

# THANACHART BANK PLC

No. 154/2017

16 November 2017

**Company Rating:** AA-

**Issue Ratings:**  
Hybrid Tier 2 A

**Outlook:** Stable

## Company Rating History:

Date	Rating	Outlook/Alert
16/01/12	AA-	Stable
12/03/10	A+	Positive
04/04/08	A+	Stable
14/07/05	A	Stable

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## Rating Rationale

TRIS Rating affirms the company rating of Thanachart Bank PLC (TBANK) at "AA-" and affirms the ratings of the bank's hybrid Tier 2 capital securities at "A". The ratings reflect TBANK's strong franchise in its core business in auto hire-purchase lending. The ratings also take into account the management and technical support TBANK receives from its Canadian strategic partner, Bank of Nova Scotia (BNS), which holds a 49% stake in TBANK through Scotia Netherlands Holdings B.V.

Our assessment of TBANK's business position reflects its status as a mid-sized Thai commercial bank. Key subsidiaries comprise securities brokerage, fund management, leasing, distressed asset management, and non-life insurance businesses. TBANK's total asset size was Bt964.2 billion at the end of the first half of 2017 (H1/2017), ranked 6th across Thai commercial banks. Market shares on loans and deposits were, respectively, 5.9% and 5.7%. TBANK's key strength is in auto hire-purchase lending. At the end of 2016, TBANK and its other non-bank subsidiaries had a combined market share in hire-purchase loans of 21%, the largest among hire-purchase players, based on TRIS Rating's database.

The bank's ability to broaden sources of non-interest income is on par with the Thai commercial bank industry. During H1/2017, net interest income as a percentage of total revenue made up over 66%, compared with peers' average of 62%. The lending business is largely retail-focused with sizable exposure in auto hire-purchases. At the end of H1/2017, around 68% of total loans were loans to retail clients, 20% to corporates, and 11% to SMEs. Auto hire-purchases and mortgage loans made up around 51% and 14% of the total loan portfolios, respectively. Net fees and service income including net insurance income was 18.9% of total revenue in H1/2017, comparable to peers' average of 21%. For TBANK, this includes fee income from subsidiaries and credit-related fees from hire-purchases and credit cards.

We expect TBANK's Basel-III compliant total capital ratio to be within a 19-20% range over the next few years, sufficient to support its business expansion over the medium term. Core Equity Tier-1 to total capital was 70.3% at the end of H1/2017. We expect the company to maintain its current pay-out ratios. Profitability is on par with the industry average. Return on average assets (ROAA) was 1.33% in 2016, compared with the industry average of 1.32%. Profitability has improved over the past few years, thanks to lower credit costs. Non-interest income has derived from relatively diversified fee-based businesses, including securities brokerage, fund management, and insurance.

TBANK has made continual progress in improving its risk management as reflected in improving trends in asset quality and loan-loss provisioning. Credit costs dropped from 1.5% in 2013 to 0.9% in 2016, whilst the industry average rose amid soft economic environments. Credit costs across Thai commercial banks averaged 1.4% in 2016. TBANK's NPL ratio dropped, thanks to improved asset

quality and write-offs and restructuring of delinquent loans. The figure dropped substantially from 4.3% to 2.3% between the end of 2014 and H1/2017. Special-mentioned loans as a percentage of total loans also dropped to 4.0% from 4.6% in the same period. Loan-loss provisioning has strengthened, as evidenced by the bank's over-reserve position at 195% at the end of H1/2017, well above the industry average.

TBANK's funding is adequate as a mid-sized bank. Deposits made up 71.7% of total funding including shareholders' equity at the end of H1/2017, around the average of Thai commercial banks of 74%. However, a relatively high reliance on fixed deposits may indicate a price-sensitive deposit base. Current account-savings account (CASA), an indicator of stable low-cost funding, was at 43.5% of total deposits, below peers' average of 61%. Loans-to-deposits including bills of exchange (B/Es) was 104% at the end of H1/2017, which was around peers' average of 99%.

TBANK's liquidity position is in line with the Thai banking industry. Liquid assets as a percentage of total assets and deposits were 25.2% and 36.4%, respectively, as of H1/2017, comparable to other Thai banks. About a quarter of the bank's liquid assets were investments in securities. The majority of these were government, state enterprise, and private debt securities.

### Basel III-Compliant Hybrid Tier-II Capital Securities Rating

The "A" ratings for TBANK's hybrid Tier-II capital securities reflect the subordination risk and the non-payment risk of the securities, as defined by the non-viability loss absorption clause. The features of the securities comply with the BASEL III guidelines and the securities are qualified as Tier-II capital under the Bank of Thailand's (BOT) criteria.

The hybrid Tier-II capital securities (TBANK24DA) are subordinated, unsecured, non-deferrable, and convertible. These securities are also callable by TBANK prior to the maturity date, if the call date is at least five years after issuance and as long as the bank has received approval from the BOT. The holders of the securities are subordinated to TBANK's depositors and holders of TBANK's senior unsecured debentures. The principal of the securities can be converted into common shares in the event that the regulator deems the bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause.

