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RHB Capital Reports 15.9% Increase in Net Profit to RM552.0 million in First Quarter 2016

- ◆ Total income increased by 6.3% to RM1.6 billion
- ◆ Cost-to-income ratio improved significantly to 48.5% from 56.3% in December 2015
- ◆ Operating profit before allowances recorded a strong 19.9% growth to RM826.2 million
- ◆ Pre-tax profit higher by 15.8% to RM746.5 million
- ◆ Asset quality continued to improve with gross impaired loans ratio at 1.82%
- ◆ Annualised ROE at 9.6%
- ◆ Islamic Banking continued its growth momentum, contributing 24.1% of total domestic gross loans from 23.0% in December 2015
- ◆ CET-1 and total capital ratios strengthened to 12.5% and 17.2% respectively post Internal Reorganisation

Kuala Lumpur, 25 May 2016

RHB Capital Berhad (“the Group”) today reported a pre-tax profit of RM746.5 million for the first quarter of 2016, representing 15.8% growth year-on-year. Net profit for the same period stood at RM552.0 million which was a growth of 15.9% year-on-year. The strong performance was primarily contributed by net interest income growth and positive results of our cost improvement efforts.

Total income increased by 6.3% during the period under review to RM1,603.5 million, supported by solid net interest and fund based income growth of 12.1% to RM1,098.1 million. This was mainly attributable to improved net interest margin and an expanded loan base. Gross fund based income rose 5.1% on the back of a 4.2% growth year-on-year in loans and financing, whereas funding and interest expense was marginally higher by 0.4% mainly due to lower cost of deposits and the rights issue proceeds. Net interest margin improved by 7 basis points to 2.22% in the first quarter 2016.

Non-fund based income was lower by 4.4% at RM505.4 million, primarily due to lower net foreign exchange gain, lower fee income and lower net gain on revaluation of derivatives, partially mitigated by improvement in insurance underwriting surplus. While fee income attributable to loans and markets-related fee income were lower, wealth management fee income registered an encouraging 33.8% improvement year-on-year.

The Group's effective cost optimisation efforts have produced positive results. Operating expenses were lower by 5.2% from a year ago and cost to income ratio of the Group improved significantly to 48.5% as compared to 54.3% in the previous corresponding period.

Allowances for impairment on loans and financing for the year increased to RM80.2 million from RM50.2 million, primarily due to higher collective allowances.

First Quarter 2016 Earnings

Pre-tax profit for the current quarter was significantly higher by 57.1% at RM746.5 million as compared to pre-tax profit of RM475.2 million recorded in the preceding quarter ended 31 December 2015. This was primarily due to lower impairment on loans and financing, and lower operating expenses, partly offset by lower non-fund based income.

Balance Sheet and Capital Position Strengthened

Total assets decreased by 2.3% or RM5.2 billion to RM225.5 billion as at 31 March 2016, mainly due to a reduction in financial assets/investments by RM3.8 billion and net loans portfolio by RM1.7 billion.

Shareholders' funds increased to RM23.5 billion, with net assets per share standing at RM7.63 as at 31 March 2016.

The Group's gross loans and financing grew by 4.2% year-on-year to RM149.6 billion, but decreased by 1.2% from December 2015 mainly due to one large corporate repayment amounting to RM1.0 billion. Business Banking loans and financing recorded the strongest growth at 14.5% on annualised basis. The Group's domestic loan market share stood at 9.3% as at 31 March 2016.

Customer deposits decreased marginally by 0.4% year-to-date and 0.8% year-on-year to RM157.5 billion as the Group continues to focus on efficient liquidity management and actively seeks opportunities to diversify funding mix. Current and savings account ('CASA') composition improved to 24.1% as at 31 March 2016 from 24.0% in December 2015. Notwithstanding the flattish customer deposits, annualised domestic CASA growth of 1.4% has outpaced that of the industry which registered an annualised decline of 3.5%.

