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RHB Capital Berhad Full Year 2013 Net Profit Rises To RM1.83 billion

- **Total income increased 23.2% to RM6.0 billion**
- **Operating profit before allowances up 14.3% to RM2.9 billion**
- **Pre-tax profit increased by 3.6% to RM2.5 billion**
- **Gross loans grew by 9.2% to RM121.8 billion**
- **Earnings per share at 72.9 sen**
- **Annualised ROE at 11.5%**
- **Proposed single tier final dividend of 10.30% per share**

Kuala Lumpur, 24 February 2014

RHB Capital Berhad (“the Group”) today reported a full year 2013 net profit of RM1.83 billion. Total income reached a new high of RM6.0 billion for the first time due to growth in net interest income and customer-driven non-interest income.

Full Year 2013 Earnings

For the financial year 2013, the Group recorded a pre-tax profit of RM2.5 billion, 3.6% higher as compared with previous year. The Group successfully delivered a turnaround in profit trajectory despite a 2.0% decline in profitability for the first nine months of the year.

Core operating businesses continued to deliver steady results, with 14.3% increase year-on-year in operating profit before allowances, driven by strong net interest income and broad-based increase in fee income. This improvement was partially offset by increase in impairment allowances for loans.

Net interest income increased to RM3.3 billion, up 10.6% from the same period last year due to 8.2% conventional loans growth year-on-year and a stable net interest margin. The impact of a competitive interest rate was minimised through effective balance sheet management which has enabled margins to stabilise at 2.33% from 2.35% in the last quarter of 2012 as the Group continued to drive lower cost current and saving deposits.

Other operating income recorded a strong growth of 51.2% to RM2.1 billion, largely attributed to higher fee income and net foreign exchange gain. Fee income increased by 89.4% to reach a new high of RM1.3 billion, driven by a significant improvement in the investment banking and wealth management income with a full year contribution of the merged RHB-OSK business franchise.

The Group's other operating income to total income ratio rose to 35.0% from 28.6% recorded a year ago. Excluding certain one-off gains and recoveries, non-interest income ratio was at 33.4%, largely contributed by the fee income uplift from the merged RHB-OSK Investment Bank.

Merger synergies realised by RHB-OSK Investment Bank amounted to RM137 million, double the first year target of RM63 million. This was derived mainly from investment banking fee income, wealth and asset management, as well as institutional equities.

Islamic Banking income increased by 20.6% to RM590.9 million, mainly attributable to higher net funding income on the back of a 15.1% increase in financing base to RM18.7 billion from 2012.

Other operating expenses increased by 33.1% year-on-year largely due to the full-period impact of the enlarged investment bank cost base, increase in sales-related personnel cost, higher commission and incentive compensation linked to stronger business volume and merger integration cost. Cost to income ratio of the Group stood at 51.3% for 2013.

The Group had completed the full integration of RHB-OSK Investment Bank with Single Platform Day One on 25 November 2013. Total integration costs incurred during the year of 2013 amounted to RM30.2 million, of which 71% are operating expenditure and the remaining are capital expenditure.

Allowance for impairment on loans and financing for the year increased to RM448.0 million from RM148.5 million recorded in 2012. This was primarily due to lower bad debts recovered, one-time bad debts written off pertaining to the refinement in application of MFRS139 (Financial Instruments: Recognition and Measurement) and higher collective allowance set aside in tandem with loans and financing growth.

Fourth Quarter 2013 Earnings

Pre-tax profit for the fourth quarter of 2013 was at RM683.1 million, 7.7% lower than the previous quarter. This was largely attributable to higher impairment allowances for loans and financing as well as higher other operating expenses, partially mitigated by higher other operating income and net interest income. Before impairment allowances for loans and financing, operating profit for the fourth quarter of 2013 rose 3.4% to RM797.8 million.

Balance Sheet and Asset Quality

Total assets of the Group expanded by 1.0% to RM191.1 billion as at 31 December 2013. The increase was mainly due to growth in net loans and investment portfolio, partially offset by reduction in cash and short term funds.

The Group's gross loans grew by 9.2% during the year to reach RM121.8 billion. Gross loans growth would have been at 11.6% if not for one large corporate prepayment in the last quarter of the year.

Retail and Easy by RHB continued to perform well with combined loans growth of 14.1%, higher than the industry retail loans growth of 11.2%. This was driven by an increase in loans for residential properties and purchase of securities. Domestic market share stood at 9.3% as at 31 December 2013.

Gross impaired loans ratio improved to 2.81% from 2.99% in December 2012.

