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RHB Bank's Net Profit Grows 4.9% to RM1.5 billion for First Nine Months of 2017

- ◆ Pre-tax profit of RM2.0 billion, up by 3.6%
- ◆ Cost-to-income ratio at 49.6%
- ◆ Gross loans of RM158.0 billion, up by 3.3%
- ◆ Customer deposits of RM168.5 billion, up by 1.7%
- ◆ Current and savings account balances up by 11.9%, CASA composition at 27.1%
- ◆ Islamic Banking contributes 28.6% of total domestic loan and financing
- ◆ Mortgages and SME continued growth momentum

Kuala Lumpur, 27 November 2017

RHB Bank Berhad (“the Group”) announced today its financial results for the first nine months ended 30 September 2017. The Group reported a net profit of RM1,490.1 million as compared to RM1,420.4 million for the same period in 2016, an increase of 4.9%. The year-on-year earnings improvement was mainly due to lower impairment losses on other assets and higher net funding income, partially offset by lower non-fund based income, higher overheads and higher loan loss impairment.

Net fund based income increased by 5.2% to RM3,398.0 million from a year ago mainly due to loans growth and lower interest expense from prudent funding cost management and redemption of sub-debts and senior notes in the second quarter of the period. This has resulted in net interest margin to stabilise at 2.19% over the last two quarters.

Non-fund based income was 10.9% lower at RM1,321.1 million, contributed largely by lower net foreign exchange gain, lower commercial/investment banking fee income, lower trading and investment income and lower insurance underwriting surplus, partially offset by an increase in net wealth management fee income and higher brokerage income in line with better trading volumes.

Operating expenses rose by 2.0% to RM2,339.1 million from a year ago driven by a rise in personnel costs and higher IT-related expenses as the Group continued to invest into technology infrastructure and capabilities. This was offset by a decline in office rental and related premises maintenance cost. The Group's disciplined cost management efforts delivered an improved cost to income ratio at 49.6%, from 50% for financial year 2016.

Allowances for impairment on loans and financing was higher at RM312.6 million, primarily due to higher collective impairment, partially offset by lower individual impairment. Annualised credit costs for the first nine months of 2017 was at 26 basis points.

Impairment losses on other assets for both years were primarily provided for corporate bonds in Singapore, reflecting market developments in the oil and gas industry.

Balance Sheet and Capital Position Strengthened

Total assets decreased by 0.7% to RM235.1 billion as at 30 September 2017 primarily due to lower financial investments in the held-to-maturity portfolio and derivative assets, partially offset by growth in loans and financing and cash and short-term funds. Shareholders' funds for the Group increased to RM23.0 billion, with net assets per share improving by 5.9% to RM5.74 as at 30 September 2017.

As at 30 September 2017, the common equity tier-1 ("CET-1") and total capital ratio of the Group, taking into consideration the FY2017 interim dividend, remained strong at 13.6% and 17.9% respectively. These capital ratios are well above the Basel III minimum transitional arrangement requirements of 5.75% and 9.25% respectively, positioning the Group as one of the best capitalised banking groups in Malaysia.

The Group's gross loans and financing grew by 3.3% year-on-year and 2.3% for the first nine months to RM158.0 billion. The increases were mainly from mortgages and SME which recorded resilient annualised growth rate of 12.3% and 4.3% respectively.

Customer deposits increased by 1.7% for both year-on-year and the first nine months to RM168.5 billion. Total current and savings account ('CASA') registered a strong growth of 11.9% over the year and 7.4% year-to-date, with CASA composition improving to 27.1% as at 30 September 2017 from 25.6% recorded in December 2016. The Group's loan-to-deposit ratio stood at 93.8%, whereas the liquidity coverage ratio and net stable funding ratio are above the regulatory requirement as at September 2017.

Compared to December 2016, gross impaired loans declined slightly to RM3.6 billion, with gross impaired loans ratio improving to 2.31% from 2.43%.

Performance Review of Key Business Units

Group Retail Banking remained the biggest contributor to the Group and it reported a pre-tax profit of RM799.5 million for the first nine months ended 30 September 2017, 3.2% lower from the previous year's corresponding period. This was mainly attributed to lower net fund based income as yield competition intensified, partially offset by lower allowances for loans and financing.

Retail loans and financing was at RM73.6 billion, 6.7% and 4.9% higher year-on-year and for the first nine months of 2017 respectively, as growth in mortgages and personal loans were negated by contraction recorded in loans for purchase of securities and auto financing. Mortgage loans grew at a strong annualised rate of 14.7%, resulting in an improvement in domestic market share to 8.9% from 8.6% as at December 2016.

Retail deposits increased by 10.4% over the last one year and 5.2% from the end of 2016 to RM46.5 billion as at September 2017, mainly contributed by higher fixed deposits and current account balances.

Group Business Banking recorded a pre-tax profit of RM277.2 million in the first nine months, a decrease of 15.9% mainly due to higher allowances for loans and financing and higher operating expenses. Net funding income and non-funding income remained relatively stable over the period.