Asset quality continued to improve with gross impaired loans ratio declining to 1.82% from 1.88% in December 2015. Loan loss coverage for the Group increased further to 85.8% as at March 2016 compared to 83.3% in December 2015.

Capital adequacy ratios of RHB Bank Group which is effectively the new holding company remained strong, with common equity tier-1 (“CET-1”) and total capital ratio at 11.7% and 16.0% respectively as at 31 March 2016. On a proforma basis as at 31 December 2015, the CET-1 and total capital ratio of RHB Bank Group upon completion of the internal reorganisation and capital injection would improve to 12.5% and 17.2% respectively, positioning us as one of the best capitalised banking groups in Malaysia.

Performance Review of Key Business Units

Retail Banking remained the largest contributor to the Group’s revenue and profitability. Amidst a competitive consumer banking environment, Retail Banking recorded a pre-tax profit of RM294.6 million for the first three months, 4.6% lower from the previous year. This was mainly due to lower net fund based income, partially offset by lower allowances for loans and financing. Gross loans and financing stood at RM68.0 billion as growth in mortgages was offset by a contraction in auto financing and loans for purchase of securities. Deposits balances increased by 3.1% due mainly to growth in fixed deposits and savings account balances by 2.9% and 4.2% respectively.

Mortgages loans growth was strong at 12.4% annualised as the Retail Business actively rebalance its portfolio mix to achieve the desired return on risk adjusted capital as well as promoting responsible lending practices.

Business Banking’s pre-tax profit was lower by 6.1% at RM105.5 million mainly due to higher allowances for loans and financing, partially offset by higher net funding income. Gross loans and financing expanded by 14.5% annualised for the quarter to RM20.5 billion, driven mainly by Program Lending and Middle Market. The Group continued to build market share in the SME segment, achieving 8.9% as at March 2016 from 7.5% a year ago.

Deposits declined by 0.8% from December 2015 to RM21.3 billion, attributable mainly by a decrease in current deposits by 2.9%.

Corporate and Investment Banking’s pre-tax profit was lower by 4.3% to RM192.4 million. Whilst net fund based income was higher and overhead expenses was lower, the results were impacted by lower investment banking and securities market related fee income and higher impairment allowances for loans and financing, partially negated by higher wealth management fee. Gross loans and financing decreased by 3.6% in the first three months to RM46.5 billion due mainly to one large corporate repayment totalling RM1.0 billion. Deposits was lower by 1.9% over the same period to RM45.3 billion primarily due to decrease in fixed deposits.

Group Treasury’s pre-tax profit doubled to RM106.7 million, mainly due to net fund based income growth, partially offset by lower investment and trading gain.

Group International Business' pre-tax profit increased by 49.6% to RM57.5 million, mainly attributed to higher net interest income, partially offset by higher operating expenses and higher loan impairment.

Singapore, being the largest contributor of Group International Business, recorded pre-tax profit growth of 10.4% to SGD16.1 million for the first three months of 2016. Gross loans and advances in Singapore stood at SGD4.1 billion, whilst customer deposits declined by 1.9% in the first three months to SGD4.8 billion.

RHB Group's Islamic business recorded another strong quarter, with 34.6% growth in pre-tax profit to RM96.3 million from the first quarter 2015. Total income rose 21.4% to RM172.1 million, mainly due to higher net fund based income on the back of gross financing growth of 20.5% over the last one year to RM32.3 billion. Islamic financing represents 24.1% of the Group's total domestic gross loans and financing, up from 23.0% as at 31 December 2015. Asset quality of RHB Islamic continued to improve to 1.10% from 1.17% as at December 2015.

Prospect for the Year and Comments from Group Managing Director

The Malaysian economy started the year on a firmer footing following the rebound of commodity prices and the strengthening of Ringgit. Nevertheless, GDP growth is expected to moderate to 4% to 4.5% in 2016 from 5.0% in 2015 on the back of slower public spending, more cautious investment trends and sluggish global growth.

Growth in the banking sector is expected to be modest, with slower loan demand, pressure on margins, continued subdued fee income from investment banking and capital markets and expectation of deterioration in asset quality.

