BANK OF AYUDHYA PLC

No. 169/2017 13 December 2017

Company Rating: AAA

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/12/13	AAA	Stable
08/07/13	AA-	Positive
17/04/09	AA-	Stable
04/04/08	A+	Positive
23/11/04	A	Stable
12/07/04	A-	Positive
07/10/03	A-	

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Saowanit Woradit
saowanit@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Sakda Pongcharoenyong
sakda@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Bank of Ayudhya PLC (BAY) at "AAA". The rating reflects BAY's stand-alone credit profile and credit enhancement from its status as a highly strategic member of Mitsubishi UFJ Financial Group (MUFG). BAY's stand-alone profile incorporates its strengths in diversified business mix, consumer finance, and the synergies achieved from integrating its business with Bank of Tokyo-Mitsubishi UFJ Bangkok branch (BTMU Bangkok) in 2015. The overall rating reflects the expected support from its parent group in times of financial distress.

BTMU is a wholly-owned subsidiary of MUFG, the largest financial group in Japan. BTMU became BAY's major shareholder after it acquired a 72.01% stake through a voluntary tender offer in December 2013. After the integration of BTMU Bangkok with BAY on 5 January, 2015, BTMU's stake in BAY increased from 72.01% to 76.88%. The Ratanarak Group remains a key partner of BAY through its 20% stake. BTMU is rated "A" by S&P Global Ratings with a "stable" outlook and rated "A1" by Moody's Investors Service (Moody's) with a "stable" outlook.

TRIS Rating's assessment of BAY's business position reflects its diversified business mix and clientele and its strength in consumer finance. BAY is the fifth largest Thai commercial bank, based on a total asset size of Bt1,958 billion at the end of the third quarter of 2017 (Q3/2017). BAY also operates securities, fund management, and insurance brokerage businesses through subsidiaries and joint ventures. At the end of the first half of 2017 (H1/2017), BAY's market share in loans stood at 12.6%, which was relatively large by Thai commercial bank standards, whereas market share in deposits was 9.7%.

BAY's loan portfolio is well diversified with a mix of wholesale and retail segments. At the end of Q3/2017, its loan portfolio comprised Thai and Japanese corporations (28% and 11%, respectively), small and medium enterprises or SMEs (15%), and retail clients (46%). Retail loans included auto hire-purchase (21% of total loans), mortgage loans (14%), and credit card and personal loans (11%).

BAY stood out among Thai banks for its high growth rates over recent years relative to the industry. Total loans and deposits grew, respectively, by 6.6% and 10.3% year-on-year (y-o-y) as of Q3/2017. Hire-purchase and mortgage loans have been the key drivers of its recent loan growth. For 2018, we expect the proportion of credit card loans to shrink due to the Bank of Thailand's (BOT) newly introduced interest rate cap for credit card loans, whilst hire purchase loans are expected to rise with the strong recovery forecast of domestic automobile sales.

BAY has done well in securing significant sources of non-interest income. Net interest income made up 64% of its total revenue during the first nine months of 2017 (9M/2017), compared with peers' average of around 62%. Net fees and service income made up 18% of total revenue, on par with other Thai banks' average of 21%. Credit cards, auto hire-purchase, and securities-related fees, and fees from bancassurance and wealth and fund management made up over 80% of total fees and service income.

We expect BAY's Basel-III compliant total capital ratio to be within a 16%-17% range over the next few years, sufficient to support its business expansion over the medium term. Core equity Tier-1 to total capital was 76.4% at the end of Q3/2017. We expect the bank to maintain its current dividend pay-out ratios.

BAY's profitability is on par with the industry. Return on average assets (ROAA) was 1.21% in 2016, compared with the industry average of 1.32%. Although the bank's net interest margin has been consistently above industry average, reflecting its competitiveness in high-yield retail segments, the high operating expenses associated with its retail businesses have basically offset the margin advantage. Nevertheless, improved efficiency and lower credit costs over recent years have improved the bank's profitability. Cost-to-income ratio dropped to 47.1% in 2016, from 48.5% in 2014. Credit costs lowered continually to 1.5% in 2016, from 2.1% in 2013.

We assess BAY's overall asset quality to be in line with industry norms. We expect the bank's prospective credit loss to be comparable with the Thai banking industry. BAY's credit costs peaked in 2013 at 2.1%, dropping to 1.5% in 2016, whilst the industry average rose from 1.1% to 1.4% over the same period of time. BAY has maintained a non-performing loan (NPL) ratio, which is net result of bad debt sales and write-offs, below those of its peers. BAY's NPL ratio was 2.46% at the end of Q3/2017, below peers' average of 3.8%. Special-mentioned loans (SML) as a percentage of total loans also lowered to 3.8% as of Q3/2017, from 4% at the end of 2016. Both NPL and SML ratios at the industry level have been on an upward trend. The bank's over-reserve position of 153.3% at the end of Q3/2017 is viewed to be an adequate cushion against future unexpected losses, though this was somewhat below the Thai banks' average of 172%.

