | <55% |
| Net Interest Margin | 1.66% | 1.97% | 1.91% |
| CASA ratio | 22.22% | 23.03% | >25% |
| Profit Before Tax | RM386.7 million | RM703.9 million | >RM1.0 billion |
| Gross Impaired Loans | 3.52% | 2.54% | <2.5% |

# OPERATIONAL & FINANCIAL MATTERS

## Question 2 (con’t)

*Affin Bank continues to incur above industry average CIR with the ratio remaining above 55% for the past five years (page 12 of AR2021).*

a) *Given the expectation of escalating operational costs and the constant need for investment in IT and digitalisation, what are the structured cost optimization initiatives to achieve the CIR target of below 55% by 2022?*

b) *Without taking into consideration the proceeds from the divestment of AHAM, will the Bank be able to achieve the six targets mentioned above by 2022?*

# OPERATIONAL & FINANCIAL MATTERS

**AFFIN's reply:**

a) The Group has long term aspirations which are to be achieved via medium targets of its AIM22 and A25, Metamorphosis Journey. The milestone targets in these two medium term plans represent key financial deliverables, to chart the course of the Group's long-term aspirations. The year 2022 started with great challenges with the Ukraine war, high energy and commodity prices and inflation however we remain optimistic in achieving substantial targets as outlined in AIM22 and this will put the bank in a better position compared to previous years.

b) The Group needs to improve its revenue model to further improve its Cost to Income Ratio. The primary strategy is to enhance revenue whilst keeping a tight rein on cost. Revenue drivers have been put in place via asset growth and business growth in the wealth, trade and FX businesses.

# OPERATIONAL & FINANCIAL MATTERS

## Question 3

*For the past two years, Affin Bank has provided allowances amounting to RM762.59 million for credit impairment losses (page 190 of AR2021).*

a) *What was the size of management overlays provided in the past two years?*

b) *Does the Bank expect to continue building pre-emptive provisioning (in view of the low loan loss coverage ratio of 72.45%) to cater for the impact from the COVID-19 pandemic or would there be a write-back of provision?*

# OPERATIONAL & FINANCIAL MATTERS

**AFFIN's reply:**

a) The management overlays were RM125 million and RM309 million in FY2020 and FY2021 respectively.

b) The Bank targets to build its loan loss coverage ratio to 90% in FY2022 and 100% by FY2023 through a combination of additional provisions where required, and recoveries on impaired loans.

# OPERATIONAL & FINANCIAL MATTERS

## *Question 4*

*On 28 January 2022, Affin Bank proposed to divest the 63% stake it owned in AHAM for RM1.417 billion.*

*Upon the divestment, Affin Bank is set to lose a major income contributor. AHAM contributed 14.8% (or RM78.1 million) of net profit to Affin Bank in FY2021 (page 9 of Circular to Shareholders dated 26 April 2022).*

*Although Affin Bank's intention is to plough back the sale proceeds to its core banking business, the efforts to fill the void left by AHAM would take years to fill. Analysts also foresee that its ROE could be hit due to the enlarged equity base.*

*How does the Board/management plan to assure that its bottom-line performance and return to shareholders would remain intact post-divestment?*
*How long would it take the Board/management to groom its core banking businesses to fill the earnings vacuum left by AHAM?*

# OPERATIONAL & FINANCIAL MATTERS

**AFFIN's reply:**

The proposed divestment of AHAM will enhance the Group's capital position by RM1,063 million or approximately 2.7% increase in Total Capital to 24%, which will support growth in our Conventional banking, Islamic banking and Investment banking businesses.

With the capital, the Bank is able to grow by 10x multiple. With RM1 billion capital, the Bank can grow its loan portfolio by RM10 billion. This capital will fuel our loan growth for 2 years. Conservatively, the Bank can grow at a rate of approximately RM6.0 billion per annum with a margin (NIM) of 1.9%. This equates to an additional RM85.5 million in Earnings After Tax per annum. [RM6,000 million X 1.9% (NIM) X 75% (Effective Tax Rate) = RM85.5 million].

# OPERATIONAL & FINANCIAL MATTERS

## *Question 5*

*Analysts believe that smaller banks might face greater competition from the new digital bank entrants, and larger banks, due to their limited resources in building digital capabilities and infrastructure.*

*How does Affin Bank see the competition from digital banks?*

**AFFIN's reply:**

Affin Bank sees the competition from the digital banks will be basically on cost of deposits that would raise the cost of funds and war on talent. There is scarcity of talents especially in the technology field and our staff may leave and join these new entrants to the market. To face the competition, Affin Bank will evolve to be a competitive player in terms of the digital landscape and to challenge the digital banks in its digital offerings by offering more advanced and leading digital propositions to customers.

# CORPORATE GOVERNANCE MATTERS

## *Question 1*

*Referring to Resolution 5 and 6 of Notice of Meeting dated 26 April 2022, Affin Bank is seeking shareholders' approval for proposed increases in directors' fees board committees' fees and meeting allowance.*
*It is stated that the increases are to align Affin Bank's directors' remuneration with peers in the market.*

a) *What was the outcomes of the review done by the external consultant Willis Towers Watson Malaysia?*

b) *What were the banks or financial institutions that Affin Bank benchmarked against in considering the appropriate revision?*

c) *The Board plans to increase the board size from 9 to 11 members. What is the rationale for enlarging the board size?*

# CORPORATE GOVERNANCE MATTERS

**AFFIN'S Reply**:

a) The outcomes of the review by WTW which was presented to the Group Board Nomination and Remuneration Committee meeting held on 24 March 2022 are as follows:-

(i) Affin Bank's Non-Executive Directors' fees are generally in line with the market today. However, differentiation in fees is not large enough between Holding Company (Affin Bank Berhad) and subsidiaries (Affin Islamic Bank Berhad and Affin Hwang Investment Bank Berhad) as well as Chairperson and member.

(ii) The Non-Executive Directors' fees framework moving forward should ensure the necessary differentiation in fees to reflect the various role and accountabilities between Holding Company and subsidiaries as well as Chairperson and member. This further emphasises the criticality and importance of the role of the Chairperson commensurate to the responsibilities and accountabilities.

# CORPORATE GOVERNANCE MATTERS

**AFFIN'S Reply (con't)**:

(iii) Meeting fees are proposed to be streamlined and aligned to market practice which allows for ease of management as well as to increase differentiation by effort especially at the Committee level. The fees for more onerous Committees with heavier time commitment would be reflected accordingly and further differentiated based on the frequency of meetings. However, meetings should be managed tightly and reflective of the necessary quorum to qualify for meeting fees.

(iv) Benefits are generally in line with the market practice except for some unique items to Affin Bank such as gratuity payment, for which options for transitioning have been proposed and approved by the Board of Affin Bank.

(v) The proposed Non-Executive Director fees framework is fair in relation to the responsibilities and aspirations of the Group but should be reassessed for relevance and market competitiveness within the next two (2) years.

(vi) Compared to the market, Affin Bank's board fees both for chairperson and members, are lower than the median comparators.

# CORPORATE GOVERNANCE MATTERS

**AFFIN'S Reply (cont'd)**:

b) Benchmarking was performed against several domestic and foreign banks operating in Malaysia.

c) The increase in Board size is to prepare the Bank for future growth and business, including the new developments on Environment, Social and Governance (ESG) fronts. The appointment of additional directors is to complement and expand the skill sets of the current Board composition.