The hybrid Tier-II capital securities (TBANK25NA) are subordinated, unsecured, non-deferrable, and non-convertible. These securities are also callable by TBANK prior to the maturity date, if the call date is at least five years after issuance and as long as the bank has received approval from the BOT. The holders of the securities are subordinated to TBANK's depositors and holders of TBANK's senior unsecured debentures. The principal of the securities can be written down in the event that the regulator deems the bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause.

### Rating Outlook

The "stable" outlook reflects our view that TBANK will maintain its strong business position in its core line of business in hire-purchase lending. TBANK's credit profile could be negatively impacted if TBANK's asset quality deteriorates or its profitability weakens significantly. Any positive rating action will depend on TBANK's ability to substantially lift its business position through size of client base, product diversity in credit-related businesses, and funding capability.

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## Thanachart Bank PLC (TBANK)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
TBANK24DA: Bt13,000 million hybrid Tier 2 capital securities due 2024	A
TBANK25NA: Bt7,000 million hybrid Tier 2 capital securities due 2025	A
<b>Rating Outlook:</b>	Stable

**Financial Statistics<sup>1</sup>**

Unit: Bt million

	Jan-Jun 2017 <sup>2</sup>	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Total assets	964,247	950,512	980,972	1,008,890	1,038,349
Average assets	957,379	965,742	994,931	1,023,619	1,028,484
Investment in securities	183,328	177,334	173,682	151,528	140,660
Loans and receivables	695,833	691,527	714,124	755,150	791,026
Allowance for doubtful accounts	22,790	24,616	25,676	27,697	29,782
Deposits	666,059	676,557	669,504	696,992	719,079
Borrowings <sup>3</sup>	132,339	115,243	157,329	170,468	173,311
Shareholders' equities	131,142	126,121	117,691	106,164	97,240
Average equities	128,631	121,906	111,928	101,702	90,712
Total revenue	21,847	43,317	42,586	42,077	53,860
Net interest income	14,434	28,712	27,681	27,561	26,589
Allowance for impairment losses on loans	2,221	6,251	8,592	7,122	11,497
Net fee and service income <sup>4</sup>	4,129	8,593	8,028	8,017	8,398
Gains on investments	288	714	1,533	769	13,081
Non-interest income <sup>4</sup>	7,413	14,605	14,905	14,516	27,271
Operating expenses	12,291	23,536	22,669	22,282	23,086
Net income	6,860	12,839	11,127	10,195	15,601

1 Consolidated financial statements

2 Non-annualised

3 Including interbank and money market

4 Including net insurance income

**Key Financial Ratios<sup>1</sup>**

Unit: %

	Jan-Jun 2017 <sup>2</sup>	----- Year Ended 31 December -----			
		2016	2015	2014	2013
<b>Earnings</b>					
Return on average assets	0.72	1.33	1.12	1.00	1.52
Return on average equities	5.33	10.53	9.94	10.02	17.20
Net interest income/average assets	1.51	2.97	2.78	2.69	2.59
Non-interest income/average assets	0.77	1.51	1.50	1.42	2.65
Net fee and service income <sup>3</sup> /total revenue	18.90	19.84	18.85	19.05	15.59
Gains on investments/total revenue	1.32	1.65	3.60	1.83	24.29
Operating expenses/total revenue	56.26	54.33	53.23	52.95	42.86
Cost-to-income	52.91	51.04	50.06	49.64	39.87
<b>Capitalisation</b>					
CET-1 ratio <sup>4</sup>	14.33	13.27	12.04	9.92	8.61
Tier-1 ratio <sup>4</sup>	14.33	13.27	12.04	10.70	9.47
BIS ratio <sup>4</sup>	20.39	19.15	17.92	15.83	14.80
CET-1/BIS ratio <sup>4</sup>	70.28	69.30	67.19	62.67	58.18
<b>Asset Quality</b>					
Credit costs	0.32	0.89	1.17	0.92	1.49
Non-performing loans/total loans <sup>5</sup>	2.25	2.38	3.04	4.34	4.60
Allowance for loan losses/non-performing loans	145.60	149.79	118.43	84.54	81.87
Allowance for loan losses/required allowance	216.32	228.24	180.93	148.18	137.69
<b>Funding &amp; Liquidity</b>					
CASA ratio <sup>6</sup>	43.55	45.58	40.14	35.76	34.49
Loan-to-deposit ratio <sup>6</sup>	104.47	102.21	106.66	108.34	110.01
Deposits/total liabilities <sup>6</sup>	79.95	82.07	77.55	77.21	76.41
Liquid assets/total deposits <sup>7</sup>	32.56	31.61	32.14	29.80	28.30
Total loans/total assets	72.16	72.75	72.80	74.85	76.18

- 1 Consolidated financial statements  
 3 Non-annualised  
 3 Including net insurance income  
 4 Consolidated basis  
 5 Excluding bills of exchange and interbank borrowing  
 6 Including bills of exchange  
 7 Including bills of exchange and interbank borrowing

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