

# RHB BANK BERHAD THAILAND

No. 130/2024  
31 July 2024

## FINANCIAL INSTITUTIONS

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

Last Review Date: 31/07/23

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

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## RATIONALE

TRIS Rating affirms the issuer rating of “AA” and a short-term issuer rating of “T1+” on RHB Bank Berhad Thailand (RHB Thailand) with a “stable” outlook. Based on its legal status as a branch, the ratings on RHB Thailand reflects the credit profile of its headquarters in Malaysia, RHB Bank Berhad.

The issuer rating of RHB Thailand takes into consideration RHB Bank Berhad’s relatively stable business profile supported by diversified earnings, strong capital adequacy, and conservative risk management. However, the rating is constrained by RHB Bank Berhad’s average level of profitability and a moderate deposit franchise.

As RHB Bank Berhad operates primarily in Malaysia, the rating takes into consideration the strengths and risk profile of Malaysia’s economy and banking industry.

## KEY RATING CONSIDERATIONS

### A leading mid-sized bank in Malaysia

RHB Bank Berhad is Malaysia's fourth-largest bank by asset size, holding a 9.2% market share as of March 2024. Beyond traditional banking services, RHB Bank Berhad has a presence in capital markets, wealth management, insurance, and Islamic banking through its well-established subsidiaries. The bank maintains a primarily domestic focus, but its international operations are steadily expanding and contribute roughly 15% to the bank’s total loan portfolio as of the first quarter of 2024.

RHB Banking Group is nearing the completion of its “Together We Progress 2024” (TWP24) strategy, a three-year initiative launched in 2022. Domestically, it targets the affluent, mass affluent, SME, and mid-cap segments. Internationally, niche strategies are planned for countries in the Association of Southeast Asian Nations (ASEAN). RHB Bank Berhad launched its digital bank, Boost Berhad (a joint venture with Boost Holdings Sdn Bhd), in June 2024. Though the initial contribution may be modest, this strategic partnership positions RHB Bank Berhad to serve new and underserved segments.

### Solid capital position

RHB Bank Berhad’s strong capital adequacy ratio continues to underpin its credit profile. We anticipate the bank’s core equity tier-1 (CET-1) ratio after proposed dividends to be within the 16%-17% range for the 2024-2026 period. This projection incorporates an expected organic loan growth of 5% and a projected dividend payout of 60%.

The CET-1 ratio after proposed dividends stood at 16.5% as of March 2024, the highest among Malaysian banks. This is partly due to the bank’s low risk-weighted assets given its significant low risk-weighted residential mortgages loans. Furthermore, the “Dividend Reinvestment Plan” (DRP) initiatives implemented since 2021 have further enhanced its capital base. We also note the management’s aspiration to maintain the bank’s strong capital position.

### Average profitability

RHB Bank Berhad should be able to maintain an average level of profitability compared to its Malaysian peers. We anticipate the bank’s return on average assets (ROAA) to remain steady at around 0.9% for the 2024-2026 period. We expect a slight rise in net interested margin (NIM) to approximately 1.9%, due

to a moderation of the intense deposit competition observed in late 2022 to mid-2023. This easing occurred as market anticipation of further overnight policy rate (OPR) hikes by Bank Negara Malaysia (BNM) subsided. Our projections also incorporate normalized expected credit losses (ECL) within a range of 25-30 basis points (bps), stable cost-to-income ratio (CIR) of around 47%-48%, and contributions from treasury income.

### **Well-managed asset quality**

We expect RHB Bank Berhad to be able to maintain overall good asset quality over the next few years, supported by a diversified loan portfolio with a significant proportion of low-risk mortgages and strong risk management practices. Favorable economic conditions in Malaysia and Singapore expected throughout 2024 should further support asset quality. Although, asset quality in Thailand and Cambodia is a concern, their contribution to total portfolio are limited at 0.7% and 1.6% respectively.

Consequently, we project the bank's overall gross impaired loan (GIL) ratio to remain stable at around 1.8% in the 2024-2026 period, a slight increase from 1.74% at the end of 2023. We anticipate normalized ECL to fall within the range of 25-30 bps over the same timeframe. Furthermore, loan-loss provisions excluding regulatory reserves are expected to be around 75%-80%.

As of March 2024, RHB Bank Berhad's GIL stood at 1.83%, up from 1.59% in March 2023. This ratio slightly exceeded the industry average of 1.62%. The increase is partly attributed to the rise in non-performing loans (NPLs) from overseas operations, particularly in Thailand and Cambodia, and, to a lesser extent, domestic SME exposures.

Allowances for losses on loans (ECL) were a modest 16 bps in 2023, mainly due to write-back of provisions related to COVID-19 management overlay. However, the first quarter of 2024 saw a rise in ECL to 38 bps, partly due to one-off overseas provisions. Excluding the one-off items, ECL would be 25 bps in the first quarter of 2024.

Notably, the bank's loan-loss coverage ratio experienced a significant decline, dropping from 109.4% in March 2023 to 70.1% in March 2024. This decrease is linked to a shift in large, collateralized loans falling into GIL.

### **Moderate deposit franchise**

We expect RHB Bank Berhad funding profile to be moderate over the next few years. As of March 2024, the bank held a 8.2% share of the Malaysian deposit market, ranking fourth among its peers. Additionally, the loan-to-deposit ratio (LDR) remained healthy at 92.6%.

