

BANK OF AYUDHYA PLC

No. 192/2023
9 October 2023

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 07/10/22

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-	-

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RATIONALE

TRIS Rating affirms the company rating on Bank of Ayudhya PLC (BAY) at “AAA” with a “stable” outlook. The rating incorporates an enhancement from its stand-alone credit profile (SACP) of “aa” reflecting BAY’s status as a highly strategic member of Mitsubishi UFJ Financial Group Inc. (MUFG Group), the largest financial group in Japan.

The rating factors the ongoing business and financial support and the expected extraordinary support in times of needs from the MUFG Group. BAY is a subsidiary of MUFG Bank Ltd. (MUFG Bank) (rated “A/stable” by S&P Global Ratings) which is a wholly-owned subsidiary and core member of the MUFG Group.

BAY’s SACP reflects the bank’s diversified loan portfolio mix and well-established franchise in the retail segment as well as Japanese corporate banking segment and strong capital. However, BAY’s SACP is constrained by its moderate funding profile.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of MUFG Group

We assess BAY as a highly strategic subsidiary of the MUFG Group. BAY is 76.88% owned by MUFG Bank, which in turn is wholly owned by the MUFG Group. We believe the MUFG Group has a strong and long-term commitment to supporting BAY in terms of financial and business as well as extraordinary support as needed.

BAY is a critical part of the Group’s strategy to expand its business in the growing Southeast Asia Region, particularly in BAY’s strength of consumer finance.

BAY also collaborates with MUFG Group to provide financial services and supports for Japanese corporate customers. These include business matching and client referrals by leveraging client relations from MUFG Group’s network, supply-chain financing, and wealth management.

The MUFG Group is actively involved at the board and management levels. Four of the seven non-independent members of BAY’s board of directors and the CEO are appointed by the MUFG group.

Diversified, well-established franchise with strength in retail segment

BAY’s strong business position is supported by its diversified and well-established banking franchise. BAY is the fifth largest Thai commercial bank, based on a total asset size of THB2.7 trillion at the end of June 2023. The bank is one of six Domestic Systemically Important Banks (D-SIBs) in Thailand. BAY has loan and deposit market shares of 14.0% and 12.1%, respectively, among the nine listed Thai commercial banks.

BAY is also a leading player in the retail segment, especially personal loans, credit cards, and auto loans. At the end of March 2023, BAY had market shares of 23% in personal loans, 15% in credit card, and 28% in auto hire purchase loans.

Retail loans contributed the largest portion of 48% of total loans, while corporate and SME made up 35% and 17% of total loans, respectively. The bank has grown its retail loans more selectively since 2020, prioritizing the

control of asset quality amid the weak economic environment. For corporate banking, given collaboration with the MUFG Group and the Group's global network, the bank also has competitive edge in providing financial services to Japanese corporation in Thailand.

BAY's revenue streams are diversified, both in terms of source and geography. Net interest income (NII) accounted for about 72% of total revenue in 2022, on par with most Thai banks, with net fee income and other non-interest income representing 15% and 13%, respectively.

BAY's continuous regional expansion in bank and non-bank financial institutions in ASEAN has also helped further diversify its earnings. In the first half of 2023 (1H23), BAY completed the acquisition of Home Credit Consumer Finance Philippines, Inc. in Philippines and SHB Finance Co., Ltd in Vietnam. The bank is also in the process of acquiring P.T. Home Credit in Indonesia. These acquisitions bring BAY's regional footprint to a total of six ASEAN countries including Laos, Cambodia, Myanmar, Vietnam, Philippines, and Indonesia. In 2022, revenue from ASEAN contributed 6% of total revenue, compared to 3% of total revenue in 2020. The bank aims to increase revenue from ASEAN further with the target of 10% of total revenue in 2023.

Strong capital position

We assess BAY's capital position as 'strong', underpinned by its consolidated common equity Tier-1 (CET-1) ratio of 15.6% at the end of June 2023. Its capital position has continued to strengthen over the past few years, thanks to conservative growth strategy, healthy profit accumulation, and enlarged equity and retained earnings from its subsidiaries.

The bank's consolidated CET-1 ratio rose to 15.6% at the end of June 2023 from 15.2% at the end of June 2022 and is above the industry's average of 15.4%. We expect the CET-1 ratio to gradually increase to the 16%-18% range over the next three years. This is based on our assumptions of 3%-4% loan growth and a 25% dividend pay-out ratio.

