

TISCO BANK PLC

No. 49/2018
25 April 2018

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
30/04/13	A	Stable
13/05/11	A	Positive

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RATIONALE

TRIS Rating affirms the company rating and the ratings of senior unsecured debentures up to Bt70,000 million due within 2021 of TISCO Bank PLC (TISCOB) at “A” with “stable” outlook. The ratings reflect TISCOB’s strong competitive position in automobile hire-purchase (HP) lending and its strong capital and earnings position. However, the ratings are constrained by the bank’s small market shares in loans and deposits, concentrated loan exposure in the automobile HP loan segment, and reliance on wholesale funding.

KEY RATING CONSIDERATIONS

A core banking of TISCO Financial Group

TISCOB is a 99.99% owned core banking of TISCO Financial Group PLC (TISCO). TISCOB was ranked 8th among 11 listed Thai commercial banks in terms of asset size at the end of 2017, with a 2.1% market share in loans and a 1.6% share in deposits. Net interest and dividend income represented 74.1% of total revenue in 2017. A large portion of non-interest income comprised net fees and service income, at 21.7% of total revenue.

Acquired retail business from SCBT enhances business positions

TISCO acquired the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT) in 2017. This entailed a transfer of Bt33.7 billion of loan assets and Bt14.6 billion of deposits to TISCOB and All-Ways, a subsidiary of TISCO. Around Bt31.4 billion were retail loans comprising mortgage, home-equity, personal and credit-card loans¹. The remaining Bt2.2 billion were loans to small- and medium-sized enterprises (SMEs)². The majority of deposits were retail current accounts and savings accounts (CASA).

The acquired business fits TISCO’s strategic push in retail banking, whilst gradually expanding its lending to other segments. An instant reach to a larger pool of mortgage and home-equity borrowers and depositors enhances the group’s competitive position in retail banking. TISCO expects to draw the new customer base to a range of banking and wealth management products.

A more diverse portfolio also helps lessen the bank’s reliance on HP lending. At the end of 2017, HP loans accounted for 50.6% of total loans, down from 60.6% a year earlier. Lending to corporate and SMEs was, respectively, 20.1% and 6.0%. Housing loans accounted for 8.5% of total loans, up from 0.4% a year earlier. At the same time, TISCO continues to capitalise on its expertise in auto lending on high-growth car-pledged loans.

Strong capital and earnings

TISCOB has a strong capital position. The bank’s Basel-III compliant core equity tier-1 ratio was 15.98%, accounting for 77% of the total capital at the end of 2017. TRIS Rating views the capital position is sufficient to support business expansion over the next few years, taken into account a dividend payout in the range of 50-60%.

The bank’s earning capacity is sufficient to withstand potential volatility across the business cycle. Profitability has been on the high side relative to Thai bank

¹ Credit-card loans are transferred to All-Ways Co., Ltd. Subsequently in Q1/2018, TISCOB and All-Ways Co., Ltd. signed the agreement for the sale of personal loan portfolio and credit card business to Citibank N.A (Bangkok branch).

² These loans were largely small-sized SMEs.

peers as indicated by its return on average assets (ROAA) of 1.6% in 2017. Contribution from fee and service income was comparable to the average of other Thai banks. On a risk-adjusted basis, the bank's net interest margin (NIM) has been well above industry standards over recent years.³

Asset quality improves

TISCOB's asset quality is on an improving trend. The bank's credit cost lowered to 1.2% in 2017 after peaking at 2.0% in 2015. The bank continues to add to its excess reserves for loan losses to mitigate the provisioning risk due to IFRS9⁴ implementation. The non-performing loan (NPL) coverage ratio improved significantly to 201.9% at the end of 2017 from a low 80.7% at the end of 2015.

Despite the addition of SCBT portfolios with higher NPL ratios, the bank's NPL ratio continued its downward trend. This was driven by a reduction in NPLs among HP and corporate lending. The NPL ratio⁵ fell from 2.9% in 2015 to 2.2% in 2017, a respectable figure for Thai banks.

High reliance on wholesale funding

TISCOB's rating remains constrained by its weak funding profile. Small-sized Thai banks tend to have a relatively low proportion of sticky retail deposits and a high reliance on wholesale funding. A large share of borrowings reflects the bank's strategy towards more flexible funding sources.

