

# RHB BANK BERHAD THAILAND

No. 104/2021  
30 June 2021

## FINANCIAL INSTITUTIONS

Issuer Rating:	AA
Short-Term Issuer Rating:	T1+
Outlook:	Stable

Last Review Date: : 30/06/20

### Company Rating History:

Date	Rating	Outlook/Alert
21/04/17	AA	Stable

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## RATIONALE

TRIS Rating affirms the issuer rating on RHB Bank Berhad Thailand at “AA” and its short-term issuer rating at “T1+” with a “stable” outlook. The ratings reflect the credit profile of RHB Bank Berhad, Malaysia (RHB Bank Berhad) and the strong liquidity position of RHB Bank Berhad Thailand. Based on its legal status as a branch, RHB Bank Berhad Thailand is assigned the same rating as RHB Bank Berhad.

The issuer rating on RHB Bank Berhad Thailand is based on TRIS Rating’s assessment of RHB Bank Berhad relative to its peers within the Malaysian banking industry. The rating takes into consideration RHB Bank Berhad’s relatively stable business profile supported by diversified earnings, strong capital, and conservative risk management. These strengths are, however, constrained by heightened credit risks from the on-going COVID-19 pandemic, moderate profitability, and a moderate deposit franchise.

As RHB Bank Berhad’s main business operation is in Malaysia, the rating also takes into consideration the strengths and risk profile of Malaysia’s economy and banking industry.

## KEY RATING CONSIDERATIONS

### A stable and diversified franchise

Our assessment of RHB Bank Berhad’s business profile reflects its status as a mid-sized bank, supported by a stable franchise and diversified revenue sources. Domestically, the bank operates an established commercial bank franchise, and strong securities brokerage and investment banking, insurance, and asset management subsidiaries. Revenue sources are diversified across retail banking business (36% of total revenue in 2020), treasury operations (18%), corporate and investment banking (19%), and business banking (15%).

The bank continues to expand its reach in small and medium enterprise (SME) and affluent retail segments. RHB Bank Berhad has been able to sustain above-industry growth in loans (5.6%) and deposits (6.8%) in 2020. Net fee income expanded by nearly 12% in 2020, thanks to the healthy contribution from the wealth management and brokerage business.

Internationally, RHB Bank Berhad operates an overseas niche strategy across its presence in most ASEAN countries. Revenue from the international banking segment made up around 8% of total revenue in 2020. The most established international presence is in Singapore, with total loans from this market making up around 8% of the bank’s total loans at the end of 2020. Loans originated in Thailand contributed around 0.8% in the same period.

### Solid capital buffer

RHB Bank Berhad’s solid capital position continues to be the strength in its credit profile. Its core equity tier-1 (CET-1) ratio after proposed dividend was 15.6% as of March 2021. This figure was the highest among local Malaysian banks. CET-1 made up 88% of the total, indicating high-quality capital. The management maintains a dividend payout ratio at no less than 30%.

Consistent with industry efforts to conserve the capital buffer, RHB Bank Berhad recently introduced a dividend reinvestment plan (DRP) to its shareholders, who have the option to reinvest the dividend received in its new shares. According to the management, proceeds from the DRP will be used for

working capital. Although the final amounts are subject to shareholders' acceptance, we expect it to have marginal impact on the bank's overall capital position.

### **Profitability to recover slowly**

We expect RHB Bank Berhad's profitability to slowly recover from a low point in 2020. The bank's return on average assets (ROAA) fell to 0.8%, due to high expected credit loss (ECL) in 2020, from 1.0% in 2019. We forecast a modest recovery in net interest income (NII) against the backdrop of moderate loan growth and low funding cost amid a low interest rate environment. We expect continued pressure on net interest margin (NIM) should the Bank of Negara (BNM) maintain the Overnight Policy Rate (OPR) at 1.75% throughout 2021. We also expect ECL to remain elevated at around 30 to 40 basis points (bps) in 2021, amid lingering macroeconomic uncertainty.

We expect increased efficiency from continued investment in IT to support the bank's operating margins over the medium term. Cost-to-income ratio has continued to improve, declining to 47% in 2020 from 48% in 2019.

### **Asset quality risk remains manageable**

In our opinion, RHB Bank Berhad is relatively well prepared for a potential rise in asset quality risk induced by the COVID-19 pandemic. The bank has maintained conservative risk management policies. At the same time, continued supports at the industry level and regulatory forbearance from the BNM should help to alleviate heightened asset quality risks.

We expect the Malaysian banking sector to face potential deterioration in asset quality over the next 12-18 months. To tackle the rising credit risk, BNM introduced the Repayment Assistance (RA) programme at the end of the initial 6-month blanket debt moratorium in September 2020 to support lower-middle income individuals and small businesses suffered from the economic fallout. The government's initiation of the Movement Control Order (MCO) has recently been extended beyond June 2021. We expect BNM's RA programme and regulatory forbearance to alleviate the impact on asset quality, including that of RHB Bank Berhad. As of March 2021, 8.3% of the RHB Bank Berhad's outstanding loans are under the RA programme.