Satisfactory earnings capacity

BAY's earnings capacity is considered strong compared with other major Thai banks. BAY's return on average assets (ROAA) improved to 1.20% in 2022 from 1.01% in 2021, higher than the industry average of 1.01% in 2022. The higher ROAA was attributed to its net interest margin (NIM) expansion, lower provisioning expenses, and well-controlled costs. Annualized ROAA in 1H23 improved further to 1.29% due to credit growth, higher yield, and higher gains on financial instruments and net fee income.

We estimate BAY's ROAA to be around 1.2% during 2023-2026, assuming moderate loan growth and credit cost in the 1.5%-1.6% range. We expect NIM to trend upward moderately to 3.5% on the back of rate hikes but partially offset by the rise in funding costs. We expect the bank to continue its effective cost control and estimate the cost-to-income ratio to remain at about 43%-44% over the same period.

Asset quality remains manageable.

On the back of lower economic growth and the gradual expiration of debt relief measures, we expect the bank's asset quality to weaken moderately over the next few years. Nevertheless, as BAY has in recent years tightened its underwriting particularly in the retail segment as part of its selective growth strategy, we expect its non-performing loan (NPL) ratio to stay within the 3.0%-3.6% range. With our credit cost assumption of 1.5%-1.6%, we estimate the NPL coverage ratio to remain sufficient in the 140%-160% range in 2023-2025.

At the end of June 2023, the bank's NPL ratio stood at 2.73%, which remains one of the lowest among medium and large sized banks. This is supported by debt relief programs, write-offs, the bank's expertise in managing retail loans, and its low NPL ratio in the corporate segment. NPL coverage ratio declined to 163.3% at the end of June 2023 from 167.4% at the end of 2022, which was lower than the industry average of 175.6%.

Average funding profile

We assess BAY's funding profile as average, in line with that of other mid-sized Thai banks. Total deposits made up about 80% of total funding at the end of June 2023, lower than the average of 88% for the major banks. The loan-to-deposit ratio stood at 111.8% at the end of June 2023, up from 108.2% at the end of December 2022. The ratio is slightly above Thai commercial banks' loan-to-deposits ratio of 108.9% but significantly higher than large Thai commercial banks' average of 94.1%. This is partly because BAY also utilizes interbank funding support from MUFG Group to help lower its funding cost.

Amid the rising interest rate environment, BAY increased its long-term term deposits while current and saving deposits declined. This resulted in lower current account savings account (CASA). CASA deposits to total deposits decreased to 59.8% at the end of June 2023 from 63.7% at the end of December 2022.

BAY's cost of funds of 1.01% as of 2022 remains higher than the large Thai commercial banks' average of 0.77%, mainly as the bank uses more term deposits and has a higher mix of wholesale funding for the purpose of asset-liability duration management. In 1H23, BAY's cost of funds increased further to 1.55 %, compared with 0.92% in 1H22.

Adequate liquidity

We expect BAY's liquidity position on a stand-alone basis to be adequate over the next 12 months. The bank's liquidity coverage ratio (LCR) stood at 135% at the end of December 2022, well above the regulatory requirement of 100% but lower than the average of 197% for Thai commercial banks. BAY's liquid assets to total deposits stood at a decent 34.1% at the end of June 2023. We view the support the bank receives from the MUFG Group and other available credit facilities as providing sufficient back-up for its liquidity requirements.

BASE-CASE ASSUMPTIONS (For 2023-2025)

- Loan growth: 3%-4%
- Credit cost: 1.5%-1.6%
- NPL to gross loans: 3.0%-3.6%
- CET-1 ratio: 16%-18%
- Risk-adjusted NIM: 2.2-2.4%

RATING OUTLOOK

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

RATING SENSITIVITIES

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 of the strategic importance of BAY to the Group changes. The bank's SACP could be revised down if there were any material weaknesses in BAY's asset quality, capital, and profitability.

