

# RHB BANK BERHAD THAILAND

No. 82/2018  
22 June 2018

## FINANCIAL INSTITUTIONS

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

Company Rating History:		
Date	Rating	Outlook/Alert
21/04/17	AA	Stable

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## RATIONALE

TRIS Rating affirms the issuer rating of RHB Bank Berhad Thailand (RHB) at “AA” and also affirms RHB’s short-term issuer rating at “T1+”. The ratings reflect the credit profile 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 issuer 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. The rating takes into consideration RHB Bank’s relatively stable business profile supported by diversified earnings, a strong capital position, and improved funding profile. These strengths are, however, constrained by modest profitability and below-industry average impaired loan coverage, as well as high reliance on wholesale funding due to its moderate deposit franchise, relative to its peers.

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 Malaysian banking group with diversified earnings

RHB Bank Berhad is the fourth largest commercial bank in Malaysia, among a total of eight local banks. Apart from its commercial banking operations, 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.

RHB Bank Berhad has a relatively stable business profile based on its market position and earnings mix. Market share in domestic gross loans and retail deposits for December 2017 was 9%<sup>1</sup> and 7%, respectively. Net interest income represented 71% of total revenue<sup>2</sup> in 2017. Total fee income contributed 18% of total revenue in the same period. Revenue contribution from retail banking (including insurance), corporate and investment banking, and business banking to the group represented 36%, 22%, and 15% in 2017, respectively.

RHB Bank Berhad has a presence in almost all member countries in the Association of Southeast Asian Nations (ASEAN). However, overseas revenues remain modest. In 2017, its international business contributed 8% of total revenue and loans from overseas operations made up 9% of its total loan portfolio. The most established international presence is in Singapore.

### A targeted focus on domestic growth and digitisation

Retail customers are RHB Bank Berhad’s largest customer segment, contributing 36% of the total revenue in 2017. From the loan portfolio perspective, retail lending and, in particular, mortgage lending accounted for 48% and 29%, respectively, of its total loan portfolio. Large domestic corporate and domestic small and medium enterprise (SME) segments made up 28% and

<sup>1</sup> Including Malaysia and Labuan Offshore

<sup>2</sup> Including net interest income, net fee and commission income, and other income

14% of total loans, respectively, as of December 2017.

Starting in 2018, RHB Bank Berhad has embarked on a 5-year strategy called “FIT@22”. The priorities are targeted growth in Malaysia with focus on affluent-retail and SME segments<sup>3</sup> in addition to mortgages and niche opportunities overseas. The strategy also includes a new AGILE operating model, “The Digital Transformation Program”, involving a faster work process, customer centricity, talent development, and enhanced digital offerings to clients.

### **Strong capital position and improved profitability**

RHB Bank Berhad has a strong capital position. Its Basel-III compliant common equity tier-1 (CET-1) capital ratio was 14.23%<sup>4</sup>, accounting for 81% of total capital at the end of 2017. TRIS Rating views that this level is sufficient to support business expansion over the next few years. Diversified earnings also support the strong capital position.

TRIS Rating expects an improvement to the bank’s profitability over the medium term. The FIT@22 strategy seeks to tap into high-yield SME segments and expand a low-cost deposit base. The bank maintains a cost-to-income target below 50%, with planned investments in digital initiatives over the next few years. In 2017, the bank’s profitability was at the lower end compared with peers, indicated by return-on-average assets (ROAA) of 0.84%. The figure improved from 0.72% in 2016, as credit cost dropped.

### **Asset quality improves**

RHB Bank Berhad’s overall asset quality improved moderately. Gross impaired loan ratio fell to 2.23% at the end of 2017, from 2.43% a year earlier.

