



FOR IMMEDIATE RELEASE

RHB Bank Records RM1.7 Billion Net Profit for Financial Year 2016

- ◆ Operating profit before allowances recorded strong growth of 21.6% to RM3,094.5 million
- ◆ Cost-to-income ratio improved to 50.0% from 53.8% [excluding Career Transition Scheme (“CTS”)] cost in 2015
- ◆ Current and savings account balances increased by 11.9%, improving CASA composition to 25.6%
- ◆ Increase in allowances for loan impairment and impairment loss on other assets affected profitability
- ◆ Islamic Banking continued its growth momentum, contributing 24.8% of total domestic gross loans and financing from 23.0% in December 2015
- ◆ Strong traction in market share for mortgages and SME
- ◆ ROE at 8.5%
- ◆ Proposed final single tier cash dividend of 7 sen per share, payout ratio of 28.6% for FY 2016

Kuala Lumpur, 24 February 2017

RHB Bank Berhad (“the Group”) today reported a net profit of RM1,681.6 million for the financial year ended 31 December 2016, an increase of 1.0% over the last financial year. Operating profit before allowances grew 21.6% to RM3,094.5 million due to reduced funding cost following the rights issue that was completed in April 2016, healthy growth in CASA, as well as the reduction in personnel cost arising from the Career Transition Scheme (‘CTS’). Excluding CTS, operating profit before allowances grew 8.4%.

Included in the 2016 results was an impairment on a corporate bond in Singapore of RM253.5 million in the second quarter of 2016. Comparatively, in 2015, the Group incurred CTS expenses of RM308.8 million and benefited from collective allowances written back due to model refinement on mortgage portfolio amounting to RM131.4 million. Excluding the effects of these items, normalised net profit increased by 4.2% year-on-year.

Total income increased to RM6,193.2 million, supported by net fund-based income growth of 3.1% to RM4,320.9 million, on the back of a 2.0% growth in loans and financing, offset by a decline in non-fund based income by 5.6%.

Net interest margin improved by three (3) basis points to 2.18% in the fourth quarter due to prudent funding cost management.

Non-fund based income was down by 5.6% at RM1,872.3 million, contributed largely by lower investment banking and securities market related fee income in line with volatility in capital and financial markets as well as lower net foreign exchange gain. This was however partially offset by higher insurance underwriting surplus and an increase in asset management fee income year-on-year.

The Group's effective cost management continued to deliver positive results and yielded productivity gains. Excluding the CTS cost last year, normalised operating expenses were lower by 6.7% from a year ago. The decline in expenses was attributed to headcount cost savings, partly offset by higher IT-related expenses as the Group continued to invest in technology capabilities and infrastructure. Cost to income ratio improved to 50.0% compared to 53.8% (normalised excluding CTS expenses) in the previous year.

Allowances for impairment on loans and financing increased to RM595.2 million from RM343.5 million a year ago, primarily due to higher individual allowances for loan impairment on certain corporate accounts relating to oil and gas, and pre-emptive provisions for legacy steel related exposure, coupled with the absence of a one-off collective allowance written back due to model refinement on mortgage portfolio in 2015. Gross impaired loans ratio was higher at 2.43% from 1.88% as at 31 December 2015.

Total impairment losses on other assets were higher at RM268.2 million mainly due to the full impairment made for a corporate bond in Singapore.

Capital and Liquidity

Total assets increased by 3.8% to RM236.7 billion as at 31 December 2016, whilst shareholders' funds for the Group increased to RM21.7 billion following the completion of RM2.49 billion rights issue in April 2016 and from higher retained earnings. Net assets per share improved by 6.1% over the year, closing at RM5.42 as at 31 December 2016.

As at 31 December 2016, the common equity tier-1 ("CET-1") and total capital ratio of the Group after the proposed final dividend remained strong at 13.1% and 17.2% respectively. These capital ratios are well above the Basel III minimum transitional arrangement requirements of 5.125% and 8.625% respectively, positioning the Group as one of the best capitalised banking groups in Malaysia.