BAY's funding capability is average for a medium-sized Thai bank, with the supports it receives from BTMU. In our view, borrowing from BTMU attributes to a stable low-cost wholesale funding, not reflected in conventional funding metrics. Its loan-to-deposit ratio including bills of exchanges (B/Es) was 124.7% at end of Q3/2017, above peers' average of 99%. Deposits representing 64.5% of total funding including shareholders' equity at the end of Q3/2017, were below peers' average of 75%. BAY, however, lacks a stable low-cost deposit funding, indicated by a current account-savings account (CASA) to total deposits of 48.4% at the end of H1/2017. This fell significantly below Thai banks' average of 61%. The available credit facilities and supports it receives from BTMU provide strong back-up for its liquidity.

Rating Outlook

The "stable" rating outlook reflects the expectation that BAY will remain a highly strategic subsidiary of the MUFG Group and continue to receive strong support from its parent bank.

The credit rating and/or outlook of BAY could change if the credit profile of the MUFG Group changes or if TRIS Rating's view on the strategic importance of BAY to the Group changes.

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Rating Outlook:	Stable

Financial Statistics[1]

Unit: Bt million

	Jan-Sep 2017[2]	------------------------- Year Ended 31 December ------------------ 2016	2015	2014	2013
Total assets	1,958,170	1,883,188	1,705,516	1,211,362	1,179,605
Average assets	1,920,679	1,794,352	1,458,439	1,195,484	1,125,785
Investment in securities	93,529	133,701	111,603	61,790	74,333
Loans and receivables	1,500,586	1,452,746	1,307,027	1,015,397	946,150
Allowance for doubtful accounts	54,729	49,462	44,944	39,776	38,986
Deposits	1,197,283	1,108,288	1,046,290	837,556	764,050
Borrowings[3]	438,659	474,726	383,180	198,417	230,102
Shareholders' equities	220,023	208,768	190,748	131,670	121,553
Average equities	214,395	199,758	161,209	126,612	117,520
Total revenue	78,863	97,454	88,214	75,181	72,490
Net interest income	50,767	61,977	56,351	47,944	44,939
Allowance for impairment losses on loans	16,860	21,315	20,186	18,107	18,959
Net fee and service income	14,345	18,175	17,229	14,770	14,326
Gains on investments	825	599	409	1,237	633
Non-interest income	28,096	35,477	31,863	27,237	27,551
Operating expenses	39,864	49,047	44,388	38,721	37,607
Net income	17,794	21,684	18,853	14,323	11,983

1 *Consolidated financial statements*
2 *Non-annualised*
3 *Including interbank and money market*

Key Financial Ratios[1]

Unit: %

	Jan-Sep 2017[2]	---------------- Year Ended 31 December ------------ 2016	2015	2014	2013
Earnings					
Return on average assets	0.93	1.21	1.29	1.20	1.06
Return on average equities	8.30	10.86	11.69	11.31	10.20
Net interest income/average assets	2.64	3.45	3.86	4.01	3.99
Non-interest income/average assets	1.46	1.98	2.18	2.28	2.45
Net fee and service income/total revenue	18.19	18.65	19.53	19.65	19.76
Gains on investments/total revenue	1.05	0.61	0.46	1.65	0.87
Operating expenses/total revenue	50.55	50.33	50.32	51.50	51.88
Cost-to-income	47.35	47.09	47.05	48.47	48.91
Capitalisation					
CET-1 ratio[3]	13.05	12.14	12.22	10.32	10.39
Tier-1 ratio[3]	13.14	12.24	12.33	10.45	10.52
BIS ratio[3]	17.09	15.06	14.50	14.25	14.83
CET-1/BIS ratio[3]	76.36	80.61	84.28	72.42	70.06
Asset Quality					
Credit costs	1.14	1.54	1.74	1.85	2.13
Non-performing loans/total loans	2.46	2.40	2.47	2.95	2.86
Allowance for loan losses/non-performing loans	145.04	138.58	134.06	127.25	138.69
Allowance for loan losses/required allowance	153.34	149.84	144.65	154.77	165.06
Funding & Liquidity					
CASA ratio[4]	47.34	50.77	49.74	49.18	50.20
Loan-to-deposit ratio[4]	124.68	126.31	120.61	117.59	117.87
Deposits/total liabilities[4]	69.24	68.69	71.54	79.98	75.87
Liquid assets/total deposits[5]	26.06	25.14	24.86	18.91	21.97
Total loans/total assets	76.63	77.14	76.64	83.82	80.21

1 *Consolidated financial statements*
2 *Non-annualised*
3 *Consolidated basis*
4 *Including bills of exchange*
5 *Including bills of exchange and interbank borrowing*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com