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RHB BANK BERHAD THAILAND

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FINANCIAL INSTITUTIONS

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

Last Review Date: : 17/06/19

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 also affirms its short-term issuer rating at "T1+" with a "stable" outlook. The ratings reflect the credit profile of the headquarters RHB Bank Berhad, Malaysia (RHB Bank Berhad) and 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 in Malaysia.

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 moderate profitability and a moderate deposit franchise, relative to 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 stable and diversified franchise

Our assessment of RHB Bank Berhad's business position reflects its stable franchise, supported by a diversified business mix. The bank operates an established commercial bank franchise, and strong securities brokerage and investment banking, insurance, and asset management subsidiaries. Diverse revenue sources also support a stable business profile. In 2019, retail banking contributed 36% of the bank's revenue, followed by treasury operations (20%), corporate and investment banking (18%), and business banking (15%).

RHB Bank Berhad is on-track through its FIT22 (2018-2022) strategy, as it continues to expand its presence in small and medium enterprise (SME) and affluent retail-banking space. It does so by promoting cross-selling of comprehensive financial solutions, including transaction banking, online loan origination, and deposit and wealth-management products. The bank has been able to gain market share in some of these segments over the past year. For instance, the bank's SME lending market share rose to 9.6% at the end of 2019 from 9.0% at the end of 2018. Domestic retail deposit market share rose to 7.7% as of the end of first quarter 2020, from 7.3% at the end of 2018. Assets under management (AUM) of its asset management business also expanded 8.0% in 2019, raising market share to 11.1% at the end of 2019 from 10.6% at the end of 2018.

The business strategy of RHB Bank Berhad remains domestic-focused, with revenue from the international banking segment accounting for a modest 8% of total revenue. The bank targets overseas niche opportunities across its presence in almost all member countries in the Association of Southeast Asian Nations (ASEAN). The most established international presence is in Singapore, with total loans from this market making up around 8% of the bank's total loans as of the end of first quarter 2020.

Solid capital

RHB Bank Berhad's strong capital supports its credit profile. Its core equity tier-1 (CET-1) ratio after proposed dividend strengthened to 16.0% as of March 2020, which was among the highest across local Malaysian banks. The figure rose from 15.5% at the end of 2018. As of the first quarter of 2020, CET-1 made up 88% of the total, indicating high-quality capital.

Profitability under pressure

We expect a series of headwinds to affect RHB Bank Berhad's profitability over the medium term, from direct impacts arising from the fallout of coronavirus (COVID-19) pandemic. These could translate into prolonged net interest margin (NIM) pressure and rising credit loss. We expect the Bank Negera Malaysia (BNM) to maintain low policy rates over the next 1-2 years. BNM cut the overnight policy rate (OPR) rate for the third time to 2.0% in May 2020, from 3.0% at the end of 2019. We also expect rising credit impairment costs towards the end of a 6-month debt moratorium, which started in April 2020.

Over recent years, improved efficiency and a downtrend in credit cost helped sustain the bank's profitability. RHB Bank Berhad was able to maintain return on average assets (ROAA) of around 1.0% in 2019, whilst the profitability of many of its peers deteriorated. The bank improved its cost-to-income ratio to 48.9% in 2019, from 49.9% in 2017. RHB Bank Berhad's credit costs stayed at 18 basis points (bps) in 2019, a moderate level for Malaysian banks.

Prepared for turbulent asset quality

In our opinion, RHB Bank Berhad's conservative risk management and mitigation measures at the industry level should help alleviate asset quality pressure caused by the COVID-19 pandemic. A debt moratorium is available to all retail and SME borrowers at Malaysian banks. At the same time, special relief funds, including credit guarantees are available to eligible SME borrowers. Regulators' further support to banks should help prevent a sharp spike in RHB Bank Berhad's impaired loan and expected credit loss (ECL). BNM has granted flexibility for banks to maintain classification of eligible rescheduling and restructuring (R&R) loans as performing. It also encouraged banks to take a middle-ground approach towards ECL computation. As such, banks are able to incorporate positive economic impacts from the government stimulus and a temporary nature of the shock to their ECL models.

We expect much of the pressure for RHB Bank Berhad to come from commercial lending to sectors directly hit by the pandemic. These include loans to the trading, construction, manufacturing, and restaurant and hotel sectors, which accounted for around 22% of total loans as of the end of March 2020. We also expect unsecured retail lending to be vulnerable, though this accounted for a relatively small 5% of total loans as of the end of March 2020. However, the majority of retail lending, which accounted for around half of total loans, should be relatively resilient. Around two-thirds of retail lending is composed of secured mortgage loans, and salary earners made up a significant proportion.

Over recent years, RHB Bank Berhad has been able to improve its asset quality, whilst its impaired loan ratio and credit costs have steadily declined, and loan loss provision strengthened. Its impaired loan ratio fell to 2.0% as of the end of first quarter 2020 from 2.16% at end-2018. The bank set aside MYR50 million forward-looking ECL for COVID-19, bringing credit cost in the first quarter of 2020 to 34 bps, from 18 bps in 2019. The loan loss coverage ratio was at a healthy 108% as of the end of first quarter 2020.

