

MEGA INTERNATIONAL COMMERCIAL BANK PLC

No. 135/2021
30 August 2021

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 31/08/20

Company Rating History:

Date	Rating	Outlook/Alert
15/08/18	AAA	Stable
10/07/15	AA+	Stable
31/01/07	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Mega International Commercial Bank PLC (Mega ICBC) at “AAA” with a “stable” outlook. The rating mainly reflects our view that Mega ICBC is a highly strategic subsidiary of Mega International Commercial Bank Co., Ltd. of Taiwan (Mega ICBC-Taiwan, rated “A+/Stable” by S&P Global Ratings). Mega ICBC receives consistent business and financial support from Mega ICBC-Taiwan, which we expect will continue in the foreseeable future.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of Mega ICBC-Taiwan

We assess Mega ICBC as a highly strategic subsidiary of Mega ICBC-Taiwan. Mega ICBC is a wholly-owned subsidiary of Mega ICBC-Taiwan which plays an important role in the group’s strategy to drive business growth in Southeast Asia, in accordance with the Government of Taiwan’s “New Southbound Policy”. The policy aims to strengthen Taiwan’s trade and economic ties with countries in Southeast Asia including Thailand, South Asian countries, New Zealand, and Australia. As an integral part of Mega ICBC-Taiwan, there is a high degree of control from the group in terms of business strategy and risk management. A portion of the bank’s customers are referred by its parent bank and Taiwanese government agencies.

We believe Mega ICBC-Taiwan has a strong and long-term commitment to support Mega ICBC for the strategic reason described above. Mega ICBC-Taiwan has a history of providing financial support to Mega ICBC in the form of back-up credit facilities and a capital injection. In our view, there is a strong likelihood that Mega ICBC will receive extraordinary support in a timely manner from the group in times of stress. Additionally, we are of the view that any default by Mega ICBC would have a severe impact on Mega ICBC-Taiwan’s reputation given the integral linkage and shared brand.

Focus on Taiwanese businesses

Mega ICBC is the only Taiwanese-based bank subsidiary operating in Thailand. The bank had THB25.2 billion in total assets at the end of December 2020, relatively stable compared with the previous year. The bank’s market share in loans and deposits among commercial banks in Thailand is modest, similar to other foreign banks.

Mega ICBC’s strategy and financial targets are in line with those of the parent bank. While Mega ICBC continues to focus on Taiwanese businesses operating in Thailand based on the “New Southbound Policy”, it is also diversifying into Thai corporates, albeit gradually. Currently lending to Taiwanese companies accounts for about 50%-60% of total loans. Mega ICBC’s portfolio remains concentrated in corporates and small- and medium-sized enterprises (SMEs) in the manufacturing sector. Loans to the manufacturing sector accounted for 56% of total lending at the end of March 2021.

Prudent risk management policies aligned with the group

As an integral part of Mega ICBC-Taiwan, Mega ICBC adopts prudent risk management policies and operates through the operational platforms of the group. Mega ICBC’s asset quality remained better than the Thai banking system average, despite the deterioration stemming from the Coronavirus

Disease 2019 (COVID-19) pandemic. The bank's non-performing loan (NPL) ratio rose to 1.19% at the end of December 2020, from 0.65% at the end of 2019. The bank's prudent underwriting standards and good credit risk management should continue to bolster its well-managed asset quality. Moreover, the Overseas Credit Guarantee Fund (OCGF), a Taiwanese-based credit guarantee facility, guarantees a portion of Mega ICBC's loans made to Taiwanese businesses operating in Thailand.

Ongoing financial support from the group

We expect Mega ICBC will continue to receive financial supports from the group in the form of credit lines. At the end of June 2021, the bank had available credit facilities of around USD305 million from the group. We assess the group as willing and financially capable of supporting the company, if needed. The bank also had available credit facilities of around THB12.4 billion from various local financial institutions at the end of June 2021.

BASE-CASE ASSUMPTIONS

Mega ICBC will remain a highly strategic subsidiary of Mega ICBC-Taiwan.

RATING OUTLOOK

The "stable" outlook reflects our expectation that Mega ICBC will maintain its status as a highly strategic subsidiary of the Mega ICBC-Taiwan and continue to receive strong support from its parent bank.

RATING SENSITIVITIES

Mega ICBC's rating is at the highest level at "AAA" with a "stable" outlook. The rating and outlook could be revised downward if the rating on Mega ICBC-Taiwan were revised downward. Any change in the group's structure and strategy such that Mega ICBC was no longer a highly strategic subsidiary of the group could also negatively impact its rating and/or outlook.