Amidst the volatility in the global economy, the Group continues to exercise balance sheet discipline, pacing its assets growth, and focusing on risk adjusted returns on capital while actively managing our funding and liquidity position.

Customer deposits increased by 4.8% to RM165.8 billion, and total current and savings account ('CASA') registered a strong growth of 11.9%. CASA composition improved to 25.6% as at 31 December 2016 from 24.0% recorded in December 2015. The Group's loan-to-deposit ratio remained healthy at 93.2%.

The Group's gross loans and financing grew by 2.0% year-on-year to RM154.5 billion. The increase came mainly from mortgages and SME, negated by a decline in corporate loans which is in line with our strategy to rebalance the Group's loan composition. Mortgages and SME loans and financing growth were resilient with a growth rate of 13.3% and 11.3% respectively, more than offset the 4.6% contraction in corporate loan portfolios. The Group's domestic loan market share stood at 9.0% as at 31 December 2016.

Proposed Final Dividend

In line with our commitment to consistently deliver value to our shareholders, a final dividend of 7.0 sen, amounting to RM280.7 million has been proposed. Together with the interim dividend of 5.0 sen paid in September 2016, total dividend for 2016 is 12.0 sen per share, representing a dividend payout ratio of 28.6% out of the Group's net profit attributable to shareholders of RM1,681.6 million for the financial year 2016.

Performance Review of Key Business Units

Retail Banking remained the biggest contributor to the Group and it reported a pre-tax profit of RM1,058.2 million for the financial year ended 31 December 2016, 4.4% lower from the previous year. Excluding a one-off collective allowance written back on mortgage portfolio in 2015, pre-tax profit increased by 8.5%, underpinned by lower operating expenses and lower allowances for loans and financing.

Retail loans and financing grew by 2.9% to RM70.1 billion, driven by growth in mortgages, partly offset by the contraction in auto financing and loans for purchase of securities. Mortgage loans grew at a strong rate of 13.3% year-on-year, resulting in an increase in domestic market share to 8.6% from 8.2% as at December 2015.

Retail deposits increased by 7.4% over the year due mainly to higher fixed deposits and CASA balances by 7.3% and 7.5% respectively.

Group Business Banking recorded a 45.4% increase in pre-tax profit to RM446.6 million. This was mainly due to higher net funding income, lower operating expenses and reduced allowances for loans and financing.

Gross loans and financing expanded strongly by 12.0%, driven mainly by the SME portfolio growth. Market share for SME continued to improve to 8.8% as at December 2016 from 8.7% in December 2015.

Strong current account and fixed deposits growth contributed to the overall deposits growth of 4.6% from December 2015, reflecting a positive outcome of our SME strategy under the IGNITE 2017 transformation programme.

Group Wholesale Banking (“GWB”) recorded a pre-tax profit of RM1,407.7 million, a decrease of 3.5% from the previous year.

- (i) **Group Corporate and Investment Banking** registered a 8.2% decrease in pre-tax profit to RM525.8 million due mainly to higher impairment loss on loans and financing, higher impairment losses on other assets and lower fee income, partly offset by lower operating expenses and higher wealth management fee.

Gross loans and financing decreased by 4.6% during the year to RM46.1 billion due to a few large corporate repayments. Deposits recorded a strong 13.5% growth over the year to RM52.4 billion as a result of increases in fixed deposits, partially offset by a decline in current deposits.

- (ii) **Group Treasury and Global Markets** recorded a stable pre-tax profit of RM881.9 million, mainly contributed by a one-off impairment write back on other assets in 2015, partly offset by lower operating expenses.

Singapore performance was affected by oil and gas exposure, resulting in a pre-tax loss of RM269.1 million for the financial year ended 31 December 2016. Singapore loans and advances increased by 1.4% to SGD4.2 billion, whilst customer deposits increased by 22.1% to SGD6.0 billion, largely contributed by CASA growth.

International Business excluding Singapore registered a pre-tax profit of RM36.1 million, 2.8% higher over a year ago. This was mainly due to improved profitability in Cambodia which recorded an increase in pre-tax profit by 11.1% to USD7.6 million, whilst Lao recorded a pre-tax profit of USD1.0 million in its second year of operation.

