

# BANK OF AYUDHYA PLC

No. 201/2020  
26 November 2020

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
Senior unsecured	AAA
<b>Outlook:</b>	Stable

**Last Review Date:** 10/03/20

### 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”, and the ratings on BAY’s senior unsecured debentures at “AAA” with a “stable” outlook. The ratings reflect BAY’s status as a highly strategic member of Mitsubishi UFJ Financial Group (MUFG Group), the largest financial group in Japan. The ratings also reflect the business and financial support the MUFG Group has provided to the bank and the expected support from its parent group in times of stress. BAY is a subsidiary of MUFG Bank Ltd. (MUFG Bank). MUFG Bank (rated “A/Stable” by S&P Global Ratings) is a wholly-owned subsidiary and a core member of the MUFG Group.

BAY’s stand-alone credit profile reflects its well-diversified business mix and franchise strengths in the retail and Japanese corporate banking segments. However, BAY’s moderately strong capital and somewhat above-average reliance on wholesale funding relative to other large Thai banks constrain its standalone-credit profile.

## KEY RATING CONSIDERATIONS

### A highly strategic subsidiary of the MUFG Group

We expect BAY to receive extraordinary support from the MUFG Group in times of stress. We also expect the group to continue providing business and funding support to BAY, despite the bank’s modest revenue and earnings contributions.

We believe the MUFG Group has a strong and long-term commitment to support BAY given its 76.88% ownership. We believe there is a linkage between BAY and the group’s reputation due to BAY’s close collaboration with the MUFG Group to support both of their clients. The key areas of collaboration include facilitating cross-border businesses, client referral, supply-chain financing, and wealth management. We also factor in the active involvement of the MUFG Group at the board and management levels.

### Solid and diversified franchise

BAY’s solid and diversified banking franchise underpins its ratings. Its strength across all major client segments and diversified revenue structure should help sustain its business stability amid heightened uncertainties caused by the Coronavirus Disease 2019 (COVID-19) pandemic. We expect considerable growth headwinds with the domestic economy on a recovery path over the next two years.

Before the pandemic, BAY was able to sustain stronger loan growth than its peers, which has helped expand its market share. The bank registered a healthy 8.7% loan growth in 2019. During the first nine months of 2020, BAY achieved 1.4% year-to-date (YTD) loan growth, with strong growth from Japanese and multinational corporations, but considerably slowdowns across most retail and local commercial segments.

BAY’s earnings mix is slightly more lending-focused relative to other Thai banks, with net interest income (NII) accounting for around 73% of total revenue in the first half of 2020. Net fee income was 15% of total revenue, somewhat below peers’ average at near-20% level. Around three-quarters of the bank’s total fees income come from consumer finance businesses, comprising credit card, bancassurance, and transaction- and loan-related fees.

Collaboration with the MUFG Group and BAY's regional expansion strategy should help further diversify its earnings over the medium term. This should enhance BAY's capacity to offer cross-border financial services in areas of investment banking, transaction banking, and wealth management.

BAY was designated as one of Thailand's five Domestic Systemically Important Banks (D-SIBs) in 2017. Its overall loan market share among 10 listed Thai commercial banks was 14.2% as of June 2020.

### **Well-managed asset quality**

In our opinion, well-managed asset quality, decent risk-adjusted returns from lending, and healthy provision levels should help BAY weather the heightened asset quality risks caused by the COVID-19. BAY has maintained a relatively stable non-performing loan (NPL) ratio<sup>1</sup> so far in 2020. The figure stood at 2.2% at the end of September 2020, below that of several other local Thai banks. This results from loan support programs and active write-off of delinquent loans. Based on TRIS Rating's estimate, BAY wrote-off around 1.4% of total loans in the first half of 2020, compared with 1.1% in the same period last year. Similarly, a stage-2 loan ratio of 7.7% at the end of September 2020 has remained relatively stable since the implementation of TFRS9. This figure was below that of many other Thai banks, which averaged above 9% at the end of June 2020.