Credit costs dropped to 27 basis points (bps) in 2017 from 39 bps in 2016. The large provisioning for impaired loans in 2016 was related to the O&G sector. However, the bank estimated credit cost to increase to around 30 bps in 2018 following the implementation of MFRS9 starting from 1 January 2018. At the end of March 2018, its post-MFRS9 impaired loan coverage ratio, excluding regulatory reserves, improved to 85.3%<sup>5</sup>. The figure stood at 51.2%<sup>6</sup> at the end of 2017, which was below several of its peers.<sup>7</sup>

### **Funding profile improved but remained average for a mid-sized bank**

RHB Bank Berhad has made progress in improving its funding profile as a mid-sized bank. Its current account and savings account (CASA) ratio significantly rose to 30.4% at the end of 2017 from 25.6% a year earlier. Although the CASA level in 2017 was a notable improvement, the level still trailed some of its larger Malaysian peers. The increase in CASA, in part, derived from the business owners and SME clients. The bank relies more on wholesale funding<sup>8</sup> when compared with some of its larger peers, as its retail deposit franchise remains moderate. Business enterprises continued to represent the dominant type of customer deposits, at around 59% at the end of 2017, the highest among peers. Its loan-to-deposit ratio of 96.4% at the end of 2017 was close to the industry average.

### **Liquidity is adequate**

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 at 31.1% at the end of 2017. 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) was well above the minimum requirement.<sup>9</sup>

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

The short-term issuer rating at “T1+” reflects RHB’s long-term credit profile and its strong liquidity position. RHB, as a foreign branch bank, is subject to the regulatory liquidity requirement of the Bank of Thailand (BOT). The bank is required to maintain adequate liquidity to support normal business operations. Access to funding from its head office, interbank

<sup>3</sup> The strategic targets are to: i) expand SME client base as a driver for growth, ii) focus on wealth and affluent clients among SME client base, and iii) increase share of wallet and penetration among corporate clients.

<sup>4</sup> Before proposed dividend

<sup>5</sup> Based on bank’s unaudited financial statements at the end of March 2018. Including regulatory reserve, the impaired loan coverage ratio was 107.4% at the end of March 2018, according to the bank’s information.

<sup>6</sup> Based on bank’s information, the impaired loan coverage ratio, including regulatory reserve, was 101.6% at the end of 2017.

<sup>7</sup> According to data from Bank Negara Malaysia (BNM) at the end of 2017, the impaired loan coverage ratio, excluding regulatory reserves, was 82.9% for the Malaysian banking system.

<sup>8</sup> This includes deposits from banks and other financial institutions and various forms of borrowings.

<sup>9</sup> 80% in 2017 and 90% in 2018.

markets, and standing facilities from the BOT also provides additional liquidity support for RHB. The bank's LCR was well above the minimum requirement.<sup>10</sup>

## RATING OUTLOOK

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.

## RATING SENSITIVITIES

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.

## 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 of the subsidiaries of RHB Capital. As a result, RHB Bank Berhad became the ultimate holding company of the RHB Banking Group. The restructuring is expected to yield cost saving from a more efficient structure and an enlarged capital base at the bank level.

Starting in 2018, RHB Bank Berhad has embarked on a 5-year strategy called "FIT@22", with three top priorities. First, target growth strategy in Malaysia including: i) growing SME client base; ii) offering wealth products to the affluent clients in the SME segment; and iii) increasing share of wallet and penetration among large- and mid-sized corporate clients. Second, leverage on its strength in the capital market business to identify niche opportunities overseas. Third, undertake the "Digital Transformation Program" involving investment in digital initiatives and personnel development. The digitisation program will lead to a faster work process, customer centricity, talent development, and enhanced digital offerings to 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 over 10 countries in Asia. Operations in Singapore are the largest overseas contributors in terms of asset size and revenue.

<sup>10</sup> 80% in 2017 and 90% in 2018.

