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RHB Capital Berhad posts first quarter net profit of RM357.2 million

- Revenue up by 18.5% to RM1.4 billion
- Operating profit before allowances up 2.2% to RM644.5 million
- Pre-tax profit at RM494.3 million, down 14.9%
- Gross loans up 1.9% for the quarter and 18.9% year-on-year
- Earnings per share at 14.3 sen on enlarged share-base

Kuala Lumpur, 29 May 2013

Financial Performance

RHB Capital Berhad (“the Group”) today reported a net profit of RM357.2 million for the first quarter ended 31 March 2013, 18.0% lower from RM435.6 million recorded a year ago. Pre-tax profit was at RM494.3 million, 14.9% lower than the corresponding period in 2012. The year-on-year earnings decline was mainly due to a one-off delinquent account impairment as well as higher collective allowance due partially to loan growth.

Year-on-year revenue increased by 18.5% to RM1.4 billion, driven by the full consolidation of OSK Investment Bank Berhad (“OSK Investment Bank”) and top line gains in net interest income and income from Islamic Banking business.

Net interest income rose 9.9% to RM778.9 million, reflecting the effect of consolidation of OSK Investment Bank and higher average lending and deposit balances on a business as usual basis as the Group continues in growing its priority segments. Net interest margin remained relatively stable at 2.34%.

Other operating income recorded a strong growth of 36.2% to RM450.1 million year-on-year. This increase was boosted by robust fee income mainly in brokerage, wealth management and fund management, higher card fees and net foreign exchange gain. This was however partially negated by lower capital market-related income during the first quarter of the year and lower net trading income and investment related gains.

The combined RHB Investment Bank Berhad (“RHB Investment Bank”) - OSK Investment Bank franchise and capability has started to bear fruit as evidenced in the higher non-interest income to total income ratio of 33.0% during the quarter under review from 28.7% previously.

Islamic Banking income increased by 20.4% to RM133.7 million, driven mainly by higher net funding income on the back of a 28.1% increase in financing base from a year ago.

Other operating expenses rose 38.1% year-on-year mainly due to the full-period impact of OSK Investment Bank cost base and higher headcount, as well as higher sales commissions and incentive compensation linked to a stronger business volume from wealth management and fund management business segment. Included in other operating expenses during this quarter was also integration related expenses of RM7.7 million. Cost to income ratio was at 52.7%.

Allowance for impairment on loans and financing during the quarter to 31 March 2013 increased to RM154.9 million from RM45.4 million recorded a year ago. This increase was primarily the result of a one-off delinquent account impairment allowance and higher collective allowance for the strong loan growth. Notwithstanding the negative bearing on the earnings for this quarter, income from the new loans is expected to flow through over time to more than offset the overall impact of collective allowance.

Total assets for the Group were marginally lower at RM184.6 billion as at 31 March 2013. Shareholders’ equity strengthened to RM15.5 billion with net assets per share improving to RM6.22 against RM6.06 as at 31 December 2012.

The Group’s gross loans registered a 1.9% growth during the quarter and an 18.9% growth year-on-year to reach RM113.5 billion, mainly from purchase of securities, working capital and purchase of residential properties. Domestic loans market share stood at 9.5% as at 31 March 2013.

Total CASA (Current and Savings Accounts) recorded a 2.2% growth, highlighting the efforts of the Group’s liability management strategy whilst CASA mix improved to 22.3% from 21.3% in December 2012.

Liquidity position of the Group remained healthy with loans to deposits ratio stood at 84.0% compared to 80.6% as at 31 December 2012.

Gross impaired loans ratio declined to 2.95% from 2.99% in December 2012.

“Pipeline deals are healthy and we expect to see more mandates being executed going forward. Loan pipelines are similarly encouraging with broad base loan applications and approvals increased by 40.0% and 34.7% respectively year-on-year,” said Kellee Kam, Group Managing Director of RHB Banking Group.

“The corporate and business banking performance is expected to pick up pace in the second quarter and improve in tandem with the domestic economic environment and a healthier capital market for the rest of the year. This coupled with the strong overall fundamentals of our businesses, will place us well to deal with the challenges ahead and to take advantage of our strengthened domestic and regional franchise to realise our set targets for the year,” added Kellee Kam.