The Company has on 14 April 2016 successfully completed its Internal Reorganisation which entails amongst others, the transfer of its entire equity interests in RHB Investment Bank Berhad and RHB Insurance Berhad, and certain assets and liabilities of RHB Hartanah Sdn Bhd, to RHB Bank for a total consideration of RM3.61 billion.

Concurrently, the Company has injected via a rights issue an aggregate of RM2.49 billion into RHB Bank, increasing its number of ordinary shares to 4,010 million of RM1.00 per share.

The Company will undergo a capital distribution involving the distribution of RHB Bank shares to the shareholders of the Company. With this distribution, shareholders will hold shares in RHB Bank, the new holding company of the RHB Banking Group, directly. RHB Bank will also take over the listing status of the Company. The proposed distribution is expected to be completed by end of second quarter of 2016.

"We are pleased with the financial results of the Group for the first quarter of 2016. However, we remain vigilant on the continued volatility in the global markets and the challenges ahead. Our efforts to improve efficiency and productivity will continue as we re-base our business fundamentals and identify opportunities for growth," commented Dato' Khairussaleh Ramli, Group Managing Director of RHB Banking Group.

Key Financial Highlights

Financial Performance (RM'000)	3 Months Ended 31 March 2016	3 Months Ended 31 March 2015
Operating profit before allowances	826,233	688,845
Profit before taxation	746,471	644,821
Profit attributable to equity holders of the Company	552,017	476,277
Earnings per share (sen)	18.0	18.5
Balance Sheet (RM'000)	As at 31 March 2016	As at 31 December 2015
Gross loans, advances and financing	149,630,697	151,386,384
Gross impaired loans, advances and financing ratio (%)	1.82	1.88
Deposits from customers	157,475,486	158,151,008
Total assets	225,472,221	230,717,667
Equity attributable to equity holders of the Company	23,466,667	23,084,793
Net assets per share (RM)	7.63	7.51

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.

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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 main business pillars, namely Group Retail Banking, Group Business & Transaction Banking, Group Corporate and Investment Banking, Group Shariah Business, Group Treasury and Global Markets, Group International Business and Group Insurance. These businesses are offered through its main subsidiaries RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance 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 ten countries including Malaysia, Singapore, Indonesia, Thailand, Brunei, Cambodia, Hong Kong, Vietnam, Lao PDR and Myanmar. It is RHB Banking Group's aspiration to continue to deliver superior customer experience and shareholder value; and to be recognised as a Leading Multinational Financial Services Group.

APPENDIX

Significant Corporate Development

(1) Rights Issue, Internal Reorganisation, Distribution and Capital Repayment, Proposed Transfer of Listing Status and Proposed M&A Amendments (collectively referred to as the “Proposals”)

RHB Capital had announced that it proposes to undertake the following proposals:

(i) Rights Issue

On 21 December 2015, RHB Capital completed its renounceable rights issue of new ordinary shares of RM1.00 each in RHB Capital ('RHB Capital Shares') via the listing of and quotation for 486,193,294 new RHB Capital Shares on the Main Market of Bursa Malaysia Securities Berhad ('Bursa Securities'), raising proceeds of approximately RM2.343 billion ('Proceeds').

The entire Proceeds have been injected into RHB Bank Berhad ('RHB Bank') to further capitalise RHB Bank and to finance the working capital requirements of RHB Bank and its subsidiaries ('RHB Bank Group') as further explained in part (ii) below.

(ii) Internal Reorganisation

On 14 April 2016, RHB Capital completed its Internal Reorganisation which entails the transfer by RHB Capital of its entire equity interests in, and certain assets and liabilities of, its subsidiaries to RHB Bank ('Identified Assets'), for a total consideration of approximately RM3.61 billion ('Disposal Consideration').

The Identified Assets comprise, amongst others, the entire equity interest in RHB Investment Bank (which shall include its subsidiaries, associates and joint ventures), the entire equity interest in RHB Insurance Berhad and certain assets and liabilities of RHB Hartanah Sdn Bhd, including its subsidiary, RHB Property Management Sdn Bhd.