COMPANY OVERVIEW

BAY was established in 1945 and listed on the Stock Exchange of Thailand (SET) in 1977. Following the 1997 Asian financial crisis, BAY set up the Asset Quality Improvement Department in 1999. It established Krungsri Ayudhya AMC Ltd. (KAMC; formerly Ayudhya Asset Management Co., Ltd.) in 2000 to resolve its troubled loans. In 2001, BAY joined GE Capital Thailand Co., Ltd. (GECT) to enter the credit card business by setting up Krungsri Ayudhya Card Co., Ltd. (KCC). BAY also invested in a fund management company, Krungsri Asset Management Co., Ltd. (KSAM; formerly Ayudhya Fund Management Co., Ltd. and AJF Asset Management Ltd.). In 2005, BAY increased its stake in Ayudhya Development Leasing Co., Ltd. (ADLC) and raised its ownership stake in Krungsri Factoring Co., Ltd. (KSF; formerly Ayudhya Factoring Co., Ltd.). In the same year, BAY purchased 86% of the shares of Krungsri Securities PLC (KSS; formerly Ayudhya Securities PLC). In 2006, to seize opportunities in the hire purchase (HP) lending segment, BAY established two wholly-owned subsidiaries. Ayudhya Capital Lease Co., Ltd. (AYCL) was created to offer new car financing and inventory finance, while Ayudhya Auto Lease PLC (AYAL) was established to make hire-purchase auto loans.

In 2007, GE Capital International Holding Corporation (GECIH) became the new major shareholder of BAY, taking a 34.9% stake. GECIH's stake was diluted to 32.9% in 2008 after warrant-holders exercised the last lot of warrants. In 2008, BAY established a new subsidiary, Ayudhya Hire Purchase Co., Ltd. (AYHP), to make HP loans on a sale and leaseback basis. In addition, BAY acquired all the ordinary shares of Ayudhya Capital Auto Lease PLC (AYCAL; formerly GE Capital Auto Lease PLC) from General Electric Capital Asia Investment, Inc. (GECAL) and other shareholders. On the transfer date, AYCAL had outstanding loans of THB75.3 billion. After acquiring AYCAL, BAY restructured its auto HP subsidiaries into a single subsidiary to offer one-stop total solutions. AYCAL merged all the auto HP activities from its three subsidiaries: AYCL, AYAL, and AYHP. In 2009, BAY completed the acquisitions of AIG Retail Bank PLC (AIGRB) and AIG Card (Thailand) Co., Ltd. (AIGCC), for a combined price of THB1.6 billion. In November 2009, BAY acquired GE Money Thailand (GEMT), which had a retail loan portfolio of THB45.8 billion. In the first quarter of 2012, BAY successfully acquired and integrated the Thai retail banking business of Hongkong and Shanghai Banking Corporation Ltd. (HSBC). HSBC had a loan portfolio of THB13.9 billion and deposits of THB9.6 billion.

In September 2012, GECIH reduced its stake in BAY to 25.33% by selling the shares it held in block trades. In July 2013, GECIH and MUFG Bank signed a Share Tender Agreement regarding GECIH's shareholding in BAY. The agreement called for MUFG Bank to make a voluntary tender offer for all BAY's shares at THB39 per share. GECIH participated in the offer and tender for

its entire shareholding. The tender offer was completed in December 2013. MUFG Bank became BAY's strategic shareholder, holding a 72.01% stake.

In accordance with the one-presence policy of the Bank of Thailand (BOT), MUFG Bank, Bangkok branch was integrated with BAY in January 2015. BAY issued new common shares to MUFG Bank in exchange for the assets, liabilities, and all the commercial operations of MUFG Bank, Bangkok. As a result, MUFG Bank's shareholding in BAY increased to 76.88% from 72.01%. The founding family, the Ratanarak Group, remains a key partner, owning approximately 20% of BAY's shares.

In September 2016, BAY completed a 100% acquisition of Hattha Kaksekar Ltd. (HKL), a micro-finance institution in Cambodia, with a 100% shareholding. On 26 August 2020, HKL obtained regulatory approvals to operate as a commercial bank, under the name Hattha Bank PLC (HTB). According to BAY, HTB contributed around 2% of BAY's total loan portfolio as of June 2020. On 28 February 2019, BAY sold 50% of its interest in its subsidiary, TIDLOR. In the first half of 2019, BAY recognised gains on the sale of investments in subsidiaries of THB8.63 billion, based on its consolidated financial statements.

On 22 July 2019, BAY renamed the company name of KSF to Krungsri Nimble Co., Ltd. (KSN), and ceased its former factoring services. Since 1 November 2019, KSN has provided information technology services to BAY and all companies in BAY's Financial Business Group.

On 20 October 2020, BAY acquired a 50% stake of ownership in SB Finance Company, Inc. (SBF), a consumer finance subsidiary of Security Bank Corporation (SBC). This followed a Share Purchase Agreement announced on 8 August 2020.

