

BANK OF AYUDHYA PLC

No. 177/2024
1 October 2024

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 09/10/23

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.

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

BAY’s SACP reflects its well-established retail and Japanese corporate banking franchise, diversified loan portfolio, and strong capital position. However, BAY’s SACP is restrained by its funding and liquidity profile that still lags the large Thai banking institutions.

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, a wholly-owned subsidiary of the MUFG Group. We believe the MUFG Group has a strong and long-term commitment to supporting BAY in terms of financial, business, and extraordinary support in times of needs.

The MUFG Group maintains a significant presence on BAY’s board and management teams. Four of the seven non-independent board members and the chief executive officer (CEO) are appointed by the MUFG Group.

The MUFG Group identifies the Asia Pacific region as its crucial growth area in fiscal years (FY) 2024-2026 according to its Medium-Term Business Plan (MTBP). BAY plays a pivotal role in expanding the group’s business within Southeast Asia, particularly capitalizing on its strengths in consumer finance.

In partnership with the MUFG Group, BAY is also a leading bank in serving Japanese corporate customers in Thailand. The collaboration includes business matching and client referrals by leveraging client relations from the MUFG Group’s network, supply-chain financing, and wealth management.

Well-established franchise with regional expansion

Our assessment of BAY’s business position reflects the bank’s strong domestic franchise and diversified operations. We expect BAY to maintain its strong market share in the domestic market, while the expansion in ASEAN will be the key credit growth driver in the next few years. BAY has a competitive edge in providing financial services to Japanese corporations in Thailand, thanks to collaboration with the MUFG Group. We also expect BAY to maintain a dominant market position in personal, credit card, and auto lending. This is despite a recent slowdown in loan growth amid the country’s challenging economic environment.

BAY is the fifth largest Thai commercial bank, based on a total asset size of THB2.8 trillion at the end of June 2024. The bank is one of six domestic systemically important banks (D-SIBs) in Thailand. BAY has sizable loan and

deposit market shares of 13.5% and 12.4%, respectively, among the ten listed Thai commercial banks during the same period. Retail loans contributed the largest portion of 47% of BAY's total loans, while corporate and small and medium enterprise (SME) loans comprised 36% and 17% of total loans, respectively.

Under the 3-year MTBP, BAY prioritizes regional expansion in five ASEAN countries: Laos, Cambodia, Vietnam, the Philippines, and Indonesia. In January 2024, BAY set up a new ASEAN Business Group to manage its foreign subsidiaries, focusing on strategic alignment and integration of risk management, governance, information technology (IT), and human resources. The bank aims to build on its early success by expanding the revenue shares of ASEAN businesses to 20%-25% in the next three years from around 14% in 2023. ASEAN loans accounted for 5% of BAY's total loans as of the second quarter of 2024 (2Q24), an increase from 2% in 2020.

Strong capital and earnings position

We assess BAY's capital position as "strong". The bank's consolidated CET-1 (core equity tier-1) ratio increased to 16.5% at the end of June 2024 from 15.7% at the end of June 2023. The latest figure was in line with the industry average of 16.6%. We anticipate the ratio to remain within the 16%-17% range over the next three years, assuming loan growth of 0%-3%, a dividend payout ratio of 25%, and no further major acquisitions.

We expect BAY's earnings capacity to remain strong in the medium term, thanks to healthy net interest margin (NIM) on a risk-adjusted basis. This is despite near-term asset quality challenges at Hattha Bank PLC (HTB), its Cambodian subsidiary, during the first half of 2024. As such, we forecast BAY's return on average assets (ROAA) to be moderate at 1.1% in 2024 before recovering to 1.2% in 2024-2026 from improving loan growth and lower credit costs. The NIM should remain healthy at around 4%, thanks to the larger contribution from the ASEAN business. We also expect BAY to maintain a cost-to-income ratio of around 43%-44% in the same period.

BAY's annualized ROAA decreased to 1.16% in the first half of 2024 from 1.29% in the same period of 2023, due to losses at HTB. The overall credit cost rose to 240 basis points (bps) in the first half of 2024 from 180 bps in 2023. The net profit also dropped 6% year-on-year (y-o-y) to THB16.1 billion.

Expectation of elevated NPLs from increasing exposure in higher-risk return segments

We expect BAY's asset quality to remain manageable over the next few years. This reflects the well-managed asset quality of the domestic loan portfolio and BAY's cautious business growth strategy for both domestic and overseas markets. However, we expect credit cost pressure from HTB over the next 6-12 months as the bank cleans up its portfolio. Accordingly, we project the credit cost to fall to 2.2% in 2026 from the current level of 2.4% in the first half of 2024 (1H24). We forecast BAY's overall non-performing loan (NPL) ratio to be higher in the 3.8%-4.0% range over the next 2-3 years to reflect the larger contribution from ASEAN business.

At the end of June 2024, BAY's overall NPL ratio increased to 3.66% from 3.05% at the end of 2023. This increase was more noticeable relative to the Thai banking industry and largely reflects the bank's ASEAN business contribution. The NPL coverage ratio also fell to 128.8% at the end of June 2024, below the industry average of 172.4%, from 149.1% at the end of 2023. Domestic asset quality remains well-managed as the NPL ratio remained moderate at 2.5% as of 2Q24, despite a slight uptick in retail and SME segments.