Total customer deposits was at RM137.7 billion, 0.4% lower than the previous year. CASA (Current and Savings Account) balances grew by 9.2% and 8.7% respectively. CASA composition improved to 23.3% from 21.3% in 2012.

The Group remained disciplined with its asset and liability management, loans to deposits ratio stood at 88.4% as at 31 December 2013.

Shareholders' equity strengthened by 10.7% to RM16.7 billion, largely contributed by higher retained earnings that was partly offset by a lower revaluation reserves of the securities portfolio available for sale, and cash dividends paid. Net assets per share improved to RM6.57 against RM6.06 as at 31 December 2012.

Proposed Final Dividend

"The Group successfully achieved a 3.6% increase in pre-tax profit in 2013 as compared to 2012 despite a challenging first nine months. This is a testament of our agility and ability to rise against challenges, steadfastness in executing against strategy to continue delivering value to all our stakeholders.

We maintain our commitment to provide value to our shareholders and have proposed a final single tier dividend of 10.30% totaling RM262.3 million. Together with the interim dividend of 6.00%, the total dividend for 2013 amounted to 16.30% per share," said Dato' Mohamed Khadar Merican, Chairman of RHB Capital Berhad.

Subject to the necessary approvals being obtained, the earlier shareholders' approved Dividend Reinvestment Plan will be applicable to this proposed final dividend.

Performance Review of Key Subsidiaries

For the financial year ended 31 December 2013, RHB Bank Berhad (“RHB Bank”) recorded a pre-tax profit of RM2.0 billion, 5.9% lower from previous year. This was mainly due to higher allowance for loan impairment and increase in other operating expenses, partially mitigated by higher total income.

RHB Bank’s balance sheet remained strong with total assets at RM145.6 billion and shareholders’ equity at RM12.1 billion as at 31 December 2013.

RHB Bank continues to be well-capitalised with common equity Tier-1 and Tier-1 capital ratio of 11.1% and 11.6% respectively, with total capital ratio at 14.0% as at 31 December 2013.

RHB Islamic Bank Berhad (“RHB Islamic Bank”) recorded a pre-tax profit of RM218.3 million for the financial year ended 31 December 2013 as compared to RM208.6 million in the previous year. The higher profit was due to lower financing impairment allowances and higher net financing income on the back of a strong financing growth of 15.1%, partially offset by higher other operating expenses and a net loss on disposal of financial investments available-for-sale as opposed to a net gain recorded last year.

For the same period, pre-tax profit of the merged RHB Investment Bank Group stood at RM185.6 million, 61.4% higher than a year ago. This was largely due to higher net interest income and other operating income as well as higher write-back of impairment on other assets, partially offset by higher other operating expenses and higher allowance for loan impairment.

Total assets under management of RHB Asset Management Sdn Bhd amounted to RM39.3 billion, accounting for 10.0% of the domestic retail fund market share as at 31 December 2013.

Prospects for The Year

The Malaysian economy is expected to grow by 5.4% in 2014, buoyed by strong sustained domestic demand which continues to be supported by a stable employment outlook. The export sector is further expected to pick up with the recovery in the United States. The Banking Sector is expected to remain strong in 2014, on the back of a stronger recovery in the external sector, coupled with a resilient domestic economy.

“Leveraging a wider regional network and competitive domestic franchise, the Group will continue executing its strategies towards our goals of increasing non-Malaysian revenue contribution and improving domestic market share in chosen segments.

Barring unforeseen circumstances, the Group expects performance for the financial year 2014 to continue its growth momentum,” commented Dato’ Khadar.

Financial Performance	12 months ended 31 December 2013	12 months ended 31 December 2012
Operating profit before allowances	2,898,602	2,535,866
Profit before taxation	2,470,767	2,384,623
Profit attributable to equity holders of the Company	1,831,190	1,784,742
Earnings per share (sen)	72.9	79.0
	As at	As at
Balance Sheet	31 December 2013	31 December 2012
Gross loans, advances and financing	121,752,896	111,474,069
Gross impaired loans, advances and financing	3,426,629	3,337,637
Deposits from customers	137,741,241	138,228,286
Total assets	191,089,907	189,112,255
Equity attributable to equity holders of the Company	16,739,071	15,117,215
Net assets per share (RM)	6.57	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.