RHB Group’s Islamic business recorded a strong 23.8% growth in pre-tax profit to RM431.7 million for the financial year ended 31 December 2016. This was due to higher net fund based income, partially offset by higher impairment losses on financing and higher operating expenses.

Gross financing grew by 9.5% to RM34.1 billion, and now contributes 24.8% to the Group’s total domestic gross loans and financing, up from 23.0% as at 31 December 2015. Asset quality of RHB Islamic improved to 1.15% from 1.17% a year ago.

Conclusion

Malaysia's GDP is forecast to grow 4.5% in 2017. Domestic demand is expected to remain resilient in 2017, exports are expected to show a moderate recovery, whilst public spending and private investment is expected to rise, supported by the implementation of major infrastructure projects under the various economic programmes.

The Malaysian banking sector growth is expected to be modest, with slower corporate loans growth and ongoing consolidation of household loans.

"We saw a 8.4% (excluding CTS cost) increase in operating profit before allowances, resulting from prudent funding cost management and lower overhead costs. We are pleased to note our business banking and retail banking businesses registered profit growth and our efforts to grow CASA have also borne fruits.

The challenging operating environment has affected our net profit. Nevertheless, our balance sheet remains strong, as capital and liquidity are at comfortable levels, which will put us in a good position to drive value creation especially from key businesses and segments and grow with our customers, as we continue to manage asset quality and focus on operational efficiency", commented Dato' Khairussaleh Ramli, Group Managing Director of RHB Banking Group.

The Group expects its performance for the financial year 2017 to be better than the previous financial year.

Key Financial Highlights

Financial Performance (RM'000)	12 Months Ended 31 December 2016	Restated 12 Months Ended 31 December 2015
Operating profit before allowances	3,094,506	2,544,987
Profit before taxation	2,231,841	2,250,584
Profit attributable to equity holders of the Company	1,681,624	1,664,972
Earnings per share (sen)		
- Per RM1.00 share	43.6	N/A
- Per RM0.50 share	N/A	24.2
Balance Sheet (RM'000)	As at 31 December 2016	Restated As at 31 December 2015
Gross loans, advances and financing	154,469,396	151,386,384
Gross impaired loans, advances and financing ratio (%)	2.43%	1.88%
Deposits from customers	165,809,367	158,157,840
Total assets	236,678,829	227,938,347
Equity attributable to equity holders of the Company	21,744,778	17,667,869
Net assets per share (RM)		
- Per RM1.00 share	5.42	N/A
- Per RM0.50 share	N/A	2.55

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 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 Wholesale Banking, Singapore Business Operations, Group Shariah Business, Group International Business and Group Insurance. Group Wholesale Banking comprises Corporate Banking, Investment Banking, Client Coverage, Group Treasury and Global Markets, Asset Management and Private Equity. All the seven business pillars are offered through RHB Bank Berhad and 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, 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 Events/Corporate Development During The Financial Year

1. Group Internal Reorganisation, Distribution and Capital Repayment, and Transfer of Listing Status

(a) Group Internal Reorganisation

On 14 April 2016, the Bank has completed the following acquisitions under the Group Internal Reorganisation:

- (i) the entire equity interests in certain subsidiaries (“Identified Assets”) from the former holding company, RHB Capital Berhad (“RHB Capital”) under a Share Sale Agreement dated 6 April 2016, for a total cash consideration of approximately RM3.32 billion (“Disposal Consideration”). The Disposal Consideration was arrived at based on a ‘willing-buyer, willing-seller’ basis after taking into consideration the audited net assets/liabilities and/or the audited net book value of the Identified Assets as extracted from the audited financial statements of the respective subsidiaries of RHB Capital as at 31 December 2014; and
- (ii) certain assets and liabilities of RHB Hartanah Sdn Bhd, including its subsidiary, RHB Property Management Sdn Bhd under an Asset Purchase Agreement dated 6 April 2016, for a total cash consideration of approximately RM298.37 million.