Gross loans and financing expanded by an annualised rate of 8.7%, driven mainly by the SME portfolio growth.

Deposits remained relatively stable at RM21.9 billion as at September 2017.

Group Wholesale Banking (“GWB”) recorded a pre-tax profit of RM1,277.3 million, an increase of 3.8% from the previous year’s corresponding period.

- (i) **Group Corporate and Investment Banking** registered pre-tax profit of RM412.5 million, a 21.9% decline on the back of lower net funding income and non-fund based income and higher loan loss impairment.

Gross loans and financing remained relatively flat in the first nine months at RM45.9 billion as new drawdowns were offset by a few large corporate repayments.

Deposits increased by 8.1% in the first nine months, largely contributed by 8.9% growth in fixed deposits and 3.7% growth in current account. On a year-on-year basis, deposits increased by 3.8%, mainly contributed by growth in fixed deposits.

- (ii) **Group Treasury and Global Markets** recorded a strong 23.1% growth in pre-tax profit to RM864.7 million in the first nine months, mainly due to higher net funding income and higher impairment write-back on loans, partially offset by lower net foreign exchange gain.

RHB Bank Singapore recorded a pre-tax loss of SGD38.1 million compared to a pre-tax loss of SGD65.3 million in the previous year’s corresponding period. Losses in both periods were attributed to impairment losses made on corporate bonds and loans relating substantially to the oil and gas industry, lower net and non-fund based income, partially offset by lower operating expenses. Singapore loans and advances declined 9.3% to SGD3.8 billion in the first nine months mainly due to tightening of underwriting process and large corporate repayments. Deposits decreased by 18.5% to SGD4.8 billion over the same period, largely attributable to decrease in fixed deposits which was a conscious decision in view of surplus liquidity position, partially offset by growth in current account.

International Business excluding Singapore registered a pre-tax profit of RM39.3 million in the first nine months, 45.2% higher compared to a year ago, mainly due to improved profitability in Cambodia and Lao.

RHB Group’s Islamic business recorded a robust 20.2% growth in pre-tax profit to RM359.5 million for the first nine months of 2017. This was mainly due to higher net fund based income, higher non-fund based income and lower impairment losses on financing, partially offset by higher operating expenses.

Gross financing grew by 19.5% over the first nine months to RM40.7 billion, outpacing the industry growth rate of 6.6%. Islamic financing now contributes 28.6% to the Group’s total domestic gross loans and financing, up from 24.8% as at 31 December 2016. Asset quality of RHB Islamic continued to improve to 0.93% from 1.15% as at December 2016.

Conclusion

The Malaysian economy grew at a robust pace in the first nine months of the year with the third quarter registering a 6.2% growth year-on-year. This was achieved through a combination of higher exports and increase in domestic demand. Moving forward, sustained domestic demand underpinned by investment spending will be the principal growth catalysts while improving exports will provide additional boost. Real GDP for the year is estimated to grow at 5.6%, up from 4.2% recorded in 2016.

The Malaysian banking sector is expected to see modest growth, with lending momentum expected to improve in the last quarter of the year. Nevertheless, rising pressure on funding cost may weigh on the performance of banks.

“We continue to achieve consecutive quarters of sustained profitability amidst the domestic market moderate loans growth and continuing global uncertainties. Combined with our ability to manage funding cost, our net interest margin has been holding up over the last three quarters. Notwithstanding the challenges in asset quality, our earnings and performance demonstrated our ability to capture opportunities across our businesses and effectively keep a firm grip on costs. As we move towards the close of the year, we see stronger pipeline for our core businesses, whilst our balance sheet, liquidity and capital remain strong”, commented Dato’ Khairussaleh Ramli, Group Managing Director of RHB Banking Group.

The Group will continue to focus on selective areas of growth while also effectively managing asset quality and enhancing productivity, particularly through our various digitisation initiatives. The Group expects to deliver a better performance this year.

Key Financial Highlights

Financial Performance (RM'000)	9 Months Ended 30 September 2017	9 Months Ended 30 September 2016
Operating profit before allowances	2,379,956	2,418,796
Profit before taxation	1,956,253	1,887,430
Profit attributable to equity holders of the Company	1,490,068	1,420,381
Earnings per share (sen)	37.2	37.3
Balance Sheet (RM'000)	As at 30 September 2017	As at 31 December 2016
Gross loans, advances and financing	158,023,929	154,469,396
Gross impaired loans, advances and financing ratio (%)	2.31%	2.43%
Deposits from customers	168,519,602	165,636,253
Total assets	235,139,659	236,678,829
Equity attributable to equity holders of the Company	23,032,448	21,744,778
Net assets per share (RM)	5.74	5.42

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 Banking Group'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, with RHB Bank Berhad as the holding company, is the fourth largest fully integrated financial services group in Malaysia. The Group's core businesses are structured into seven main business pillars, namely Group Retail Banking, Group Business & Transaction Banking, Group Wholesale Banking, RHB Singapore, Group Shariah Business, Group International Business and Group Insurance. Group Wholesale Banking comprises Corporate Banking, Investment Banking, Group Treasury & Global Markets, Asset Management and Private Equity. All the seven business pillars are offered through the Group's main subsidiaries – 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/China, Vietnam, Lao PDR and Myanmar.