Notwithstanding, an addition of new retail deposits from SCBT enhances its funding. Deposits as a percentage of total funding rose to 72.9% at the end of 2017, from 69.2% the previous year. CASA to total deposits were also up from 35.7% to 37.7% in that period. A loan-to-deposit ratio was down to 135.3% in 2017 from 142.3% in the previous year was also well above the Thai banks' average.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TISCOB will maintain its strong competitive position in retail banking and a strong capital and earnings position.

RATING SENSITIVITIES

The ratings could be revised downward in the case of a sustained period of substantially weakened profitability and severe deterioration of asset quality. A rating upgrade will depend on the bank's ability to sustainably gain market shares, significantly diversify its loan portfolio, and improve its funding capability.

COMPANY OVERVIEW

TISCOB, formerly named "TISCO Finance PLC", was established in 1969 as a finance company owned by Bankers Trust New York Corporation (60% holding), Bancom Development Corporation (20%), and Kasikorn Bank PLC (20%). TISCOB was listed on the Stock Exchange of Thailand (SET) in 1983. In the aftermath of the 1997 financial crisis, TISCO Finance entered into the Tier 1 capital support scheme offered by the Ministry of Finance (MOF) in 1999. As a result, the MOF became a major shareholder with a 42.84% stake in TISCO Finance. The MOF's shareholding in TISCO Finance was later reduced to 0.05%. In October 2004, TISCO Finance received approval from the MOF to upgrade its status to a commercial bank. TISCO Finance commenced its banking operations on 1 July 2005, and changed its name to "TISCO Bank PLC".

In accordance with the consolidated supervision regulatory framework of the Bank of Thailand (BOT), in November 2008 the restructuring plan of TISCOB's holding company was approved by the MOF. TISCO was established in 2008 as a holding company and the parent company of TISCO Group in place of TISCOB. On 15 January 2009, TISCO was listed on the SET in place of TISCOB as TISCOB was simultaneously delisted from the SET. TISCO later acquired 99.99% shares of TISCOB and its subsidiaries (i.e., TISCO Securities Co., Ltd. (TSC), TISCO Asset Management Co., Ltd. (TISCOASSET), Hi-Way Co., Ltd. (Hi-Way), TISCO Insurance Solution Co., Ltd., and TISCO Information Technology Co., Ltd. (TISCOIT)). The TISCO Group now offers all major types of financial services including banking, HP lending, securities brokerage, and asset management.

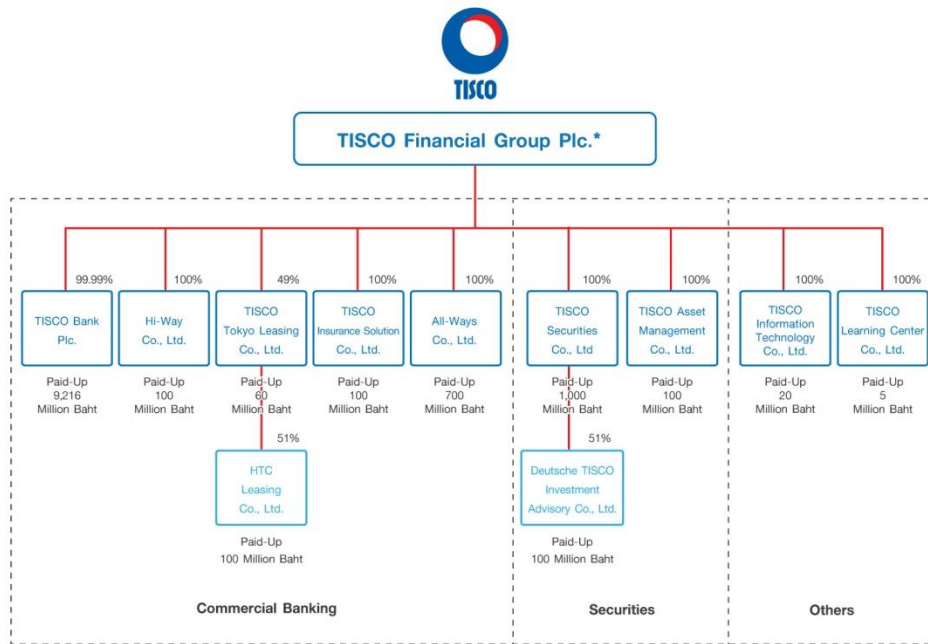
TISCO Group entered into an agreement to acquire the retail banking business of SCBT in 2016. Towards the end of 2017, the group completed the transfer. The transaction entailed transfers of loan assets and liabilities from SCBT's retail banking operation to TISCOB and All-Ways.