BAY's NPL coverage ratio was 153% at the end of September 2020, a relatively strong figure. The amount includes excess reserves, which the bank plans to allocate into management overlays over the next few years.

### **Consistent profitability amid earnings pressure**

In our assessment, BAY has ample earnings buffer to withstand potential credit losses amid weak business environments. We factor in the bank's decent profitability from diversified earnings sources and ample provision levels. Consistent with the banking industry, we expect BAY's profitability to remain under pressure from net interest margin (NIM) compression and elevated credit cost over the next few years. Accordingly, we forecast return on average assets (ROAA) in the range of 1% to 1.1%, and risk-adjusted NIM in the range of 1.9% to 2.1% between 2020 and 2022.

BAY has been able to deliver profitability above other major Thai banks, thanks to decent risk-adjusted NIM and improved operating efficiency. ROAA for the first nine months of 2020 was 1.1% on an annualised basis. High loan yields with relatively stable credit costs helped BAY achieve annualised risk-adjusted NIM of 2% in the same period. Further, the bank has been able to lower its cost-to-income ratio to 41% over the first nine months of 2020, down from 46%<sup>2</sup> over the same period in 2019.

### **Sufficient capital**

We forecast BAY's core equity tier-1 (CET-1) ratio to remain well above the minimum requirement. As a D-SIB bank, BAY is required to maintain an additional 1% of CET-1 on top of the 8% minimum requirement. We forecast BAY's CET-1 to hold at around 13% over the next two years. We factor in 2% to 6% loan growth and maintain a 25% dividend pay-out ratio over this period. BAY's CET-1 ratio as of September was 13.92%, a moderately strong figure for Thai banks.

### **Average funding profile**

BAY maintains a fairly strong and diversified funding profile for a Thai commercial bank. The bank has seen an influx of retail and non-retail deposits so far in 2020, as uncertainties from the COVID-19 caused muted demand for loans and increased supplies of deposit funding in the banking system. Deposits expanded 10.4% YTD as of September 2020, whilst deposit market share across local Thai banks remained at around 12%. The loan-to-deposit ratio eased to 107% as of September 2020, down from 116% at the end of 2019.

Above-average reliance on wholesale funding is appropriate given interbank funding from the parent's bank and BAY's asset profile, where fixed-rate auto hire-purchase lending made up 23% of the total loan portfolio as of September 2020. Deposits made up 79% of BAY's total funding at the end of June 2020, the lowest among major Thai banks. Similarly, the current account-savings account (CASA) ratio, which improved to 48% at the end of September 2020, remains below that of other major Thai banks. High reliance on term deposits and high-cost parent funding helps explain BAY's high funding cost, relative to other major Thai banks. BAY's cost of funds stood at an annualised 1.3% during the first nine months of 2020.

### **Adequate liquidity**

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<sup>1</sup> Including interbank

<sup>2</sup> Adjusted for one-time provision following the amended Labour Protection Act in 2019

We consider BAY has adequate liquidity on a stand-alone basis; its liquidity profile is on par with other mid-sized Thai banks. The bank's liquidity coverage ratio (LCR) was as healthy at 138% at the end of June 2020, but remained below the Thai commercial bank average of 183% for the same period. The figure is well above the regulatory requirement of 100%. As of September 2020, BAY's liquid assets to total deposits were at a satisfactory 34% level. We view available credit facilities and the support the bank receives from the MUFG Group to be strong back-up for its liquidity.

#### BASE-CASE ASSUMPTIONS (2020-2022)

- Loan growth: around 2%-6%
- Credit cost: around 1.7%-2%
- NPL ratio (including interbank): around 2.3%-2.4%
- CET-1 ratio: 12%-13%
- Risk-adjusted NIM: around 1.9%-2.1%

#### RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating 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 credit ratings 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 Group changes.