RHB Bank Berhad's deposits grew 7.3% year-on-year (y-o-y) as of March 2024. CASA deposits also expanded 10.5% y-o-y driven primarily by the wholesale, retail and SME segments. This growth is reflected in the improved CASA ratio, rising from 28.1% in March 2023 to 29.0% in March 2024.

RHB Bank Berhad is actively implementing strategies to further bolster its CASA deposit base, which have the potential to strengthen the bank's funding profile in the long term. These initiatives, including partnerships with universities, increased focus on capturing company payroll deposits, and targeting affluent retail segments.

### **Adequate liquidity**

RHB Bank Berhad's liquidity remained well sufficient with a ratio of liquid assets to total deposits of 35.1% in March 2024. The bank invests primarily in highly liquid assets including cash, liquid government securities, money market instruments, and private debt securities. The bank's liquidity coverage ratio (LCR) stood at a robust 144% in March 2024, well above the minimum requirement.<sup>1</sup>

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

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## SHORT-TERM ISSUER RATING FACTORS

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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. 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.<sup>2</sup>

## RATING OUTLOOK

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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

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The ratings on RHB 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

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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 June 2021, RHB Bank Berhad formed a partnership with Boost Holding Sdn Bhd (Boost Holdings), the fintech arm of Axiata Group Berhad (Axiata) to form a digital bank consortium. Boost Holdings holds a majority stake of 60% while RHB Bank Berhad holds the remaining 40%. In March 2024, RHB Bank Berhad subscribed for an additional 3.4 million new shares of Boost Bank for RM3.4 million to maintain its 40% shares. Upon completion of the additional subscription, the paid-up capital of Boost Bank increased to RM215.0 million. Boost Bank launched its operations in Malaysia in June 2024.

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.

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

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS<sup>1</sup>

### RHB Bank Berhad, Malaysia

Unit: Mil. MYR

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022 *	2021	2020
Total assets	329,257	328,692	310,752	289,541	271,150
Average assets	328,975	319,722	300,147	280,346	264,371
Investment in securities	82,088	79,910	69,070	61,881	63,371
Gross loans, advances, and financing	224,919	222,416	212,200	198,512	186,114
Allowance for impaired loans	2,887	2,783	3,710	3,610	3,806
Deposits	242,935	245,083	227,160	218,733	203,471
Borrowings <sup>2</sup>	41,202	39,460	40,327	32,679	29,094
Total equity	31,711	30,875	28,732	27,998	27,024
Average equities	31,293	29,803	28,389	27,534	26,400
Total revenue	2,088	7,770	8,160	8,034 <sup>3</sup>	7,604 <sup>3</sup>
Net interest income	926	3,560	4,174	4,062	3,761
Islamic business income	668	2,420	2,451	2,117	1,666
Allowance for impairment losses on loans	213	356	309	575	1,075
Net fee and commission income	241	866	866	1,094	1,028
Gains on trading	227	821	531	432	796
Other operating income	504	1,844	1,587	1,876	2,177
Operating expenses	959	3,689	3,606	3,522	3,387
Net profit	731	2,810	2,681	2,623	2,039

\* 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 2024	-----Year Ended 31 December -----			
		2023*	2022*	2021	2020
<b>Earnings</b>					
Return on average assets <sup>3</sup>	0.89	0.88	0.89	0.94	0.77
Return on average equities <sup>3</sup>	9.35	9.43	9.45	9.53	7.72
Net interest margins <sup>3</sup>	1.83	1.82	2.24	2.20	2.13
Net fee and commission income/total revenue	11.5	11.2	10.6	13.6	13.5
Gains on trading/total revenue	10.9	10.6	6.5	5.4	10.5
Cost-to-income	45.9	47.5	44.2	45.2	47.1
<b>Capitalization</b>					
CET-1 ratio <sup>4</sup>	17.06	17.27	17.59	17.83	16.42
Tier-1 ratio <sup>4</sup>	17.06	17.27	17.59	17.83	16.42
Total capital ratio <sup>4</sup>	19.77	19.99	20.04	20.46	18.60
CET-1/total capital ratio <sup>4</sup>	86.32	86.39	87.79	87.17	88.27
<b>Asset Quality</b>					
Credit costs <sup>3</sup>	0.38 <sup>6</sup>	0.16	0.15	0.29	0.58
Gross impaired loans/gross loans	1.83	1.74	1.55	1.49	1.71
Loan loss coverage ratio (excluding regulatory reserve)	70.1	71.7	112.8	122.4	119.7
<b>Funding &amp; Liquidity</b>					
CASA ratio	29.0	27.9	29.2	30.0	30.9
Loan-to-deposit ratio	92.6	90.8	93.4	90.8	91.5
Deposit from customers/total liabilities	81.6	82.3	80.5	83.6	83.4
Liquid assets/total deposits <sup>5</sup>	35.1	36.4	35.5	35.4	35.0
Gross loans/total assets	68.3	67.7	68.3	68.6	68.6

\* 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

6 RHB's reported credit cost was 25 bps

## RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

- Short-Term Ratings Methodology, 23 September 2022

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**RHB Bank Berhad Thailand (RHB 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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