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

	----- Year Ended 31 December -----				
	2017	2016	2015 <sup>2</sup>	2014 <sup>3</sup>	2013 <sup>3</sup>
Total assets	230,210	236,679	227,938	204,637	174,158
Average assets	233,444	232,309	n.a. <sup>6</sup>	189,397	172,247
Investment in securities	47,427	48,799	46,897	37,524	37,439
Gross loans, advances and financing	160,124	154,469	151,386	141,328	120,082
Allowance for impaired loans	1,826	2,132	1,795	1,757	2,164
Deposits	166,158	165,636	158,158	154,857	135,615
Borrowings <sup>4</sup>	31,451	36,514	36,928	28,559	21,568
Total equity <sup>5</sup>	23,184	21,774	17,692	15,435	13,412
Average equities <sup>5</sup>	22,479	19,733	16,684	14,423	12,725
Total revenue	6,387	6,190	6,175	4,985	4,870
Net interest income	3,522	3,453	3,408	3,242	3,234
Islamic business income	1,079	977	876	733	586
Allowance for impairment losses on loans	427	595	343	243	423
Net fee and commission income	1,042	1,062	1,192	552	546
Gains on trading	443	384	442	369	425
Other operating income	1,786	1,759	1,891	1,010	1,049
Operating expenses	3,187	3,095	3,630	2,412	2,120
Net profit	1,956	1,688	1,669	1,867	1,764

1 Consolidated financial statements

2 Restated

3 RHB Bank Group before corporate restructuring excludes investment banking and insurance subsidiaries. As such, the numbers are not directly comparable.

4 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.

5 Including non-controlling interests from fiscal year 2015 (FY2015) to FY2017

6 Figures are not comparable due to corporate restructuring.

Unit: %

	Year Ended 31 December				
	2017	2016	2015 <sup>2</sup>	2014 <sup>3</sup>	2013 <sup>3</sup>
<b>Earnings</b>					
Return on average assets	0.84	0.72	0.75	0.99	1.02
Return on average equities	8.70	8.55	9.98	12.94	13.86
Interest spread <sup>4</sup>	1.86	1.82	n.a. <sup>7</sup>	1.98	2.09
Net interest margins <sup>4</sup>	2.09	2.04	2.10	2.19	2.30
Net fee and commission income/total revenue	16.32	17.16	19.31	11.07	11.20
Gains on trading/total revenue	6.93	6.20	7.16	7.40	8.73
Cost-to-income	49.9	50.0	58.8	48.39	43.54
<b>Capitalisation</b>					
CET-1 ratio <sup>5</sup>	14.23	13.33	10.71	11.06	10.33
Tier-1 ratio <sup>5</sup>	14.49	13.61	11.04	11.45	10.81
Total capital ratio <sup>5</sup>	17.50	17.41	15.18	15.48	14.34
CET-1/total capital ratio <sup>5</sup>	81.30	76.57	70.54	71.48	72.02
<b>Asset Quality</b>					
Credit costs	0.27	0.39	0.23	0.19	0.37
Impaired loan formation/average gross loans	0.49	0.94	n.a. <sup>7</sup>	0.31	0.76
Gross impaired loans/gross loans	2.23	2.43	1.88	1.93	2.79
Loan loss coverage ratio (excluding regulatory reserve)	51.18	56.86	63.19	64.35	64.64
<b>Funding &amp; Liquidity</b>					
CASA ratio	30.37	25.64	23.98	22.18	23.75
Loan-to-deposit ratio	96.37	93.27	95.71	91.25	88.55
Deposit from customers/total liabilities	80.26	77.07	75.23	81.85	84.37
Liquid assets/total deposits <sup>6</sup>	31.10	34.34	33.98	30.62	31.18
Gross loans/total assets	69.56	65.27	66.41	69.05	68.95

1 Consolidated financial statements

2 Restated

3 RHB Bank Group before corporate restructuring excludes investment banking and insurance subsidiaries. As such, the numbers are not directly comparable.

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 corporate restructuring.

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**RHB Bank Berhad Thailand (RHB)**

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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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