³ This is net interest income less credit cost divided by average earnings assets.

⁴ Scheduled for implementation on 1 Jan 2019.

⁵ Excluding interbank.

Table 1: TISCO Group Structure



*Listed in The Stock Exchange of Thailand

Source: TISCO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹
Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	288,275	260,742	269,800	305,886	342,030
Average Assets	274,509	265,271	287,843	323,958	308,577
Investment in securities	5,932	5,553	7,185	13,309	10,029
Loans and receivables	245,607	221,978	234,769	258,569	281,319
Allowance for doubtful accounts	10,709	7,501	5,570	6,380	5,775
Deposits	181,499	155,951	159,046	206,391	265,547
Borrowings ²	67,492	69,370	77,582	68,089	49,239
Shareholders' Equities	28,925	27,444	25,815	24,004	19,572
Average Equities	28,184	26,629	24,909	21,788	17,388
Net interest income	10,848	10,236	9,440	8,860	8,034
Non-interest income ³	3,791	3,561	3,695	3,609	3,645
Total revenue	14,639	13,797	13,135	12,469	11,679
Operating expenses ⁴	6,518	5,435	4,634	4,625	4,444
Pre-provision operating profit (PPOP)	8,121	8,362	8,500	7,845	7,236
Impairment losses on loans and securities	2,760	3,740	4,870	3,978	3,642
Net income	4,301	3,688	2,914	3,098	2,877
Net fee and service income	3,182	3,043	3,068	3,003	3,217
Gains on investments	20	12	24	142	39

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 -----				
	2017	2016	2015	2014	2013
Earnings					
Return on average assets	1.57	1.39	1.01	0.96	0.93
Interest spread	3.55	3.50	2.92	2.39	2.28
Net interest margins	3.86	3.80	3.24	2.70	2.58
Net interest income/average assets	3.95	3.86	3.28	2.73	2.60
Non-interest income ⁵ /average assets	1.42	1.38	1.31	1.13	1.21
Net fee and service income/total revenue	21.74	22.06	23.36	24.09	27.54
Cost-to-income	44.52	39.39	35.28	37.09	38.05
Capitalisation					
CET-1 ratio ⁶	15.98	14.73	13.98	12.55	9.15
Tier-1 ratio ⁶	15.98	14.73	13.98	12.55	9.15
BIS ratio ⁶	20.72	19.59	18.01	16.79	13.37
CET-1/BIS ratio ⁶	77.12	75.19	77.62	74.75	68.44
Asset Quality					
Credit costs	1.18	1.64	1.97	1.47	1.40
Non-performing loans/total loans ⁷	1.84	1.98	2.62	2.00	1.28
Non-performing assets/total assets	3.45	3.99	3.97	2.34	1.39
Allowance for loan losses /non-performing loans	201.89	146.28	80.65	108.10	135.63
Funding & Liquidity					
CASA/total deposits ⁸	37.73	35.73	32.38	25.61	16.36
Loan/total deposits ⁸	135.29	142.31	147.58	125.26	105.88
Deposits ⁸ /total liabilities	70.00	66.86	65.20	73.23	82.40
Liquid assets/total deposits ⁹	27.20	27.19	22.45	23.68	23.00
Liquid assets/short-term liabilities ¹⁰	20.22	19.40	16.01	18.67	20.27

5 Net of fee and service expenses

6 Consolidated basis

7 Including interbank; excluding accrued interests

8 Including bills of exchange

9 Including bills of exchange and interbank borrowing

10 Financial liabilities with maturity less than one year

TISCO Bank PLC (TISCOB)

Company Rating:	A
Issue Ratings:	
Up to Bt70,000 million senior unsecured debentures due within 2021	A
- TISCO184A: Bt5,000 million senior unsecured debentures due 2018	A
- TISCO18NA: Bt5,000 million senior unsecured debentures due 2018	A
- TISCO191A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO193A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO194A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO195B: Bt8,000 million senior unsecured debentures due 2019	A
- TISCO197A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO198A: Bt3,000 million senior unsecured debentures due 2019	A
- TISCO204A: Bt4,000 million senior unsecured debentures due 2020	A
Rating Outlook:	Stable

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