An increase in Stage-2 loans of RHB Bank Berhad in the fourth quarter of 2020 after the expiration of the initial moratorium reflects the loans under the RA programme. The higher Stage-2 loans were notable among owner-occupied mortgage and auto finance loans. Similarly, businesses operating in the affected service sectors including hotels and restaurants saw an increase in Stage-2 loans. Most of these were secured business lending.

In line with other Malaysian banks, RHB Bank Berhad set aside sizable ECL in 2020, as it anticipated deterioration in asset quality after the 6-month moratorium ended in September 2020. The ECL was 58 bps in 2020 and remained elevated at 39 bps in the first quarter of 2021. These figures were high by the bank's own standards, with credit costs averaging around 32 bps over the past five years. Loan loss coverage ratio as a result approached a high 120% at the end of 2020, above several of its peers, given the bank's gross impaired loan (GIL) ratio remaining at a low 1.7% at end-2020.

### **Continued improvement in funding**

RHB Bank Berhad continues to improve its funding profile as a mid-sized bank under its FIT22 strategy. The bank continues to gain its deposit market shares in affluent retail and SME segments. Deposit growth rates were around 6%-7% per year over the past two years, above many of its peers. Market share in retail deposits, as a result, also rose to 8.5% as of March 2021, from 7.7% at the end of 2019. A higher share of low-cost deposits helped lower its funding cost steadily to 2.16% in 2020, which was at the low end of the industry, from 2.90% in 2018. Deposits as a percentage of total funding improved to 83% at the end of 2020, near the peers' average. Current account-savings accounts (CASA) ratio improved to 31% during the same period.

The bank's loan-to-deposit ratio (LDR) was at 92% at the end of 2020. We do not expect any tightening of liquidity in the Malaysian banking sector in 2021, due to soft loan demand and accommodative monetary policy.

### **Adequate liquidity**

RHB Bank Berhad's liquidity remained healthy with its liquid assets to total deposits at 35% as of the end of 2020. The majority of its financial investments were in liquid government securities, money market instruments, and private debt securities. The bank's liquidity coverage ratio (LCR) as of March 2021 was 154%, well above the minimum requirement.<sup>1</sup>

## **SHORT-TERM ISSUER RATING FACTORS**

The short-term issuer rating at "T1+" assigned to RHB Bank Berhad Thailand reflects its long-term credit profile and its strong liquidity position. RHB Bank Berhad Thailand, as a branch of a foreign bank, is subject to the regulatory liquidity requirements of the Bank of Thailand (BOT). The bank is required to maintain adequate liquidity to support normal

<sup>1</sup> > 100% in Malaysia

business operations. Access to funding from its head office, interbank markets, and standing facilities from the BOT provide additional liquidity support for RHB Bank Berhad Thailand. The bank's LCR was well above the minimum requirement.<sup>2</sup>

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that RHB Bank Berhad will maintain its stable business profile and strong capital position. We also expect the bank to maintain a healthy level of asset quality, adequate funding, and liquidity position.

## RATING SENSITIVITIES

Ratings could be revised downwards if there is a material deterioration in RHB Bank Berhad's capital position, asset quality, funding, or liquidity. Positive rating actions will depend on the bank's ability to consistently improve its market position, funding profile, and/or profitability on a sustained basis.

## COMPANY OVERVIEW

RHB Bank Berhad is Malaysia's oldest and first local bank. Kwong Yik (Selangor) Banking Corporation (Kwong Yik Bank) was incorporated in July 1913. The merger between Kwong Yik Bank Berhad and DCB Bank Berhad, founded in 1966, formed RHB Bank Berhad in 1997. The merger created the third-largest financial service group in Malaysia. Mergers with Sime Bank Berhad and Utama Banking Group took place in 1999 and 2003, respectively. In 2005, RHB Banking Group received a licence for RHB Islamic Bank Berhad, its Islamic banking arm. In 2012, RHB Capital, the Group's holding company, acquired OSK Investment Bank. A corporate restructuring commenced in April 2015 and was completed on 28 June 2016. RHB Bank Berhad assumed the listing status of RHB Capital Berhad after acquiring the equity interests of all the subsidiaries of RHB Capital. As a result, RHB Bank Berhad became the ultimate holding company of the RHB Banking Group.

In 2018, RHB Bank Berhad embarked on a 5-year strategy called "FIT22", with three top priorities. First, targeting growth in Malaysia including: i) growing the SME client base; ii) offering wealth products to affluent clients in the SME segment; and iii) increasing share of wallet and penetration among large- and mid-sized corporate clients. Second, leveraging its strength in the capital market to identify niche opportunities overseas. Third, undertaking a "Digital Transformation Program" involving investment in digital initiatives and personnel development. The digitisation program will lead to faster working processes, customer centricity, talent development, and enhanced digital offerings for clients.

