

# MEGA INTERNATIONAL COMMERCIAL BANK PLC

No. 147/2022  
29 August 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 30/08/21

### 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 is based on 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 consider Mega ICBC, a wholly owned subsidiary of Mega ICBC-Taiwan, to be a highly strategic subsidiary of Mega ICBC-Taiwan. Mega ICBC represents Mega ICBC Group in Thailand and continues to serve as part of the group to offer financial services to Taiwanese businesses operating in Thailand. This is aligned with the government of Taiwan’s “New Southbound Policy” which aims to promote cooperation and exchanges between Taiwan and 18 countries in Southeast Asia, South Asia, and Australia, including Thailand. As a result of the “New Southbound Policy”, the value of direct investment from Taiwan in Thailand has grown constantly in the past five years with a compound annual growth rate (CAGR) of 18% during 2016-2021. The investment growth accelerated to 142% year-to-date (YTD) in the first half of 2022 (1H22).

The strong linkage between Mega ICBC and its parent is manifested by a high degree of control from the group in terms of business strategy and risk management. Mega ICBC remains highly integrated with the group as evidenced by its adoption of the group’s strategies and financial targets and client referrals from Mega ICBC-Taiwan and Taiwanese government agencies.

In our view, Mega ICBC-Taiwan has a strong and long-term commitment to support Mega ICBC given its full ownership and Mega ICBC’s role as an integral part of the group’s strategy for Southeast Asia. Mega ICBC-Taiwan has a record of providing financial support to Mega ICBC in the form of back-up credit facilities and capital injections. Following the strong loan expansion in 2021-1H22 which led to a decline of the capital ratio in 1H22 to 18.0% from 24.2% in 2020, Mega is in the process of receiving an additional THB1 billion in capital from Mega ICBC-Taiwan. We believe there is a strong likelihood that Mega ICBC will receive extraordinary support from Mega ICBC-Taiwan and the group in a timely manner in times of stress given the reputational risk to the group.

### Focus on Taiwanese businesses

With its role as Mega ICBC-Taiwan’s local presence in support of Taiwan’s “New Southbound Policy” and as the only Taiwanese bank’s subsidiary operating in Thailand, the bank will likely remain focused on Taiwanese corporate customers. Currently credit extension to Taiwanese companies accounts for about 50%-60% of total loan exposure. The bank had THB29.7 billion in total assets at the end of December 2021, a growth of 17% from 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 portfolio remains concentrated in wholesale banking, especially in the manufacturing sector. Loans to the manufacturing sector accounted for 56% of total lending at the end of June 2022.

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### Prudent risk management policies aligned with the group

As an integral part of the group, Mega ICBC adopts Mega ICBC-Taiwan's prudent risk management policies and operates under the group's operating platforms. Mega ICBC's prudent underwriting standards and good credit risk management should continue to support its well-managed asset quality. In addition, the Overseas Credit Guarantee Fund (OCGF), a Taiwanese credit guarantee facility, guarantees a portion of Mega ICBC's credit exposure to Taiwanese businesses operating in Thailand. This should provide a significant cushion against credit loss. Despite the deterioration of asset quality due to the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic, Mega ICBC's non-performing loan (NPL) ratio remained better than the average of the Thai banking system of 2.88% in the second quarter of 2022 (2Q22). The bank's NPL ratio rose slightly to 1.22% in 2Q22 from 0.97% at the end of 2021, and 1.19% at the end of 2020.

### Ongoing financial support from the group

We expect Mega ICBC's funding and liquidity profiles will continue to be supported by the group at an adequate level in the form of credit facilities. At the end of June 2022, the bank had available credit facilities of around THB10.4 billion from the group. We assess the group as willing and financially capable of supporting Mega ICBC, if needed. The bank also had available credit facilities of around THB14.4 billion from various local financial institutions at the end of June 2022.

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### BASE-CASE ASSUMPTIONS

TRIS Rating's base assumption is that Mega ICBC will remain a highly strategic subsidiary of Mega ICBC-Taiwan.

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### 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.

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### RATING SENSITIVITIES

The rating on Mega ICBC is at the highest level of "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 our view of Mega ICBC's group status as well as 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.

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### 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 RATIOS**
*Unit: Mil. THB*

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	29,661	25,253	25,768	22,416	20,267
Average assets	27,457	25,510	24,092	21,342	20,240
Investment in securities	1,609	1,846	1,925	1,994	2,680
Loans and receivables	26,474	21,113	20,230	18,054	15,938
Allowance for doubtful accounts	286	342	298	316	350
Deposits	19,194	16,417	13,237	12,137	11,569
Borrowings <sup>2</sup>	4,379	2,953	6,330	4,494	3,012
Shareholders' equities	5,701	5,440	5,519	5,489	5,464
Average equities	5,570	5,480	5,504	5,477	5,425
Net interest income	555	499	574	504	477
Non-interest income <sup>3</sup>	173	140	162	169	129
Total revenue	729	639	736	672	607
Operating expenses <sup>4</sup>	325	321	322	310	260
Pre-provision operating profit (PPOP)	404	317	414	363	346
Impairment losses on loans and securities	-60	42	18	(18)	(24)
Net income	370	221	316	304	296
Net fee and service income	55	47	51	51	52
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				
	2021	2020	2019	2018	2017
<b>Earnings</b>					
Return on average assets	1.35	0.87	1.31	1.43	1.46
Net interest margins	2.02	1.95	2.37	2.35	2.34
Risk-adjusted net interest margins	2.24	1.79	2.30	2.43	2.46
Net interest income/average assets	2.02	1.96	2.38	2.36	2.36
Non-interest income <sup>5</sup> /average assets	0.63	0.55	0.67	0.79	0.64
Net fee and service income/total revenue	7.57	7.36	6.93	7.54	8.50
Cost-to-income	44.61	50.31	43.76	46.08	42.90
<b>Capitalization</b>					
CET-1 ratio <sup>6</sup>	18.15	23.15	22.36	24.08	26.31
Tier-1 ratio <sup>6</sup>	18.15	23.15	22.36	24.08	26.31
BIS ratio <sup>6</sup>	18.81	24.19	23.06	24.83	27.15
CET-1/BIS ratio <sup>6</sup>	96.49	95.72	96.97	96.98	96.93
<b>Asset Quality</b>					
Credit costs	-0.25	0.20	0.10	(0.11)	(0.15)
Non-performing loans/total loans <sup>7</sup>	0.97	1.19	0.65	1.48	1.98
Allowance for loan losses/non-performing loans	111.34	137.04	221.84	118.05	110.55
<b>Funding &amp; Liquidity</b>					
CASA/total deposits	53.56	48.38	57.38	55.53	57.72
Loan/total deposits	137.68	128.39	152.67	148.59	137.64
Deposits/total liabilities	80.11	82.86	65.37	71.70	78.15
Liquid assets/total deposits <sup>8</sup>	14.22	22.55	29.30	27.52	31.31
Liquid assets/total assets	11.30	17.29	22.25	20.42	22.52

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

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**Mega International Commercial Bank PLC (Mega ICBC)**

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<b>Company Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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