On 9 June 2021, BAY reduced its stake in TIDLOR to 30% from 50% following the initial public offering (IPO) of shares and the listing of the company's ordinary shares on the SET on 10 May 2021.

On 25 August 2021, BAY announced the planned acquisition of business through the purchase and receipt of the transfer of 100% of charter capital in SHBank Finance Company Limited, which operates the consumer finance business in Vietnam, from Saigon Hanoi Commercial Joint Stock Bank (SHB Finance). On 22 May 2023, BAY completed the purchase and receipt of the transferred 50% of charter capital in SHB Finance.

In 2023, BAY completed the acquisition of a 99.1% share in Capital Nomura Securities PCL which operates the securities business in Thailand. This has been rebranded as Krungsri Capital Securities PCL, from Nomura Asia Investment (Singapore) (99.1%). BAY also acquired a 75% share in Home Credit Consumer Finance Philippines, Inc. which operates the POS unsecured loans business. BAY is in the process of acquiring a 75% share in P.T. Home Credit Indonesia from Home Credit Indonesia B.V. and Ms. Wanda Evans.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2023 ²	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	2,698,217	2,636,951	2,499,109	2,609,374	2,359,592
Average assets	2,667,584	2,568,030	2,554,241	2,484,483	2,266,607
Investment in securities	161,271	162,746	197,904	177,251	130,292
Loans and receivables	2,023,391	1,961,342	1,901,229	1,842,030	1,822,361
Allowance for doubtful accounts	87,079	87,851	84,360	76,407	67,384
Deposits	1,797,835	1,804,692	1,779,139	1,834,505	1,566,885
Borrowings ³	423,725	388,175	321,127	389,689	427,788
Shareholders' equities	358,018	341,759	318,237	289,179	272,116
Average equities	349,888	329,998	303,708	280,647	257,917
Net interest income	44,489	83,778	77,980	81,304	76,423
Non-interest income ⁴	17,701	32,638	44,926	32,683	45,185
Total revenue	62,191	116,416	122,906	113,987	121,608
Operating expenses ⁵	27,125	51,035	48,954	48,465	52,169
Pre-provision operating profit (PPOP)	35,066	65,381	73,952	65,522	69,439
Impairment losses on loans and securities	13,610	26,652	31,604	36,644	28,203
Net income	17,206	30,890	34,054	23,340	33,131
Net fee and service income	8,832	16,945	16,851	17,564	21,777
Gains on investments	-	(40)	10,925	109	9,232

1 Consolidated financial statements

2 Non-annualised and unaudited

3 Including interbank and money market

4 Net of fees and service expense

5 Excluding fees and service expense

Unit: %

	Jan-Jun 2023 ⁶	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Earnings					
Return on average assets ⁶	1.29	1.20	1.01	0.94	1.46
Net interest margins ⁶	3.45	3.37	3.16	3.40	3.54
Risk-adjusted net interest margin ⁶	2.40	2.30	1.88	1.87	2.23
Net interest income/average assets ⁶	3.34	3.26	3.05	3.27	3.37
Non-interest income ⁷ /average assets ⁶	1.33	1.27	1.76	1.32	1.99
Net fee and service income/total revenue	14.20	14.56	13.71	15.41	17.91
Cost-to-income	43.62	43.84	39.83	42.52	42.90
Capitalisation					
CET-1 ratio	15.59	15.84	15.52	12.85	13.05
Tier-1 ratio	15.74	15.93	15.60	12.85	13.26
BIS ratio	19.98	20.23	20.08	17.92	17.81
CET-1/BIS ratio	78.03	78.32	77.29	71.74	73.29
Asset Quality					
Credit costs ⁶	137.49	138.82	169.76	2.01	1.62
Non-performing loans/total loans ⁸	2.73	2.76	2.51	2.49	2.27
Allowance for loan losses/non-performing loans	163.29	167.45	184.22	175.12	163.82
Funding & Liquidity					
CASA/total deposit	59.79	63.72	63.56	49.50	40.67
Loan/total deposits	111.81	108.02	106.25	99.91	116.02
Deposits/total liabilities	76.82	78.63	81.58	79.07	75.06
Liquid assets/total deposits ⁹	28.96	30.41	28.25	34.48	26.59
Liquid assets/total assets	22.71	24.15	22.39	27.46	20.50

6 Annualised

7 Net of fee and service expenses

8 Excluding interbank and accrued interests

9 Including interbank borrowing

RELATED CRITERIA

- Bank Rating Methodology, 20 March 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Rating Outlook:	Stable

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