RHB BANK BERHAD THAILAND

No. 138/2023
31 July 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 27/07/22

Issuer 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 its headquarters in 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 reflects the rating of RHB Bank Berhad. As a core operating entity of the RHB Group, the stand-alone credit profile (SACP) of RHB Bank Berhad, assessed at "aa", represents the group credit profile (GCP).

The issuer rating on RHB Bank Berhad Thailand is based on TRIS Rating's assessment of RHB Bank Berhad's performance 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 the bank's average 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 mid-sized bank with well-executed strategies

Our assessment of RHB Bank Berhad's business risk profile reflects its mid-sized commercial banking operations with a stable and diversified franchise. RHB Bank Berhad had the fourth-largest market share in loans of 9.0% as of March 2023. The bank operates strong capital market, wealth management, insurance, and Islamic banking businesses through its subsidiaries. The business model is primarily domestically-focused, with a moderate contribution from international businesses at around 11% of total revenue in the first quarter of 2023.

The bank is mid-way towards the "Together We Progress 2024" (TWP24) strategy, which spans 2022-2024. Domestic growth opportunities include affluent and mass affluent retails, small- and medium-sized enterprises (SMEs), and small- and mid-cap corporations. Internationally, the bank seeks to mobilize niche strategies across countries in the Association of Southeast Asian Nations (ASEAN).

RHB Bank Berhad expects to launch its digital banking business via Boost Berhad, a consortium with Boost Holdings Sdn Bhd, towards end-2023. We expect the initial contribution of the new digital banking operations to be modest. The new digital bank could become an extension of RHB Bank Berhad's digital banking platform. It should also allow RHB Bank Berhad to tap into new under-served segments.

Strong capital position

RHB Bank Berhad's strong capitalization continues to be the key strength of its credit profile. We expect the bank's core equity tier-1 (CET-1) ratio before proposed dividends to be close to 17% in 2023-2024. The figure factors in an organic loan growth of 4.5% and a dividend payout of 60%. RHB Bank Berhad has the strongest capital ratio across domestic Malaysian banks, thanks in part to low risk-weighted assets from the bank's sizable residential mortgage exposure. The CET-1 ratio before proposed dividends stood at 17.6% as of March 2023. Several rounds of capital increases through a "Dividend Reinvestment Plan" (DRP) carried out since 2021 contributed an additional Malaysian ringgit (MYR) 1.15 billion to the shareholders' equity. We also note the management's aspiration to maintain the bank's strong capital.

Average profitability

RHB Bank Berhad should be able to maintain average profitability relative to other Malaysian banks. We expect the bank's return on average assets (ROAA) to stay around 0.90%-0.95% in 2023-2024. Key drivers include a modest expected credit loss (ECL) of 25-30 basis points (bps) with potential writeback of Coronavirus Disease 2019 (COVID-19) management overlay, a stable cost-to-income ratio (CIR) of 44%-45%, and some contributions from treasury income. We expect a lower net interest margin (NIM) of 1.9% for 2023 to reflect muted growth in net fund-based income as high funding cost coincides with moderate growth in loans and fee-based businesses. RHB Bank Berhad's NIM fell 46 bps quarter-on-quarter (q-o-q) in the first quarter of 2023, following an intense deposit competition across Malaysian banks taking place from late-2022 to early-2023. We expect this to be non-recurring, as the competition resulted from the market's anticipation of the Bank Negara Malaysia's (BNM) overnight policy rate (OPR) hikes and expiration of the statutory reserve requirement (SRR) flexibility towards end-2022.

Well-managed asset quality

We expect RHB Bank Berhad to be able to maintain overall good asset quality over the next few years. Positive drivers include the bank's diversified exposure supported by a large low-risk mortgage loan book, careful risk management, and healthy loan-loss provisioning.

Moderate economic growth in 2023 and higher interest rates should exert some asset quality pressure. Pockets of vulnerability include SME borrowers in sectors not fully benefiting from the delayed recovery in tourism activities and real-estate developers struggling with high input costs. With that said, favorable domestic labor market conditions should support household debt serviceability. As such, we expect the bank's overall gross impaired loan (GIL) ratio to hover around the 1.6% level in 2023-2024, a slight uptick from 1.55% at end-2022. Over the same period, we expect a normalized ECL in the 25-30 bps range before a potential write-back of COVID-19 management overlays, which as of March 2023 stood at MYR411 million or approximately 19bps of ECL. We also expect loan-loss provision excluding regulatory reserve to be at a healthy level of around 110%.

RHB Bank Berhad maintained a healthy GIL ratio of 1.59% as of March 2023, below the industry average of 1.75%. RHB Bank Berhad has been able to maintain its ECL below that of several other major Malaysian banks. The figure was a modest 10 bps in the first quarter of 2023. In 2022, the ECL was 15 bps after a 12 bps write-back of COVID-19 management overlay. The bank maintained loan-loss provisions of 109.4% as of March 2023, in line with several other major Malaysian banks. The bank's exposure to retail lending made up around 60% of its domestic portfolio as of March 2023, around two-thirds of which were secured owner-occupied mortgage loans.