Performance Review of Key Subsidiaries

For the first quarter ended 31 March 2013, RHB Bank Berhad (“RHB Bank”) recorded a pre-tax profit of RM417.3 million, 17.3% lower from that achieved a year ago, largely attributable to higher allowance for loan impairment.

RHB Bank remained well capitalised with common equity Tier-1 and Tier-1 capital ratio of 10.85% and 11.47% respectively, while its total capital ratio stood at 14.42% as at 31 March 2013.

RHB Islamic Bank Berhad achieved a pre-tax profit of RM53.0 million for the first three months of 2013, significantly lower than the profit for the previous year corresponding period of RM100.7 million. This was mainly attributable to a net write-back of loan loss provision of RM15.1 million recorded in the previous year compared to a net allowance for loan impairment this quarter of RM9.1 million, absence of unrealised gain on derivatives for hedging totaling RM12.9 million and higher other operating expenses by RM9.0 million.

RHB Investment Bank recorded a pre-tax profit of RM2.0 million and OSK Investment Bank achieved a pre-tax profit of RM32.4 million during the quarter under review.

On a proforma basis, the combined RHB Investment Bank and OSK Investment Bank Group recorded a pre-tax profit of RM53.8 million for the first quarter ended 31 March 2013 compared to RHB Investment Bank stand alone pre-tax profit of RM31.4 million in the first quarter of 2012. This was largely due to higher fee income, net interest income and net foreign exchange gain, partially negated by higher other operating expenses. The two organisations have successfully completed Legal Day One on 13 April 2013.

The combined assets under management of RHB Investment Management Berhad - OSK-UOB Investment Management Berhad stood at RM31.5 billion, accounting for 10.0% of the domestic market share as at 31 March 2013.

Prospects for The Year

The Malaysian economy is expected to perform well in 2013 with Gross Domestic Product (GDP) projected to grow by over 5.0%. This is premised on an improving exports outlook on the back of a stronger global growth and a strong domestic demand brought about by the Economic Transformation Programme (ETP).

The Malaysian banking sector will remain resilient in line with the country's economic growth.

“The integration of RHB-OSK Investment Bank on 13 April 2013 has enhanced the Group's geographical footprint and capabilities with presence in seven countries across the Asean region and Hong Kong.

We remained focus to drive our targeted business segments and regions to becoming a leading multinational financial services group. Barring any unforeseen circumstances, the Group expects satisfactory results for the financial year 2013,” said Kellee Kam.

	3 months ended 31 March 2013	3 months ended 31 March 2012
Financial Performance		
Operating profit before allowances	644,538	630,399
Profit before taxation	494,285	580,723
Profit attributable to equity holders of the Company	357,194	435,551
Earnings per share (sen)	14.3	19.8
	As at 31 March 2013	As at 31 December 2012
Balance Sheet		
Gross loans, advances and financing	113,545,239	111,474,069
Gross impaired loans, advances and financing	3,352,480	3,337,637
Deposits from customers	135,199,073	138,224,225
Total assets	184,556,176	189,077,565
Equity attributable to equity holders of the Company	15,520,410	15,117,215
Net assets per share (RM)	6.22	6.06

This release contains forward-looking statements such as the outlook for the RHB Banking Group. Although RHB believes that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such expectations will prove correct subsequently. Actual performance may be materially different from that which had been anticipated or described herein, and RHB Capital's financial and business plans may be subject to change from time to time.

A leader in financial services, the RHB Banking Group (Bursa Malaysia: RHBCAP) offers innovation and experience in investment & commercial banking and insurance services & products. The RHB Banking Group has earned numerous awards by industry observers and editors. Today, its managers and staff serve customers via a network of over 500 branches and outlets in Malaysia, Brunei, Thailand, Singapore, Indonesia, Cambodia, Vietnam, Hong Kong and China.