For more information, please visit www.rhbgroup.com

APPENDIX

Significant Events/Corporate Development

1. Proposed Establishment of a Share Grant Scheme for Eligible Employees and Executive Directors of the Bank and its subsidiaries (“Proposed SGS”)

The Bank had on 26 August 2016 announced that it proposed to establish and implement a share grant scheme of up to 5% of the issued and paid-up share capital of the Bank (excluding treasury shares, if any) at any point in time during the duration of the Proposed SGS for employees and Executive Directors of the Bank and its subsidiaries (excluding subsidiaries which are dormant) who fulfil the eligibility criteria (“Eligible Employees”).

The Proposed SGS is to allow the Bank to award the grant of ordinary shares of RM1.00 each in the Bank (“RHB Bank Share(s)”) (“Grant(s)”) to be vested in selected Eligible Employees (“Selected Employees”) for the attainment of identified performance objectives. The Proposed SGS serves to attract, retain, motivate and reward valuable Eligible Employees.

The Proposed SGS shall be in force for a period of eight (8) years commencing from the effective date of implementation of the Proposed SGS, being the date of full compliance with all relevant provisions of the Main Market Listing Requirements of Bursa Securities in relation to the Proposed SGS.

The Proposed SGS is subject to approvals being obtained from the following:

- (i) Bursa Securities, for the listing of the new RHB Bank Shares to be issued pursuant to the Proposed SGS on the Main Market of Bursa Securities;
- (ii) Bursa Malaysia Depository Sdn Bhd for the transfer of existing RHB Bank Shares from the Trustee to the Grantees pursuant to the Proposed SGS at any point in time during the duration of the Proposed SGS, if required;
- (iii) Bank Negara Malaysia (“BNM”) for the increase in the issued and paid-up share capital of the Bank pursuant to the Proposed SGS;
- (iv) shareholders of the Bank at an extraordinary general meeting (“EGM”) to be convened; and
- (v) any other relevant authorities/parties, if required.

The Proposed SGS is not conditional or inter-conditional upon any other corporate exercise/scheme by the Bank.

BNM has, vide its letter dated 4 October 2016, approved the application by the Bank for the increase of up to 5% of its issued and paid-up ordinary share capital arising from the issuance of new RHB Bank Shares under the Proposed SGS.

Bursa Securities has, vide its letter dated 15 December 2016, approved the listing of and quotation for the new RHB Bank Shares to be issued pursuant to the Proposed SGS subject to certain conditions. Bursa Securities had also vide its letter dated 5 January 2017, granted the Bank an extension of time until 28 April 2017 to comply with Paragraph 9.33(1)(b) of the Main Market Listing Requirements of Bursa Securities.

On 11 April 2017, the Bank has submitted applications to Bursa Securities for further extension of time. Bursa Securities had on 21 April 2017 granted the Bank the extension of time until 29 December 2017 to implement the Proposed SGS, and further extension of time from 28 April 2017 to 14 December 2017 to comply with Paragraph 9.33(1)(b) of the Main Market Listing Requirements of Bursa Securities.

2. Internal reorganisation - transfer of certain businesses of RHB Investment Bank Berhad (“RHB Investment Bank”) to the Bank

During the current financial period, the Bank and its wholly-owned subsidiary, RHB Investment Bank have undertaken an internal reorganisation which includes the following:

(i) Transfer of Treasury Business and Transfer of Structured Lending Business

The Transfer of Treasury Business and Transfer of Structured Lending Business entail the transfer of treasury business and structured lending business of RHB Investment Bank to the Bank by way of a business transfer scheme pursuant to Section 100 of the Financial Services Act, 2013 ('FSA') and the Order of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA.

Approvals from the relevant regulatory authorities have been obtained and the transfer of the businesses was effectively completed on 24 July 2017, based on the respective carrying value of the related securities and structured lending, with the corresponding goodwill in accordance with predecessor accounting at the Bank level. The business transfers do not have any significant effect to the financial results of the Bank and there is no financial impact from the Group's perspective.

(ii) Capital Repayment

The capital repayment entails RHB Investment Bank cancelling a portion of its consolidated share capital (which includes the issued and paid-up share capital and the share premium).

The High Court of Malaya had on 18 September 2017, granted an order confirming the cancellation of 718,646,000 shares of RHB Investment Bank amounting to RM846,023,000 from the entire consolidated issued capital of RM2,333,796,000 (representing issued capital of RM818,646,000 and the share premium amount formerly in the share premium account being RM1,515,150,000) pursuant to Section 116 of the Companies Act 2016. The capital repayment was effectively completed on 25 September 2017, and RHB Investment Bank remains a wholly-owned subsidiary of the Bank upon completion of the capital repayment.