

DANAMODAL CONCLUDES CAPITAL INJECTION OF RHB BANK BERHAD AND BUYS 30% OF THE BANK

Danamodal Nasional Berhad announced today that it has signed a conditional agreement to acquire a 30% stake in RHB Bank Berhad for RM725.4 million or 62 sen per share from RHB Capital.

The price is based on the net tangible asset of RHB Bank as at 30 June 1998, but adjusted for additional provisioning that may be required for expected non-performing loans and adjusted for the premium attached to the franchise name.

The acquisition is being contemplated along with the RMI.5 billion capital investment directly into RHB Bank, to restore the financial viability of RHB Capital which currently owns 100% of the Bank.

RHB Bank is essentially a strong institution, one that is targeted to be a core institution in the future consolidation of the banking industry, however, concerns about the financial condition of RHB Capital compelled Danamodal to make the purchase. This purchase demonstrates the confidence that Danamodal has in the Bank itself and this in itself should ensure financial stability of the Bank, thereby insulating any possible negative fallout from financial problems at its affiliates.

The acquisition is in line with Danamodal's main objectives of recapitalising and strengthening the banking industry and to facilitate the consolidation and rationalisation of the banking system. To facilitate this process, it has been recognised that it may be necessary from time to time, for Danamodal to purchase stakes directly from shareholders who cannot raise capital given the depressed capital market situation or are unable to meet the future capital needs of the banks.

The rationale for this purchase is therefore to demonstrate Danamodal's commitment to further strengthen RHB Bank and to position the Bank to play the role of a core banking institution in the consolidation and rationalisation of the industry that is to follow.

As with all Danamodal investments, this stake would be sold at an appropriate time. In the meantime, it would be appointing representatives to the board of RHB Bank.

At the same time Danamodal has today also finalised the terms for the RM1.5 billion capital injection into RHB Bank. The capital injection will be made in the form of RM1.0 billion Irredeemable Non-cumulative Convertible Preference Shares(INCPS) and RM500 million 10-year subordinated bonds.

The subscription agreements for the preference shares and the bonds were also signed today.

In connection with this investment, Danamodal will be appointing two directors to RHB Bank's board. (These would be in addition to the board seats allocated for the 30% stake.) Danamodal will also be represented in RHB Bank's executive committee.

The preference share which entitles Danamodal to a dividend payment of 8% per annum are fully convertible into RHB Bank common shares upon the initial public offering of such stem and under some other circumstances prior to such offering. RHB Bank is expected to endeavour to seek a listing of its shares through an initial public offering within five years.

The dividend payment for the INCPs is non-cumulative, payable semi-annually. This rate would be increased to 10% after the fifth year.

In the case of conversion upon an initial public offering, Danamodal will be entitled to receive enough shares to yield an internal rate of return of 12%.

The subordinated bonds will carry a 10% coupon per annum and come with a put option that is puttable to RHB Bank, periodically, beginning on the fifth anniversary of issuance. The INCPs and the bonds are expected to qualify for Tier 1 and Tier 2 capital treatment respectively, in accordance with Bank Negara Malaysia's revised capital guidelines.

Danamodal had initially injected RM1.5 billion into RHB Bank on 21st October in the form of Exchangeable Subordinated Capital Loans (ESCL). This ESCL is, however, intended to be an interim facility, which is to be exchanged into longterm Tier 1 and/or Tier 2 capital within three months. This three-month period is to enable adequate time for full due diligence by Danamodal. In the case of RHB Bank, it is being exchanged into preference shares and subordinated bonds.

It also injected RM3.0 billion in the form of ESCL into seven other banking institutions on the same day.

The terms and conditions and the final structure of the recapitalisation of RHB Bank reflects the principles that guide Danamodal's operations. These include recapitalising only institutions whose businesses are basically viable and along commercially-driven terms and that the investments should yield positive returns.

In this context, the amount invested will raise the risk weighted capital ratio (RWCR) of the enlarged RHB Bank to 14.2% from 9.6%, which is substantially higher than the 10% RCWR requirement for Tier 1 banks. The investment will ensure that RHB Bank retains its core institution status in the system.

The acquisition by Danamodal in RHB Bank is subject to the approval of the Central Bank and the shareholders of RHB Capital.

The investment by Danamodal in RHB Bank is subject to approvals of the relevant regulatory authorities.

Since August, the Government has introduced and implemented a series of fiscal and monetary measures, including lower interest rates, to help stimulate economic recovery. The completion of this major recapitalisation transaction represents further progress on the efforts of the Government.

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