Expanding a moderate deposit franchise

We expect RHB Bank Berhad to maintain an average funding profile over the next few years. The bank operates a moderate deposit franchise with a mid-sized market share of 8.7% as of March 2023, ranked 4th across domestic Malaysian banks. RHB Bank Berhad's current account-savings account (CASA) ratio was at 28.1% at the same period, below that of other peers. The loan-to-deposit ratio (LDR) was a healthy 94.2% as of March 2023.

Unfavorable impacts from the deposit competition among Malaysian banks reflect the bank's moderate deposit franchise. As a result, RHB Bank Berhad's deposit growth was flat year-on-year (y-o-y) as of March 2023, whilst CASA deposits contracted 2.9%. The CASA ratio fell to 28.1% in March 2023 from the bank's target level of 30% by end-2023. The management highlighted strategies to expand CASA deposits, which, in our view, should take some time to implement. The strategies include partnering with universities to expand CASA deposits from student accounts. Other strategies involve raising more CASA deposits from company payrolls and affluent retail segments.

Adequate liquidity

RHB Bank Berhad's liquidity remained healthy with a ratio of liquid assets to total deposits of 35.4% in March 2023. Most financial investments were in cash, liquid government securities, money market instruments, and private debt securities. The bank's liquidity coverage ratio (LCR) as of March 2023 was 147%, well above the minimum requirement.[1]

[1] *> 100% in Malaysia*

Malaysia's sovereign rating remains strong[2]

Our internal "AAA/stable" assessment of Malaysia's sovereign rating reflects the country's solid economic growth prospects in the medium term as a diversified economy with competitive exports and favorable demographics. Malaysia has a relatively high per-capita gross domestic product (GDP) relative to most other countries in ASEAN of USD12,364 in 2022. We expect GDP growth of 4.5% in 2023-2024 to be primarily driven by private consumption with favorable labor market conditions and recoveries in tourism activities. We also expect continued foreign direct investment (FDI) inflows and public investment projects under the "12th Malaysia Plan" to drive investment activities. The monetary authority has been effective in maintaining a stable price level. Headline inflation has been well contained relative to the country's key trading partners, with y-o-y growth in a consumer price index (CPI) of 3.3% in 2022 and 3.2% expected in 2023.

Adequate foreign exchange reserves and a continued current account surplus support the resiliency of the country's external sector. Over the near term, however, a global economic slowdown could weigh on Malaysia's exports of goods, which contributed 87% of nominal GDP in 2022. Lingering inflationary pressures in advanced economies could lead to further tightening of monetary conditions, adding to volatilities of the MYR.

The public debt declined to 60.4% of GDP at end-2022, from 63.4% at end-2021, thanks to strong economic growth and narrowing fiscal deficits. Malaysia imposes a statutory debt limit of 65% of GDP. We expect the fiscal balance to GDP to improve to -4.9% and -4.0%, respectively, in 2023 and 2024. Fiscal consolidation efforts under the "Medium-term Fiscal Framework" (MTFF) and enhanced revenue collection from a broad-based economic recovery should help in narrowing down the fiscal deficits. In addition, we expect declining current government expenditure as extensive pandemic-era economic stimulus measures ended and fuel price subsidies subsided in the wake of cooling oil prices. Around 75% of total public borrowings are financed by domestic investors. Almost all the public borrowings are in local currency.

Low banking sector risk

The credit profile of RHB Bank Berhad incorporates our assessment of the Malaysian banking industry and country risk. In our view, the resiliency of the Malaysian economy to macroeconomic shocks is supported by the country's relatively high per-capita GDP, macroeconomic policy flexibility, and strong external position. Although Malaysian private-sector credit remained high at around 150% of GDP at end-2022, the figure trended down from above 160% in 2021. Malaysian household financial assets, equivalent to around 168% of GDP in 2022, further indicate available financial buffers. Around 60% of Malaysian banking loan books were retail lending as of April 2023, 60% of which were secured mortgage lending. We see limited risks in the residential real-estate market, indicated by relatively stable changes in residential house prices on a y-o-y basis over the past four years. Corporate lending is diversified across sectors with construction and real-estate (CRE) lending contributing 10% of the total loan portfolio. On an aggregate basis, the debt serviceability of Malaysian non-financial corporates is supported by a low debt-to-equity (DE) ratio, 0.21 times at end-2022, and a decent operating margin, 6.5% in the second half of 2022.

Malaysian banks have maintained good underwriting standards with a relatively modest GIL ratio of 1.8% as of May 2023. ECL trended down towards 20 bps on an annualized basis during the second half of 2022, compared with the 2015-2019 average of 14 bps. Most banks have built up excess COVID-19 provisions, some of which were written back during 2022.

Banking regulation and supervision are in line with international standards. Profitability of the banking sector has in general been generally stable. The sector's ROAA recovered towards 1.4% on an annualized basis during the second half of 2022. This reflects the strong competitive positions of eight dominant domestic banks with established digital infrastructure, diversified earnings, and large customer bases. These have helped fend off competition from new entrants, including in the new digital banking space.

