

Press Release

No. 75/2017
21 April 2017

TRIS Rating Assigns Company Rating of "RHB" at "AA" and Short-term Company Rating at "T1+" with "Stable" Outlook

TRIS Rating has assigned the company rating of RHB Bank Berhad Thailand (RHB) at "AA" and has also assigned its short-term issuer rating at "T1+" with "stable" outlook. The ratings reflect the credit worthiness of the head office, RHB Bank Berhad, Malaysia (RHB Bank Berhad), and strong liquidity position of RHB Bank Berhad Thailand. Based on its branch legal status, RHB Bank Berhad Thailand is assigned the same rating as RHB Bank Berhad. The rating is based on TRIS Rating's assessment of RHB Bank Berhad's business position, capital and earnings, risk position, funding and liquidity position in comparison with its peers within the Malaysian banking industry. 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.

The short-term issuer rating at "T1+" reflects RHB Bank Berhad Thailand's long-term credit profile and its strong liquidity position. As a foreign bank branch subject to the regulatory liquidity requirement of the Bank of Thailand (BOT), RHB Bank Berhad Thailand is required to maintain adequate liquidity in its normal business operation according to the BOT's regulatory guidelines. The strong liquidity of RHB Bank Berhad Thailand is also supported by its access to funding from its head office, interbank markets, and standing facilities from the BOT.

The "stable" outlook reflects the expectation that RHB Bank Berhad will maintain its market position, stable business profile, and strong capital position, and that there is no significant deterioration in its asset quality, as well as funding and liquidity positions.

RHB Bank Berhad's credit profile could be negatively affected if there is a significant deterioration in its 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 capability, and profitability on a sustained basis.

RHB Bank Berhad is the fourth largest commercial bank in Malaysia, among the total eight local banks. Apart from its commercial banking operation, RHB Bank Berhad also has significant operations in securities brokerage, insurance, and asset management businesses through its subsidiaries - RHB Investment Bank Berhad, RHB Insurance Berhad, and RHB Asset Management Sdn Bhd. Its market shares in domestic gross loans and domestic customer deposits as of December 2016 were 9%¹ and 8.5%², respectively. It has a relatively stable business profile based on its market position and earnings profile, with net interest income representing 70% of total revenue³ in 2016 and total fee income contributing 18.5% of total revenue for the same period.

Retail customers are RHB Bank Berhad's largest customer segment, contributing 37% of the total revenue in 2016. From the loan portfolio perspective, retail lending and, in particular, mortgage lending accounted for 45% and 26% of its total loan portfolio, respectively. Exposure in the large domestic corporate and domestic small and medium enterprise (SME) segments accounted for 29% and 13%, respectively, as of December 2016. RHB Bank Berhad has presence in almost all the member countries in the Association of Southeast Asian Nations (ASEAN), but its most established international presence is in Singapore with significant revenue contribution. In 2016, its international business contributed 15.8% of total revenue, and loans from overseas operations made up 12% of total loan portfolio.

(Continue on page 2)

¹ Including Malaysia and Labuan Offshore

² Including Malaysia and Labuan Offshore

³ Including net interest income, net fee and commission income, and other income

RHB Bank Berhad has a relatively strong capital position, with its Basel-III compliant total capital ratio of 17.41% before dividend payment at the end of 2016 which is viewed sufficient to support its business expansion in the next few years. Persistent margin compression due to intense competition and soft economic environment has pressured profitability of the Malaysian banks over the past few years. RHB Bank Berhad's profitability as indicated by its return-on-average assets (ROAA) ratio was 0.72% in 2016 which was at the lower end compared with peers. To preserve profitability, the bank had implemented a personnel cost reduction programme during 2015.

The slowdown in the Malaysian economy in recent years and the downturn in the oil & gas sector have had significant impacts on the bank's asset quality, with rising credit costs and impaired loans in 2016. Its gross impaired loan ratio rose to 2.43% at the end of 2016, with credit costs rising from 0.31%⁴ in 2015 to 0.39% in 2016, as a result of increased loan loss provisioning, particularly for its exposure in the oil & gas sector. The bank has about 3% of its loan portfolio in the oil & gas sector. However, the deterioration of asset quality is thought to have peaked in 2016, and to at least stabilise if not improve in 2017. The bank's recent loss experience over the past five years with its credit costs averaging at 0.26% per annum was deemed average among peers.

The bank's funding capability is considered average for a mid-sized bank. Its current account and savings account (CASA) ratio of 25.6% at the end of 2016 was relatively low compared with those among the large Malaysian banks. Fixed deposits represent the largest portion of its funding base whilst the business enterprises are its largest group of deposit customers, accounting for about 60% of total customer deposits. The bank's funding strategy is to expand its transaction-based CASA from business owners and enterprises in the SME segment. The bank tends to rely more on wholesale funding, including deposits from other banks and borrowings, when compared with some of its larger peers. Its loan-to-deposit ratio of 93.2% at the end of 2016 was close to the industry average.

RHB Bank Berhad's liquidity position is assessed to be in line with the industry with its liquid assets to total deposits including bills and acceptances of 34.3% at end of 2016. The majority of the financial investments were in liquid government securities, money market instruments, and private debt securities.

RHB Bank Berhad Thailand (RHB)

Company Rating:

AA

Short-term Issuer Rating:

T1+

Rating Outlook:

Stable

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⁴ The figure excludes write-back from refinement performed on mortgage portfolio of RM131 million. The credit cost would be 0.23% if this amount is included.