Following the completion of the Group Internal Reorganisation, RHB Capital has injected an aggregate of approximately RM2.49 billion into the Bank (“Capital Injection”), being proceeds raised from its rights issue exercise, proceeds from the redemption of its investment in RHB Liquid Fund as well as excess cash available (after setting aside adequate cash to defray any expenses of RHB Capital), in exchange for approximately 447.84 million new shares of the Bank of RM1.00 each, which were issued at an issue price of RM5.56 per share.

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

(b) Distribution and Capital Repayment

On 13 June 2016, RHB Capital ceased to be the shareholder of the Bank upon the completion of its Distribution and Capital Repayment, which entails the distribution of its entire shareholding in the Bank after the capital injection in (a) above to entitled shareholders of RHB Capital whose names appear in the Record of Depositors of RHB Capital.

(c) Transfer of Listing Status

The Bank has assumed the listing status of RHB Capital, and has been admitted to the Official List of Bursa Malaysia Securities Berhad (“Bursa Securities”) in place of RHB Capital, with the listing of and quotation for the entire issued and paid-up share capital of the Bank on the Main Market of Bursa Securities on 28 June 2016.

The Transfer of Listing Status will enable the shareholders to have a direct participation in the equity and envisaged growth of the Group as well as enable the 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 the Group in expanding its customer base.

2. 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.

3. Proposed transfer of certain businesses of RHB Investment Bank Berhad (“RHB Investment Bank”) to the Bank

The Bank and its wholly-owned subsidiary, RHB Investment Bank are proposing to undertake an internal reorganisation which includes the following:

- (i) Proposed Transfer of Treasury Business;
- (ii) Proposed Transfer of Structured Lending Business;
- (iii) Proposed Transfer of Private Equity Group; and
- (iv) Proposed Capital Repayment.

(collectively, to be referred to as the “Proposals”)

The Proposed Transfer of Treasury Business and Proposed Transfer of Structured Lending Business entail the transfer of certain portion of the treasury business and all assets and liabilities under the 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 the Order of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA.

The Proposed Transfer of Private Equity Group entails the transfer of the entire issued and paid-up share capital of RHB Private Equity Holdings Sdn Bhd (‘RHBPE’), a wholly-owned subsidiary of RHB Investment Bank to the Bank via a share sale agreement.

Subject to the completion of the Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business, Proposed Transfer of Private Equity Group and RHB Investment Bank having obtained all requisite approvals, RHB Investment Bank shall undertake a capital repayment exercise via a reduction of the issued and paid-up share capital and share premium account pursuant to Sections 60(2) and 64 of the Companies Act, 1965 ('Act').

The rationale for the Proposals are as follows:

- (i) The Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group will enable the optimisation of operations of RHB Group and are expected to achieve business and operational synergies, economies of scale in resource utilisation and cost savings;
- (ii) The Proposed Transfer of Structured Lending Business enables the business unit to leverage on the established clientele base and resources in the Bank to market its services;
- (iii) With a larger capital base, the Bank is able to support relatively more capital intensive businesses (i.e. Private Equity). This would provide a greater platform for RHBPE to undertake more investment opportunities in the future; and
- (iv) The Proposed Capital Repayment reflects the continuous effort of the Bank to achieve an efficient capital structure.

The Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group are not inter-conditional upon each other and are not conditional upon the Proposed Capital Repayment. However, the Proposed Capital Repayment will only be implemented if at least one of the Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group is implemented.

Approval from BNM for the Proposals has been obtained on 6 January 2017. The Proposals are now subject to the following approvals being obtained:

- (i) sanction of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA for the Proposed Transfer of Treasury Business and Proposed Transfer of Structured Lending Business;
- (ii) sanction of the High Court of Malaya pursuant to Sections 60(2) and Section 64 of the Act for the reduction of RHB Investment Bank's share capital and share premium pursuant to the Proposed Capital Repayment;
- (iii) approvals of the lenders of RHB Investment Bank and RHBPE Group, if required; and

(iv) approvals, waivers and/or consents of any other relevant authorities and/or parties, if required.