System-wide funding of Malaysian banks primarily comprises domestic deposits. The LDR was 85% as of April 2023. Reliance on external funding is limited with non-resident deposits accounting for 6% of total loans at the same period. Liquidity facilities provided by the BNM and the country's deep domestic bond market could provide additional sources of funding for the banking sector if needed. Malaysian domestic bond market capitalization stood at around 124% of GDP at end-2022, the highest among countries in ASEAN.

SHORT-TERM ISSUER RATING FACTORS

The short-term issuer rating of "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 business operations.

[2] The rating assigned to Malaysia is based on public information which TRIS Rating believes to provide a sufficient basis for the assessment of the credit profile of Malaysia. The rating is assigned without participation of any representatives from Malaysia. Key sources of statistical data include the BNM, the Ministry of Finance Malaysia, and the Department of Statistics Malaysia.

Access to funding from its headquarters, interbank markets, and standing facilities from the BOT provide additional liquidity support for RHB Bank Berhad Thailand. The bank's LCR was above the minimum requirement.[3]

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, as well as an adequate funding and liquidity position.

RATING SENSITIVITIES

The ratings on RHB Bank Berhad Thailand 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 RHB Bank Berhad'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.

The RHB Banking 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 eight ASEAN countries. Operations in Singapore are the largest overseas contributors in terms of asset size and revenue.

[3] *> 100% in Thailand*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS[1]

RHB Bank Berhad, Malaysia

Unit: Mil. MYR

		-------------------Year Ended 31 December			----------------
	Jan-Mar * 2023	**2022 ***	**2021**	**2020 ***	**2019***
Total assets	312,373	310,771	289,541	271,150	257,592
Average assets	311,572	300,156	280,346	264,371	250,379
Investment in securities	74,053	69,070	61,881	63,371	58,678
Gross loans, advances, and financing	213,359	212,200	198,512	186,114	176,175
Allowance for impaired loans	3,706	3,710	3,610	3,806	2,980
Deposits	226,432	227,160	218,733	203,471	190,555
Borrowings[2]	42,404	40,327	32,679	29,094	31,046
Total equity	29,884	28,736	28,051	27,057	25,811
Average equities	29,310	28,394	27,554	26,434	24,603
Total revenue	1,908	8,309	8,034[3]	7,604[3]	7,057
Net interest income	884	4,174	4,062	3,761	3,603
Islamic business income	569	2,451	2,117	1,666	1,614
Allowance for impairment losses on loans	55	309	575	1,075	319
Net fee and commission income	202	866	1,094	1,028	897
Gains on trading	222	531	432	796	590
Other operating income	470	1,736	1,876	2,177	1,840
Operating expenses	857	3,717	3,522	3,387	3,387
Net profit	763	2,712	2,623	2,039	2,488

* *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 unsecured debt securities*
3 *Excluding modification loss*

Unit: %

	Jan-Mar * 2023	---------------Year Ended 31 December ------------ 2022 *	2021	2020 *	2019*
Earnings					
Return on average assets[3]	0.98	0.90	0.94	0.77	0.99
Return on average equities[3]	10.41	9.55	9.52	7.71	10.11
Net interest margins[3]	1.90	2.24	2.20	2.13	2.12
Net fee and commission income/total revenue	10.6	10.4	13.6	13.5	12.7
Gains on trading/total revenue	11.6	6.4	5.4	10.5	8.4
Cost-to-income	44.9	44.7	45.2	47.1	48.0
Capitalization					
CET-1 ratio[4]	17.60	17.59	17.83	16.42	16.88
Tier-1 ratio[4]	17.60	17.59	17.83	16.42	16.88
Total capital ratio[4]	20.41	20.04	20.46	18.60	19.21
CET-1/total capital ratio[4]	86.24	87.79	87.17	88.27	87.90
Asset Quality					
Credit costs[3]	0.10	0.15	0.29	0.58	0.18
Gross impaired loans/gross loans	1.59	1.55	1.49	1.71	1.97
Loan loss coverage ratio (excluding regulatory reserve)	109.4	112.8	122.4	119.7	85.7
Funding & Liquidity					
CASA ratio	28.1	29.2	30.0	30.9	25.7
Loan-to-deposit ratio	94.2	93.4	90.8	91.5	92.5
Deposit from customers/total liabilities	80.2	80.5	83.6	83.4	82.2
Liquid assets/total deposits[5]	35.4	35.5	35.4	35.0	33.8
Gross loans/total assets	68.3	68.3	68.6	68.6	68.4

* *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 unsecured debt securities*
3 *Annualized*
4 *Group basis before proposed dividend*
5 *Including bills and acceptance-payable*

RELATED CRITERIA

- Bank Rating Methodology, 20 March 2023
- Short-Term Ratings Methodology, 23 September 2022

RHB Bank Berhad Thailand (RHB Thailand)

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

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