The RHB Bank Group consists of RHB Bank Berhad and its subsidiaries, including RHB Investment Bank Berhad, RHB Islamic Bank Berhad, RHB Insurance Berhad, and RHB Asset Management Sdn Bhd. The Group offers financial products and services covering commercial banking, Islamic banking, transaction banking, investment banking, treasury services, stock brokerage and offshore banking, as well as non-bank offerings in general insurance, unit trust management, and asset management/nominee and custodian services. The products and services are tailored to meet the demands of the retail, commercial, SME, and corporate customer segments. The Group's products and services are made available through both physical and digital distribution channels covering nine ASEAN countries. Operations in Singapore are the largest overseas contributors in terms of asset size and revenue.

<sup>2</sup> > 100% in 2020 in Thailand

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS<sup>1</sup>**
**RHB Bank Berhad, Malaysia**
*Unit: Mil. MYR*

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019*	2018	2017
Total assets	280,513	271,150	257,592	243,166	230,210
Average assets	275,831	264,371	250,379	236,688	233,444
Investment in securities	64,583	63,371	58,678	50,469	47,427
Gross loans, advances and financing	188,193	186,114	176,175	168,879	160,124
Allowance for impaired loans	3,738	3,806	2,980	3,252	1,826
Deposits	217,999	203,471	190,555	178,856	166,158
Borrowings <sup>2</sup>	26,871	29,094	31,046	29,645	30,743
Total equity	26,711	27,057	25,811	23,396	23,184
Average equities	26,884	26,434	24,603	23,290	22,479
Total revenue	1,961 <sup>3</sup>	7,604 <sup>3</sup>	7,057	6,806	6,384
Net interest income	1,001	3,761	3,603	3,655	3,522
Islamic business income	522	1,656	1,614	1,428	1,079
Allowance for impairment losses on loans	180	1,075	319	322	417
Net fee and commission income	324	1,028	897	960	1,040
Gains on trading	6	796	590	490	443
Other operating income	437	2,177	1,840	1,722	1,784
Operating expenses	885	3,387	3,387	3,358	3,184
Net profit	651	2,039	2,488	2,309	1,956

\* *Restated*

1 *Consolidated financial statements*

2 *Including deposits and placements of other financial institutions, obligations on securities sold under repurchase agreements, bills and acceptance-payables, borrowings, subordinated obligations, hybrid Tier-1 capital securities, and senior debt securities.*

3 *Excluding modification loss*

Unit: %

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019 *	2018	2017
<b>Earnings</b>					
Return on average assets <sup>3</sup>	0.94	0.77	0.99	0.98	0.84
Return on average equities <sup>3</sup>	9.68	7.71	10.11	9.91	8.69
Interest spread <sup>3,4</sup>	2.11	1.90	1.90	1.97	1.86
Net interest margins <sup>3,4</sup>	2.27	2.12	2.17	2.25	2.09
Net fee and commission income/total revenue	16.51	13.52	12.71	14.10	16.29
Gains on trading/total revenue	0.31	10.47	8.35	7.20	6.93
Cost-to-income	45.16	44.54	48.00	49.34	49.91
<b>Capitalisation</b>					
CET-1 ratio <sup>5</sup>	15.81	16.42	16.88	15.92	14.23
Tier-1 ratio <sup>5</sup>	15.81	16.42	16.88	16.13	14.49
Total capital ratio <sup>5</sup>	17.97	18.60	19.21	19.21	17.50
CET-1/total capital ratio <sup>5</sup>	87.95	88.27	87.90	82.86	81.30
<b>Asset Quality</b>					
Credit costs <sup>3</sup>	0.38	0.59	0.18	0.19	0.26
Impaired loan formation/average gross loans	0.54	0.14	0.49	n.a. <sup>7</sup>	0.49
Gross impaired loans/gross loans	1.66	1.71	1.97	2.06	2.23
Loan loss coverage ratio (excluding regulatory reserve)	119.54	119.65	85.65	93.34	51.18
<b>Funding &amp; Liquidity</b>					
CASA ratio	30.60	30.85	25.68	25.94	30.24
Loan-to-deposit ratio	86.33	91.47	92.45	94.42	95.96
Deposit from customers/total liabilities	85.89	83.36	82.21	81.38	80.60
Liquid assets/total deposits <sup>6</sup>	36.19	34.87	33.62	32.37	31.10
Gross loans/total assets	67.09	68.64	68.39	69.45	69.56

\* Restated

1 Consolidated financial statements

2 Including deposits and placements of other financial institutions, obligations on securities sold under repurchase agreements, bills and acceptance-payables, borrowings, subordinated obligations, hybrid Tier-1 capital securities, and senior debt securities.

3 Annualised

4 Based on TRIS Rating's calculation

5 Group basis before proposed dividend

6 Including bills and acceptance-payable

7 Figures are not comparable due to adoption of MFRS9.

**RELATED CRITERIA**

- Banks Rating Methodology, 3 March 2020

- Short-Term Rating, 31 October 2007

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**RHB Bank Berhad Thailand**

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<b>Issuer Rating:</b>	AA
<b>Short-term Issuer Rating</b>	T1+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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