#### 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 hire-purchase 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 of 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 Co., Ltd. (NTL). 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 information technology services to the Bank 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 follows a Share Purchase Agreement announced on 8 August 2020.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS<sup>1</sup>

Unit: Mil. THB

	Jan-Sep 2020 <sup>2</sup>	Year Ended 31 December			
		2019	2018	2017	2016
Total assets	2,492,130	2,359,592	2,173,622	2,088,771	1,883,188
Average assets	2,425,861	2,266,607	2,131,197	1,985,980	1,794,352
Investment in securities	187,323	130,292	137,369	86,156	133,701
Loans and receivables	1,852,962	1,822,361	1,676,344	1,554,321	1,452,746
Allowance for doubtful accounts	74,622	67,384	61,360	55,476	49,462
Deposits	1,729,141	1,566,885	1,426,348	1,319,229	1,108,288
Borrowings <sup>3</sup>	400,505	427,788	399,747	422,587	474,726
Shareholders' equities	285,964	272,116	243,718	225,987	208,768
Average equities	279,040	257,917	234,853	217,378	199,758
Net interest income	62,381	76,423	75,329	68,535	61,977
Non-interest income <sup>4</sup>	23,972	45,185	34,251	31,946	29,510
Total revenue	86,353	121,608	109,580	100,481	91,487
Operating expenses <sup>5</sup>	35,609	52,169	51,741	48,210	43,080
Pre-provision operating profit (PPOP)	50,744	69,439	57,839	52,271	48,407
Impairment losses on loans and securities	26,089	28,203	26,180	22,970	21,315
Net income	19,879	33,131	25,192	23,561	21,684
Net fee and service income	12,667	21,777	21,248	19,675	18,175
Gains on investments	75	9,232	374	896	599

- 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: %

	-----Year Ended 31 December -----				
	Jan-Sep 2020 <sup>2</sup>	2019	2018	2017	2016
<b>Earnings</b>					
Return on average assets <sup>6</sup>	1.09	1.46	1.18	1.19	1.21
Interest spread <sup>6</sup>	3.31	3.24	3.45	3.37	3.38
Net interest margins <sup>6</sup>	3.49	3.47	3.67	3.58	3.58
Net interest income/average assets <sup>6</sup>	3.43	3.37	3.53	3.45	3.45
Non-interest income <sup>7</sup> /average assets <sup>6</sup>	1.32	1.99	1.61	1.61	1.64
Net fee and service income/total revenue	14.67	17.91	19.39	19.58	19.87
Cost-to-income	41.24	42.90	47.22	47.98	47.09
<b>Capitalisation</b>					
CET-1 ratio <sup>8</sup>	13.92	13.05	12.46	12.56	12.14
Tier-1 ratio <sup>8</sup>	14.14	13.26	12.52	12.64	12.24
BIS ratio <sup>8</sup>	18.64	17.81	16.15	16.50	15.06
CET-1/BIS ratio <sup>8</sup>	74.68	73.29	77.17	76.12	80.61
<b>Asset Quality</b>					
Credit costs <sup>6</sup>	1.90	1.62	1.62	1.53	1.54
Non-performing loans/total loans <sup>9</sup>	2.18	1.92	2.00	2.00	2.11
Allowance for loan losses/non-performing loans	153.19	163.02	159.60	147.46	141.99
<b>Funding &amp; Liquidity</b>					
CASA/total deposit	47.46	40.67	43.93	44.55	52.69
Loan/total deposits	106.62	116.02	117.22	117.52	130.73
Deposits/total liabilities	78.38	75.06	73.91	70.82	66.19
Liquid assets/total deposits <sup>10</sup>	30.08	26.59	24.84	28.33	25.88
Liquid assets/short-term liabilities <sup>11</sup>	n.a.	27.14	25.90	28.13	25.01

6 Annualised

7 Net of fee and service expenses

8 Consolidated basis

9 Including interbank; excluding accrued interests

10 Including interbank borrowing

11 Financial liabilities with maturity less than one year

## RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020

- Group Rating Methodology, 10 July 2015

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**Bank of Ayudhya PLC (BAY)**

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<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
Up to THB20,000 million senior unsecured debentures due within 3 years	AAA
- BAY223A: THB2,900 million senior unsecured debentures due 2022	AAA
- BAY233A: THB4,100 million senior unsecured debentures due 2023	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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