

MEGA INTERNATIONAL COMMERCIAL BANK PLC

No. 146/2024
27 August 2024

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 27/09/23

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” rating outlook. The rating is based on our view that Mega ICBC will remain 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 consistently receives business and financial supports from Mega ICBC-Taiwan, which we anticipate 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 in turn is wholly owned by Mega ICBC Financial Holding. As the sole offshore banking operation of Mega ICBC-Taiwan, it holds an important position within the group.

Mega ICBC represents the Mega ICBC group in Thailand, providing financial services to Taiwanese businesses operating in Thailand. This strategic positioning aligns with the Taiwanese government’s “New Southbound Policy ” which aims to foster economic cooperation between Taiwan and the ASEAN region, including Thailand.

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, financial targets, and risk management. Mega ICBC also outsources its information technology (IT) 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-Taiwan’s strategies to strengthen its overseas business and provide support to relocated Taiwanese businesses.

Continuous financial support from group

We expect Mega ICBC to continue receiving supports from its parent in the form of credit facilities and capital injections as needed. Given its close relationship with the group and strategic importance to the group, Mega ICBC is likely to receive timely extraordinary support in times of need.

At the end of June 2024, the bank had available credit facilities of around THB19.5 billion from the group, an increase from THB11.4 billion at the end of June 2023. Additionally, Mega ICBC-Taiwan also provides Mega ICBC with a THB5 billion credit line to support liquidity needs.

In July 2023, Mega ICBC-Taiwan injected additional capital of THB1 billion into Mega ICBC, which brought paid-up share capital to THB5billion from THB4billion.

Financial support to Taiwanese businesses in Thailand

As a government-owned Taiwanese bank, one of Mega ICBC's primary focuses is providing financial support to Taiwanese businesses in Thailand. The “New Southbound Policy” implemented since 2016 has spurred significant growth in

Taiwanese direct investment, with a compound annual growth rate (CAGR) of 29% from 2016 to 2023. This momentum accelerated in the first half of 2024 (1H24), reaching a remarkable 184% year-on-year (y-o-y) growth. Capitalizing on “China Plus One” strategy as trade tensions persist, MEGA ICBC is witnessing increased investment in sectors such as printed circuit boards, electrical appliances, and electronics. As of the second quarter of 2024 (2Q24), credit extensions to Taiwanese companies accounted for about 53% of total loans.

With total assets of THB40.6 billion as of June 2024, representing a 9% y-o-y increase, MEGA ICBC maintains a modest market share of 0.2% in both loans and deposits, aligning with other foreign banks in Thailand. The bank's loan portfolio is concentrated in wholesale banking, with a focus on the manufacturing sector which made up 65% of total lending at the end of June 2024.

Sound risk management framework despite NPL increase

MEGA ICBC adheres to its parent bank's conservative risk management framework and operates within the group's operational platforms. The bank has maintained prudent underwriting standards and a robust credit risk management system, which have contributed to a manageable asset quality profile.

MEGA ICBC's non-performing loan (NPL) ratio experienced a significant increase to 3.32% at the end of 2Q24 from 1.04% at the end of 2023. This deterioration primarily resulted from a single corporate loan in the real estate development sector and partially from lingering challenges faced by SME borrowers post-COVID-19 debt relief program. Consequently, the NPL coverage ratio declined to 49% in 2Q24 from 160% at the end of 2023. This is, however, mitigated by the over-collateralization of the new corporate NPL, which reduced the need for additional provisions.

We believe the recent NPL spike is a one-off event and that the bank's overall risk management practices remain sound. Moreover, MEGA ICBC's utilization of Taiwan's Overseas Credit Guarantee Fund (OCGF) helps mitigate credit risks for some of its Taiwanese customers, with 7.9% of the total loan portfolio covered by OCGF as of June 2024.

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 -----				
	2023	2022	2021	2020	2019
Total assets	39,681	32,171	29,661	25,253	25,768
Average assets	35,926	30,916	27,457	25,510	24,092
Investment in securities	2,000	1,519	1,609	1,846	1,925
Loans and receivables	25,692	28,027	26,474	21,113	20,230
Allowance for doubtful accounts	428	465	286	342	298
Deposits	21,545	18,792	19,194	16,417	13,237
Borrowings ²	9,603	6,902	4,379	2,953	6,330
Shareholders' equities	7,728	6,017	5,701	5,440	5,519
Average equities	6,872	5,859	5,570	5,480	5,504
Net interest income	923	710	555	499	574
Non-interest income ³	300	215	173	140	162
Total revenue	1,224	926	729	639	736
Operating expenses ⁴	363	343	325	321	322
Pre-provision operating profit (PPOP)	861	583	404	317	414
Impairment losses on loans and securities	(28)	190	(60)	42	18
Net income	711	314	370	221	316
Net fee and service income	58	65	55	47	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 -----				
	2023	2022	2021	2020	2019
Earnings					
Return on average assets	1.98	1.02	1.35	0.87	1.31
Net interest margins	2.56	2.29	2.02	1.95	2.37
Risk-adjusted net interest margins	2.63	1.68	2.24	1.79	2.30
Net interest income/average assets	2.57	2.30	2.02	1.96	2.38
Non-interest income ⁵ /average assets	0.84	0.70	0.63	0.55	0.67
Net fee and service income/total revenue	4.75	7.03	7.57	7.36	6.93
Cost-to-income	29.65	37.06	44.61	50.31	43.76
Capitalization					
CET-1 ratio ⁶	22.73	17.90	18.15	23.15	22.36
Tier-1 ratio ⁶	22.73	17.90	18.15	23.15	22.36
BIS ratio ⁶	23.78	19.09	18.81	24.19	23.06
CET-1/BIS ratio ⁶	95.58	93.76	96.49	95.72	96.97
Asset Quality					
Credit costs	(0.10)	0.70	(0.25)	0.20	0.10
Non-performing loans/total loans ⁷	1.04	0.62	0.97	1.19	0.65
Allowance for loan losses/non-performing loans	161.31	267.56	111.34	137.04	221.84
Funding & Liquidity					
CASA/total deposits	54.15	54.25	53.56	48.38	57.38
Loan/total deposits	118.89	148.75	137.68	128.39	152.67
Deposits/total liabilities	67.43	71.85	80.11	82.86	65.37
Liquid assets/total deposits ⁸	46.06	17.58	14.22	22.55	29.30
Liquid assets/total assets	36.15	14.04	11.30	17.29	22.25

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

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022

Mega International Commercial Bank PLC (Mega ICBC)

Company Rating:	AAA
Rating Outlook:	Stable

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