Adequate funding and liquidity profile

We assess BAY's funding profile as adequate, aligning with that of other mid-sized Thai banks. At the end of June 2024, deposits accounted for around 85% of its total funding, in line with the industry's average of 87%. The loan-to-deposit ratio stood at 103.9% in 2Q24, exceeding the average of 93.7% for large Thai commercial banks, partly due to interbank funding support from the MUFG Group. Like the challenges most medium and small banks face amid increases in interest rates, BAY's current and savings deposits (CASA) are migrating into term deposits. This drove the bank's CASA down to 51.8% in June 2024 from 55.0% in December 2023.

During the first half of 2024, BAY's cost of funds rose to 2.24% compared with 1.55% in the same period of 2023. This remains higher than the average for large Thai commercial banks of 1.56%. This is primarily due to the bank's higher term deposit mix and higher reliance on wholesale funding for asset-liability duration management.

We expect BAY's stand-alone liquidity position to remain adequate over the next 12 months. We believe the support provided by the MUFG Group and other available credit facilities are sufficient to back up the bank's liquidity needs. The bank's liquidity coverage ratio (LCR) increased to 160% at the end of 2023 from 135% at the end of December 2022, exceeding the regulatory requirement of 100%. BAY's liquid asset to total deposit ratio stood at a solid 36.0% at the end of June 2024.

BASE-CASE ASSUMPTIONS (For 2024-2026)

- Loan growth: 0%-3%
- Credit cost: 2.2%-2.4%
- NPL to gross loans: 3.8%-4.0%
- CET-1 ratio: 16%-17%
- Risk-adjusted NIM: 2.3-2.5%

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 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 MUFG Group changes.

An upward revision to the SACP could arise from continued improvements in BAY’s funding and liquidity profile, while maintaining its strong capital position and asset quality. Conversely, the SACP could be revised downward 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 HP 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, Ngern Tid Lor PLC (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 IT 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 Co., Ltd., 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 PLC 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 loan business. In addition, BAY acquired a 75% share in P.T. Home Credit Indonesia from Home Credit Indonesia B.V. and Ms. Wanda Evans. In March 2024, BAY increased its capital in P.T. Home Credit Indonesia which has increased the voting right of the bank to 80% from 75%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹
Unit: Mil. THB

	Jan-Jun 2024 ²	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	2,772,778	2,768,295	2,636,951	2,499,109	2,609,374
Average assets	2,770,536	2,702,623	2,568,030	2,554,241	2,484,483
Investment in securities	158,899	150,200	162,746	197,904	177,251
Loans and receivables	2,006,926	2,031,770	1,961,342	1,901,229	1,842,030
Allowance for doubtful accounts	91,501	89,070	87,851	84,360	76,407
Deposits	1,916,388	1,839,601	1,804,692	1,779,139	1,834,505
Borrowings ³	340,445	428,213	388,175	321,127	389,689
Shareholders' equities	386,239	371,454	341,759	318,237	289,179
Average equities	378,846	356,606	329,998	303,708	280,647
Net interest income	55,594	99,390	83,778	77,980	81,304
Non-interest income ⁴	22,410	39,558	32,638	44,926	32,683
Total revenue	78,004	138,948	116,416	122,906	113,987
Operating expenses ⁵	33,810	61,835	51,035	48,954	48,465
Pre-provision operating profit (PPOP)	44,194	77,113	65,381	73,952	65,522
Impairment losses on loans and securities	24,088	35,617	26,652	31,604	36,644
Net income	16,114	33,132	30,890	34,054	23,340
Net fee and service income	12,475	20,831	16,945	16,851	17,564
Gains on investments	-	-	(40)	10,925	109

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 2024 ⁶	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Earnings					
Return on average assets ⁶	1.16	1.23	1.20	1.01	0.94
Net interest margins ⁶	4.18	3.81	3.37	3.16	3.40
Risk-adjusted net interest margin ⁶	2.37	2.45	2.30	1.88	1.87
Net interest income/average assets ⁶	4.01	3.68	3.26	3.05	3.27
Non-interest income ⁷ /average assets ⁶	1.62	1.46	1.27	1.76	1.32
Net fee and service income/total revenue	15.99	14.99	14.56	13.71	15.41
Cost-to-income	43.34	44.50	43.84	39.83	42.52
Capitalisation					
CET-1 ratio	16.38	15.97	15.84	15.52	12.85
Tier-1 ratio	16.53	16.12	15.93	15.60	12.85
BIS ratio	20.26	20.34	20.23	20.08	17.92
CET-1/BIS ratio	80.87	78.54	78.32	77.29	71.74
Asset Quality					
Credit costs ⁶	240.33	179.58	138.82	169.76	2.01
Non-performing loans/total loans ⁸	3.66	3.05	2.76	2.51	2.49
Allowance for loan losses/non-performing loans	128.80	149.10	167.45	184.22	175.12
Funding & Liquidity					
CASA/total deposit	51.77	54.98	63.72	63.56	49.50
Loan/total deposits	103.94	109.65	108.02	106.25	99.91
Deposits/total liabilities	80.30	76.75	78.63	81.58	79.07
Liquid assets/total deposits ⁹	32.09	30.89	30.41	28.25	34.48
Liquid assets/total assets	24.87	24.15	24.15	22.39	27.46

6 Annualised

7 Net of fee and service expenses

8 Excluding interbank and accrued interests

9 Including interbank borrowing

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Rating Outlook:	Stable

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