Growing deposit franchise

RHB Bank Berhad made some progress improving its funding profile over the past year. The bank has been able to expand its low-cost deposit funding from a broader retail and SME client base under its FIT22 strategy. Deposits as a percentage of total funding improved to 86% as of the first quarter 2020, from 83% at end-2018. Its funding cost at 2.67% in the first quarter of 2020 was also at the lower end among Malaysian banks. RHB Bank Berhad's funding cost declined from 2.99% in 2019, due in part to a declining interest rate environment.

The bank also expanded its mid-sized domestic retail market share in deposits to 7.7% as of the end of first quarter 2020, from 7.3% at end-2018. However, current account-savings accounts (CASA), at 27% of total deposits as of the end of first quarter 2020, still remained below that of some larger banks. RHB Bank Berhad's loan-to-deposit ratio was 91% as of the end of the first quarter 2020, a strong figure.

Liquidity is adequate

RHB Bank Berhad's liquidity remained healthy with its liquid assets to total deposits at 38.4% as of the end of the first quarter 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) was 137.7%, well above the minimum requirement.[1]

[1] *> 100% in Malaysia*

SHORT-TERM ISSUER RATING FACTORS

The short-term issuer rating at "T1+" reflects RHB Bank Berhad Thailand's 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. Access to funding from its head office, interbank markets, and standing facilities from the BOT also provides additional liquidity support for RHB Bank Berhad Thailand. The bank's LCR was well above the minimum requirement.[2]

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 good asset quality relative to other Malaysian banks. Further, we expect RHB Bank Berhad to maintain adequate funding and healthy 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 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, leverage its strength in the capital market to identify niche opportunities overseas. Third, undertake 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.

[2] *> 100% in 2020 in Thailand*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS[1]

RHB Bank Berhad, Malaysia

Unit: MYR million

	Jan-Mar 2020	------------------- Year Ended 31 December ------------- 2019	2018	2017	2016
Total assets	257,768	257,592	243,166	230,210	236,679
Average assets	257,680	250,379	236,688	233,444	232,309
Investment in securities	61,404	58,678	50,469	47,427	48,799
Gross loans, advances and financing	176,199	176,175	168,879	160,124	154,469
Allowance for impaired loans	3,076	2,980	3,252	1,826	2,132
Deposits	193,979	190,555	178,856	166,158	165,636
Borrowings[2]	28,947	31,046	29,645	30,743	36,514
Total equity	26,083	25,811	23,396	23,184	21,774
Average equities	25,947	24,603	23,290	22,479	19,733
Total revenue	1,745	7,100	6,806	6,384	6,190
Net interest income	894	3,610	3,655	3,522	3,453
Islamic business income	447	1,614	1,428	1,079	977
Allowance for impairment losses on loans	151	279	322	417	595
Net fee and commission income	256	931	960	1,040	1,062
Gains on trading	60	588	490	443	384
Other operating income	385	1,876	1,722	1,784	1,759
Operating expenses	841	3,472	3,358	3,184	3,095
Net profit	572	2,488	2,309	1,956	1,688

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.*

Unit: %

		------------------ Year Ended 31 December --------------			
	Jan-Mar 2020	2019	2018	2017	2016
Earnings					
Return on average assets[3]	0.89	0.99	0.98	0.84	0.73
Return on average equities[3]	8.82	10.11	9.91	8.69	8.55
Interest spread[3,4]	1.91	1.90	1.97	1.86	1.82
Net interest margins[3,4]	2.16	2.17	2.25	2.09	2.04
Net fee and commission income/total revenue	14.66	13.12	14.10	16.29	17.16
Gains on trading/total revenue	3.44	8.28	7.20	6.93	6.20
Cost-to-income	48.22	48.89	49.3	49.9	50.0
Capitalisation					
CET-1 ratio[5]	16.65	16.88	15.92	14.23	13.33
Tier-1 ratio[5]	16.65	16.88	16.13	14.49	13.61
Total capital ratio[5]	18.93	19.21	19.21	17.50	17.41
CET-1/total capital ratio[5]	87.94	87.90	82.86	81.30	76.57
Asset Quality					
Credit costs[3]	0.34	0.18	0.19	0.26	0.39
Impaired loan formation/average gross loans	0.40	0.49	n.a.[7]	0.49	0.94
Gross impaired loans/gross loans	2.00	1.97	2.06	2.23	2.43
Loan loss coverage ratio (excluding regulatory reserve)	87.26	85.65	93.34	51.18	56.86
Funding & Liquidity					
CASA ratio	27.41	25.68	25.94	30.24	25.64
Loan-to-deposit ratio	90.89	92.48	94.42	95.96	93.27
Deposit from customers/total liabilities	83.73	82.21	81.38	80.60	77.07
Liquid assets/total deposits[6]	34.14	33.62	32.37	31.10	34.34
Gross loans/total assets	68.36	68.39	69.45	69.56	65.27

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

RHB Bank Berhad Thailand (RHB Thailand)

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

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