Approximately RM3.13 billion of the Disposal Consideration had been utilised to repay bank borrowings of RHB Capital and approximately RM47 million will be utilised to defray expenses relating to the Internal Reorganisation. After setting aside approximately RM399 million cash to defray any expenses of RHB Capital and for payment of dividends by RHB Capital, the remaining cash of approximately RM35 million had been injected into RHB Bank as capital ('Excess Cash'). Following the completion of the Internal Reorganisation, RHB Capital had injected an aggregate of approximately RM2.49 billion into RHB Bank, being the proceeds raised from its Rights Issue exercise and the proceeds arising from the redemption of its investment in RHB Rupiah Liquid Fund as well as the Excess Cash, in exchange for approximately 447.84 million new ordinary shares of RM1.00 each in RHB Bank ('RHB Bank Shares') which were issued at an issue price of RM5.56 per RHB Bank Share.

With the completion of the Internal Reorganisation, RHB Bank is effectively the new group holding company which will now spearhead the Group's future growth and is expected to achieve greater synergy and efficiency.

(iii) Distribution and Capital Repayment

The Distribution and Capital Repayment will entail the distribution of the entire shareholdings of the Company in RHB Bank to entitled shareholders of the Company whose names appear in the Record of Depositors of RHB Capital on 6 June 2016 ('Distribution Entitlement Date').

Fractional entitlements of RHB Bank Shares arising from the Distribution and Capital Repayment (if any) shall be disregarded and the Board of Directors of RHB Capital has decided to allocate such fractional RHB Bank Shares to the Entitled Shareholders to minimise the incidence of odd lots on a best effort basis to Entitled Shareholders who are not substantial shareholders, starting from the next largest shareholder.

On 13 May 2016, the High Court of Malaya had granted an order confirming the reduction of the Company's issued and paid-up share capital and share premium account pursuant to Section 60(2) and 64 of the Companies Act 1965 for the Distribution and Capital Repayment.

Upon completion of the Distribution and Capital Repayment, the existing shareholders of RHB Capital will continue to hold shares in the Company with par value of RM0.05 each, in the proportion of their shareholdings as at the Distribution Entitlement Date. Upon receiving the approval of the shareholders of the Company for the proposed winding up of RHB Capital ('Proposed Winding Up') at a separate extraordinary general meeting ('EGM') to be convened later, RHB Capital will appoint a liquidator to liquidate the Company and any surplus cash (after the settlement of all liabilities and defrayment of expenses) thereafter will be returned to the shareholders.

(iv) Proposed Transfer of Listing Status

RHB Bank will assume the listing status of RHB Capital. RHB Bank will be admitted to the Official List of Bursa Securities in place of RHB Capital with the listing of and quotation for the entire issued and paid-up share capital of RHB Bank on the Main Market of Bursa Securities.

The Proposed Transfer of Listing Status will enable RHB Capital's shareholders to have a direct participation in the equity and envisaged growth of RHB Bank Group as well as enable RHB Bank Group to gain direct access to the capital markets to raise funds for its continued growth, to gain recognition and corporate stature through its listing status and further enhance its corporate reputation and assist RHB Bank Group in expanding its customer base.

In addition to the above, RHB Capital also proposes to undertake the Proposed M&A Amendments which entails the consequential amendments to the memorandum and articles of association of the Company to facilitate the Proposed Distribution and Capital Repayment and Proposed Transfer of Listing Status.

The inter-conditionality of the Proposals are as follows:

- (i) The Rights Issue is not conditional upon any of the other Proposals.
- (ii) The Internal Reorganisation is conditional upon the Rights Issue but is not conditional upon the Proposed Distribution and Capital Repayment and the Proposed Transfer of Listing Status.
- (iii) The Proposed Distribution and Capital Repayment, Proposed Transfer of Listing Status and Proposed M&A Amendments are inter-conditional upon each other and are also conditional upon the Internal Reorganisation and Rights Issue.