For analyst enquiries, contact: Yap Choi Foong Group Chief Financial Officer Tel: 603-92802463 Email: cfyap@rhbgroup.com Teh Soh Geok Investor Relations Tel: 603-92802154 Email: teh.soh.geok@rhbgroup.com Website: www.rhbgroup.com	For media enquiries, contact: Lois Kam Corporate Communications Tel: 603-92805089 Email: lois.kam@rhbgroup.com
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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 Asset Management Sdn Bhd and RHB Islamic International Asset 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 Development

(1) 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 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%, for a total cash consideration of Rp2,066 billion (approximately RM651 million 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 2014, or such other date as may be agreed in writing by RHB Bank and the Vendor.

(2) Asset Management Businesses

On 22 October 2013, RHB Investment Bank has completed the following transaction deals upon receiving the necessary approvals from the Malaysia and Singapore regulators:

- (i) RHB Investment Bank Berhad (“RHB Investment Bank”) acquired the remaining 30% of the issued share capital in OSK Investment Management Berhad (formerly known as OSK-UOB Investment Management Berhad) (“OIM”) from United Overseas Bank (Malaysia) Bhd at a cash consideration of RM43.1 million;
- (ii) OIM acquired the remaining 30% of the issued share capital in RHB Islamic International Asset Management Berhad (formerly known as OSK-UOB Islamic Fund Management Berhad) (“RIIAM”) from UOB Asset Management Limited (“UOBAM”) at the consideration of RM3.0 million; and
- (iii) RHB Investment Bank disposed the entire 30% of its equity interest in UOB-OSK Asset Management Sdn Bhd to UOBAM for a cash consideration of RM26.2 million.

OIM and RIIAM are now wholly-owned subsidiaries of RHB Investment Bank.

(3) Establishment of RHB Bank (Lao) Limited (“RHB Bank Lao”)

RHB Bank had formally received the temporary approval letter dated 29 October 2013 granted by the Governor of the Bank of Lao People's Democratic Republic ('Lao PDR') for the establishment of RHB Bank Lao. The incorporation of RHB Bank Lao shall commence in due course to fulfill its performance obligations (including the applications to the relevant regulators in Lao PDR) within 6 months from the date of the temporary approval for a consideration of a permanent approval to operate in Laos. The temporary approval is valid until 28 April 2014.

(4) Capital Management Plan

- (i) RHB Investment Bank and RHB Bank have obtained approval from the Securities Commission of Malaysia (“SC”) for their respective proposed Multi-Currency Medium Term Note Programme (“MCMTN Programme”):

	RHB Investment Bank	RHB Bank
Programme	Issuance of senior notes and/or subordinated notes of up to RM1.0 billion in nominal value (or its equivalent in other currencies)	Issuance of senior notes and/or subordinated notes of up to RM5.0 billion in nominal value (or its equivalent in other currencies)
Approval from SC	25 July 2013	4 February 2014
Approval from Bank Negara Malaysia	12 June 2013	20 December 2013
Utilisation of proceeds	To be utilised for RHB Investment Bank and its subsidiaries’ general banking purposes, including but not limited to repayment of borrowings and subordinated debts	To be utilised for RHB Bank’s general working capital and other corporate purposes, including but not limited to provision of advances to any of RHB Bank’s subsidiaries and repayment of borrowings and subordinated debts

The subordinated notes to be issued under both the MCMTN Programme are Basel III compliant.

As of todate, RHB Investment Bank and RHB Bank have yet to issue any part of the MCMTN Programme.

- (ii) RHB Islamic Bank has obtained approval from SC for the proposed issuance of subordinated Sukuk Murabahah Programme (“Sukuk Programme”) of up to RM1.0 billion in nominal value.

Approval from BNM for the establishment of the Sukuk Programme has been obtained in December 2013. The proceeds raised from the Sukuk Programme will be utilised for RHB Islamic Bank’s working capital and general banking purposes, including but not limited to repayment of its financing facilities and any subordinated Sukuk provided always that any such utilisation shall be for Shariah-compliant purposes.

- (iii) In December 2013, RHB Bank has submitted to SC all relevant notification and documentation in relation to the proposed revisions to the principal terms and conditions, including the duly executed amended and restated trust deed and addendum to the information memorandum for the following:

- (a) RM3.0 billion Multi-Currency Medium Term Note Programme (“MCMTN Programme”); and
- (b) RM3.0 billion Medium Term Note Programme (“MTN Programme”)

Approvals from BNM for both MCMTN and MTN Programme have been obtained in August 2013. The proposed revision will enable future issuances of subordinated notes to be in compliance with the requirements under the Capital Adequacy Framework and hence, qualify as Tier-2 capital of RHB Bank.