COMPANY OVERVIEW

Mega ICBC is a wholly-owned subsidiary of Mega ICBC-Taiwan, a leading banking institution in Taiwan. Mega ICBC, formerly "The Bank of China", was established in 1947 as a foreign bank branch in Bangkok. Mega ICBC serves a niche market of Taiwanese-based and Taiwan-affiliated clients operating in Thailand. In 1971, the bank changed its name to "International Commercial Bank of China" (ICBC), following the transformation of its parent bank in Taiwan. Under the Financial Sector Master Plan launched by the Bank of Thailand (BOT), Mega ICBC upgraded its status to become a foreign bank subsidiary in August 2005, after raising its paid-up capital to THB4 billion from THB1 billion. Mega ICBC subsequently set up four branches in Thailand: the Chonburi branch in 2005, the Bangna branch in 2006, the Ban Pong branch (Ratchaburi province) in 2011, and the Rayong branch in April 2014.

The merger of ICBC with Chiao Tung Bank in Taiwan in August 2006 created a new large financial institution named "Mega International Commercial Bank". Mega ICBC-Taiwan offers its financial products and services through an extensive network. Mega ICBC-Taiwan holds a leading position in Taiwan's foreign exchange market and the offshore banking segment. S&P Global Ratings rates Mega ICBC-Taiwan at "A+" with a "stable" outlook.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	25,253	25,768	22,416	20,267	20,212
Average assets	25,510	24,092	21,342	20,240	20,366
Investment in securities	1,846	1,925	1,994	2,680	2,856
Loans and receivables	21,113	20,230	18,054	15,938	15,698
Allowance for doubtful accounts	342	298	316	350	388
Deposits	16,417	13,237	12,137	11,569	11,675
Borrowings ²	2,953	6,330	4,494	3,012	2,991
Shareholders' equities	5,440	5,519	5,489	5,464	5,386
Average equities	5,480	5,504	5,477	5,425	5,399
Net interest income	499	574	504	477	458
Non-interest income ³	140	162	169	129	127
Total revenue	639	736	672	607	586
Operating expenses ⁴	321	322	310	260	257
Pre-provision operating profit (PPOP)	317	414	363	346	329
Impairment losses on loans and securities	42	18	(18)	(24)	36
Net income	221	316	304	296	234
Net fee and service income	47	51	51	52	53
Gains on investments	0	0	0	0	0

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fees and service expense

4 Excluding fees and service expense

Unit: %

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Earnings					
Return on average assets	0.87	1.31	1.43	1.46	1.15
Net interest margins	1.95	2.37	2.35	2.34	2.23
Risk-adjusted net interest margins	1.79	2.30	2.43	2.46	2.06
Net interest income/average assets	1.96	2.38	2.36	2.36	2.25
Non-interest income ⁵ /average assets	0.55	0.67	0.79	0.64	0.63
Net fee and service income/total revenue	7.36	6.93	7.54	8.50	9.04
Cost-to-income	50.31	43.76	46.08	42.90	43.84
Capitalization					
CET-1 ratio ⁶	23.15	22.36	24.08	26.31	26.66
Tier-1 ratio ⁶	23.15	22.36	24.08	26.31	26.66
BIS ratio ⁶	24.19	23.06	24.83	27.15	27.52
CET-1/BIS ratio ⁶	95.72	96.97	96.98	96.93	96.90
Asset Quality					
Credit costs	0.20	0.10	(0.11)	(0.15)	0.24
Non-performing loans/total loans ⁷	1.19	0.65	1.48	1.98	1.78
Allowance for loan losses/non-performing loans	137.04	221.84	118.05	110.55	136.68
Funding & Liquidity					
CASA/total deposits	48.38	57.38	55.53	57.72	63.62
Loan/total deposits	128.39	152.67	148.59	137.64	134.27
Deposits/total liabilities	82.86	65.37	71.70	78.15	78.75
Liquid assets/total deposits ⁸	22.55	29.30	27.52	31.31	32.69
Liquid assets/total assets	17.29	22.25	20.42	22.52	23.72

5 Net of fee and service expenses

6 Consolidated basis

7 Excluding interbank and accrued interests

8 Including bills of exchange and interbank borrowing

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Banks Rating Methodology, 3 March 2020

Mega International Commercial Bank PLC (Mega ICBC)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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