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About the RHB Banking Group

The RHB Banking Group is the fourth largest fully integrated financial services group in Malaysia. The Group's core businesses are streamlined into seven Strategic Business Groups ("SBGs"): Retail Banking, Business Banking, Group Transaction Banking, Corporate & Investment Banking, Islamic Banking, Global Financial Banking and Group Treasury. These businesses are offered through its main subsidiaries - RHB Bank Berhad, RHB Investment Bank Berhad, RHB Insurance Berhad and RHB Islamic Bank Berhad, while its asset management and unit trust businesses are undertaken by RHB Investment Management Berhad and OSK-UOB Investment Management Berhad. The Group's regional presence now spans eight countries including Brunei, Cambodia, Indonesia, Hong Kong, Malaysia, Singapore, Thailand and Vietnam. It is RHB Banking Group's aspiration to deliver superior customer experience and shareholder value; and to be recognised as a Leading Multinational Financial Services Group.

APPENDIX

Significant Corporate Developments

(1) Merger of RHB Investment Bank and OSK Investment Bank

13 April 2013 marks the successful completion of the merger between RHB Investment Bank and OSK Investment Bank. With the merger concluded, both banks now operate as one single legal entity under the name of RHB Investment Bank Berhad. This transformational merger puts RHB Investment Bank in a premier position to become a regional challenger by joining forces and expertise of 4,700 people today, including remisiers, and a comprehensive network of close to 100 offices in 7 countries across Asean and Hong Kong.

The combined financial strength of the RHB Banking Group with the geographical reach and deep expertise in niche markets of OSK Investment Bank has put the Group in a prime position to become one of the most significant regional players in Asean and enables it to deliver more than ever to its clients. Through this merger, RHB Investment Bank has emerged as a leading Asean investment bank and the region's mid-cap expert.

The fourth quarter of 2013 will bring another significant milestone, the Single Platform Day 1, whereby all operational processes and IT systems will be merged.

(2) Proposed Acquisition of PT Bank Mestika Dharma (“Bank Mestika”)

RHB Capital Berhad (“the Company”) had on 19 October 2009, entered into the following agreements with PT Mestika Benua Mas (“Vendor”):

- (i) a conditional sale and purchase agreement (“CSPA”) to acquire 80% of the issued and paid-up share capital in Bank Mestika for a total cash consideration of Rp3,118 billion (approximately RM1,163 million) (“Proposed Acquisition”); and
- (ii) proposed put and call option for additional up to 9% of the issued and paid-up share capital of Bank Mestika after its initial public offering (“Proposed Option”).

The Company had subsequently assigned all of its rights, titles, interests, benefits and entitlements and novated all of its obligations and liabilities contained in the CSPA, option agreement and escrow agreement pertaining thereto to RHB Venture Capital Sdn Bhd (a wholly-owned subsidiary of the Company), which in turn assigned and novated the same to RHB Bank on 17 December 2010, as the new acquirer for the Proposed Acquisition.

On 13 July 2012, Bank Indonesia issued a new regulation on share ownership in Indonesian commercial banks which stipulates, amongst others, that the maximum limit for shares ownership in a commercial bank by a bank or financial institution shall be 40% of its paid-up capital.

In view of this, RHB Bank had on 30 January 2013 entered into an amended agreement to the CSPA with the Vendor ("Amended CSPA") to revise the proposed acquisition from up to 89% of the issued and paid-up share capital in Bank Mestika to 40%, comprising of 327,207 fully-paid ordinary shares, each with a nominal value of Rp1,000,000, for a total cash consideration of Rp2,066,437,000,000 (approximately RM651,134,299 as at 23 January 2013) ("Revised Purchase Consideration").

The Revised Purchase Consideration represents price-to-book ratio of 3.08 times based on the unaudited net assets of Bank Mestika as at 30 June 2012 of Rp1,677.3 billion (approximately RM528.5 million) and price-to-earnings ratio of 18.6 times based on the unaudited net profit of Bank Mestika for the last twelve months ended 30 June 2012 of approximately Rp277.7 billion (approximately RM87.5 million).

Simultaneously, RHB Bank had on even date entered into an option termination agreement with the Vendor to terminate the original Proposed Option.

The Revised Purchase Consideration shall be funded by RHB Bank via internally generated funds and/or via equity financing from RHB Capital, in which case, RHB Capital may procure the necessary funding required via a separate equity financing exercise.

Pursuant to the Amended CSPA, the conditional period for the completion of the Amended CSPA is now amended to 30 June 2013, or such other date as may be agreed in writing by RHB Bank and the Vendor.