

MEGA INTERNATIONAL COMMERCIAL BANK PLC

No. 182/2023
27 September 2023

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 29/08/22

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 steadily obtains business and financial supports from Mega ICBC-Taiwan, which we expect to continue in the immediate 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 in turn is wholly owned by Mega ICBC Financial Holding. Mega ICBC is the only offshore banking subsidiary of Mega ICBC-Taiwan’s overseas operations.

Mega ICBC represents the Mega ICBC group in Thailand and continues to serve as part of the group by offering financial services to Taiwanese businesses operating in Thailand. This is aligned with Taiwanese government’s “New Southbound Policy” which aims to strengthen Taiwan’s ties with 18 nations in ASEAN, and South Asia, including Australia and New Zealand.

Since the implementation of the “New Southbound Policy” in 2016, the value of direct investment from Taiwan in Thailand has grown with a compound annual growth rate (CAGR) of 34% during 2016-2022. This is despite the sharp decline of 80% year-on-year (y-o-y) in the first half of 2023 (1H23) due to the base effect, given major electric vehicle (EV) investments in 1H22.

The strong linkage between Mega ICBC and its parent is demonstrated by a high degree of control from the group in terms of business strategy and risk management. Mega ICBC’s operation is highly integrated with the group as evidenced by its adoption of the group’s strategies and financial targets. Mega ICBC also outsources its information technology (IT) server management to Mega ICBC-Taiwan and share client information with the parent bank. Also, Mega ICBC’s reputation is closely tied to the group’s given the shared brand name.

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 Taiwan strategies to strengthen its overseas business and provide support to relocated Taiwanese businesses.

Continuous financial support from group

We expect Mega ICBC to continue to receive ongoing supports from the group in the form of credit facilities and capital if needed. At the end of June 2023, the bank had available credit facilities of around THB11.4 billion from the group.

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 need. Mega ICBC-Taiwan has a record of capital injection into Mega ICBC. In July 2023, Mega ICBC received an additional THB1 billion of capital from Mega ICBC-Taiwan, which helped strengthen the capital ratio to 22.8% from 19.7% in 1H23. In addition to the ongoing credit facilities extended

to Mega ICBC, Mega ICBC-Taiwan also provides Mega ICBC with a THB5 billion credit line in case of liquidity needs.

Financial support to Taiwanese businesses in Thailand

Mega ICBC will likely maintain its focus on Taiwanese corporate customers. As of the second quarter of 2023 (2Q23), credit extensions to Taiwanese companies accounted for about 56% of total loans. The bank's total assets stood at THB37.3 billion at the end of June 2023, a growth of 19% y-o-y. The bank's market share in loans and deposits among commercial banks in Thailand is modest at 0.2% and 0.1% respectively, similar to other foreign banks. Mega ICBC's loan portfolio is concentrated in wholesale banking, particularly in the manufacturing sector which made up 60% of total lending at the end of June 2023.

Prudent risk management policies aligned with group

Mega ICBC adopts the parent bank's prudent risk management policies and operates under the group's operating platforms. Its cautious underwriting practices and good credit risk management system should continue to preserve its well-controlled asset quality. Also, Mega ICBC utilizes Taiwan's Overseas Credit Guarantee Fund (OCGF) to mitigate the bank's credit risks for some of its Taiwanese customers. As of June 2023, 8.2% of Mega ICBC's total loan portfolio was covered by OCGF.

Mega ICBC's non-performing loan (NPL) ratio remained better than the average of the Thai banking system of 2.67% 2Q23. However, the bank's NPL ratio rose slightly to 0.85% in 2Q23 from 0.65% at the end of 2022 but remained lower than 0.97% at the end of 2021. The asset quality deterioration resulted from loans impacted by the COVID-19 pandemic gradually phasing out of the Bank of Thailand's (BOT) debt relief program.

BASE-CASE ASSUMPTIONS

TRIS Rating's base assumption is that 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

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. The rating could also be revised downward if TRIS Rating views that Mega ICBC's group status has weakened materially or there are signs of reduced support from the parent company.

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 Taiwan-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 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: Chonburi in 2005, Bangna in 2006, Ban Pong (Ratchaburi province) in 2011, and Rayong in 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 -----				
	2022	2021	2020	2019	2018
Total assets	32,171	29,661	25,253	25,768	22,416
Average assets	30,916	27,457	25,510	24,092	21,342
Investment in securities	1,519	1,609	1,846	1,925	1,994
Loans and receivables	28,027	26,474	21,113	20,230	18,054
Allowance for doubtful accounts	465	286	342	298	316
Deposits	18,792	19,194	16,417	13,237	12,137
Borrowings ²	6,902	4,379	2,953	6,330	4,494
Shareholders' equities	6,017	5,701	5,440	5,519	5,489
Average equities	5,859	5,570	5,480	5,504	5,477
Net interest income	710	555	499	574	504
Non-interest income ³	215	173	140	162	169
Total revenue	926	729	639	736	672
Operating expenses ⁴	343	325	321	322	310
Pre-provision operating profit (PPOP)	583	404	317	414	363
Impairment losses on loans and securities	190	(60)	42	18	(18)
Net income	314	370	221	316	304
Net fee and service income	65	55	47	51	51
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 -----				
	2022	2021	2020	2019	2018
Earnings					
Return on average assets	1.02	1.35	0.87	1.31	1.43
Net interest margins	2.29	2.02	1.95	2.37	2.35
Risk-adjusted net interest margins	1.68	2.24	1.79	2.30	2.43
Net interest income/average assets	2.30	2.02	1.96	2.38	2.36
Non-interest income ⁵ /average assets	0.70	0.63	0.55	0.67	0.79
Net fee and service income/total revenue	7.03	7.57	7.36	6.93	7.54
Cost-to-income	37.06	44.61	50.31	43.76	46.08
Capitalization					
CET-1 ratio ⁶	17.90	18.15	23.15	22.36	24.08
Tier-1 ratio ⁶	17.90	18.15	23.15	22.36	24.08
BIS ratio ⁶	19.09	18.81	24.19	23.06	24.83
CET-1/BIS ratio ⁶	93.76	96.49	95.72	96.97	96.98
Asset Quality					
Credit costs	0.70	(0.25)	0.20	0.10	(0.11)
Non-performing loans/total loans ⁷	0.62	0.97	1.19	0.65	1.48
Allowance for loan losses/non-performing loans	267.56	111.34	137.04	221.84	118.05
Funding & Liquidity					
CASA/total deposits	54.25	53.56	48.38	57.38	55.53
Loan/total deposits	148.75	137.68	128.39	152.67	148.59
Deposits/total liabilities	71.85	80.11	82.86	65.37	71.70
Liquid assets/total deposits ⁸	17.58	14.22	22.55	29.30	27.52
Liquid assets/total assets	14.04	11.30	17.29	22.25	20.42

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

- Bank Rating Methodology, 20 March 2023
- Group Rating Methodology, 7 September 2022

Mega International Commercial Bank PLC (Mega ICBC)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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