

# BANK OF AYUDHYA PLC

No. 143/2021  
8 September 2021

## FINANCIAL INSTITUTIONS

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

Last Review Date: 26/11/20

### 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 affirms the ratings on BAY’s senior unsecured debentures under the THB20 billion debenture program due within three years at “AAA”, with a “stable” outlook. The ratings incorporate a rating 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. The ratings also reflect the business and financial support the MUFG Group has provided to the bank and the expected extraordinary support from its parent group in times of financial 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 diversified loan portfolio mix and well-established franchise in the retail segment and Japanese corporate banking segment. However, BAY’s stand-alone credit profile was constrained by its moderate level of capital and above-average reliance on wholesale funding relative to other large Thai banks.

## KEY RATING CONSIDERATIONS

### A highly strategic subsidiary of the MUFG Group

We consider BAY to be a highly strategic subsidiary of the MUFG Group. The MUFG Group currently owns a 76.88% equity interest in BAY. BAY plays a critical role in the group’s strategic expansion in Southeast Asia, a potentially higher-margin, and high-growth market.

We expect BAY will continue to receive both financial and business supports from the MUFG Group. In our view, there is a high likelihood of the MUFG Group to provide extraordinary support to BAY in times of financial stress. In terms of business support, the key areas of collaboration include facilitating cross-border businesses, client referrals, supply-chain financing, and wealth management.

We believe the MUFG Group has a strong and long-term commitment to support BAY. In our view, the close linkage between BAY and the group has significant implications concerning the group’s reputation. The MUFG Group has been actively involved at the board and management levels. Four of the seven non-independent members of BAY’s board of directors were appointed by the group.

### Well-established franchise and diversified loan portfolio

BAY’s well-established banking franchise anchors our assessment on the bank’s SACP. The bank was designated as one of Thailand’s six Domestic Systemically Important Banks (D-SIBs). At the end of June 2021, BAY’s loan and deposit market shares among the nine listed Thai commercial banks were 13.6% and 13.3%, respectively. BAY has strong expertise in the retail segment as evidenced by its dominant market share across key retail products. BAY consistently ranks as the top player in personal loans, credit card, and auto hire purchase loans with market shares of 28%, 16%, and 29%, respectively at the end of May 2021. The bank also has competitive advantage in the Japanese corporate banking segment given its close collaboration with the MUFG Group.

In our view, BAY's well-diversified loan portfolio will continue to support its credit profile amid the high uncertainties induced by the Coronavirus Disease 2019 (COVID-19) pandemic. We also expect BAY will continue to expand its business into overseas markets over the next few years, especially in Southeast Asia, through both organic and inorganic growths. BAY's revenue structure is slightly more lending-focused relative to other Thai banks, with net interest income (NII) accounting for around 69.3% of total revenue (excluding the recognition of gains on investments from partial sales of shares in Ngern Tid Lor PLC - TIDLOR) in the first half of 2021. Net fee income was 14.9% of total revenue, somewhat below the peers' average at a near-20% level.

BAY has grown its loan book at a slower pace over the past two years given the impact from COVID-19. We believe BAY's efforts to control its asset quality through its conservative growth strategy should support its business stability and earnings over the next few years.

#### **Capitalization remains comfortably adequate**

We assess BAY's capitalization as adequate. The bank's common equity tier-1 (CET-1) ratio was 12.76% at the end of June 2021, slightly lower than the Thai commercial banks' average of 15.6%. However, the figure is well in excess of the minimum regulatory capital requirement of 8%, including the D-SIB buffer of 1% and capital conservation buffer of 2.5%. We forecast that BAY will maintain a CET-1 ratio in the 13%-15% range over the next two years. This is based on our forecast that BAY's loan growth will be about 2% in 2021 before rising to about 3% and 5% in subsequent years. In our view, net interest margin (NIM) will continue to be under pressure in the range of 3%-3.2% over the next two years while credit losses will gradually revert to pre-COVID-19 levels. We also factor in the dividend pay-out ratio of around 10% over the next two years. In our view, BAY's moderate loan growth and stringent underwriting standards will likely help sustain its adequate capitalization over the next two years.

#### **Profitability to gradually improve**

BAY's return on average assets (ROAA) in 2020 fell to 0.94% from 1.19% (excluding gains on investments from sales of shares in TIDLOR and provision in accordance with the amended Labor Protection Act.) in 2019, on par with the industry average of 0.92% in 2020. The decrease was mainly attributed to higher credit costs to cushion potential credit losses due to the weak economy induced by COVID-19. Despite the recent asset quality deterioration, the bank's profitability still compares favourably with that of its domestic peers. Annualized ROAA for the first six months of 2021 was 0.98% (excluding gains on partial sales of shares in TIDLOR in the second quarter of 2021), a slight decline from 1.12% in the first six months of 2020.

We are of the view that BAY's profitability will likely recover gradually over the next two years. The improvement will be mainly driven by the decrease in credit costs. We forecast the bank's earnings in 2021-2023 to gradually recover with ROAA in the range of 0.9%-1.2%, assuming moderate loan growth over the next three years and credit cost in the range of 1.6%-1.8%. We expect the bank's NIM to remain relatively stable in the range of 3%-3.2% and funding costs to bottom out in 2021.

#### **Asset quality under pressure**

BAY's asset quality remains under pressure from successive waves of COVID-19 outbreaks, similar to banking peers. The partial lockdowns of cities to contain the spread of COVID-19 has widely affected customers' debt serviceability. The delay in the return to normalcy will continue to hamper the bank's asset quality amid the economic slowdown.

BAY's growth appetite is anticipated to be moderate during 2021-2022 as COVID-19 infections remain high and vaccination rollouts have only begun to ramp up. These could temper the bank's near-term growth prospect, in our view. We expect BAY's loan growth to remain anaemic in the low-single digit range over the next three years to reflect lower credit demand and cautious underwriting amid continued economic headwinds in Thailand. We anticipate the bank's loan growth will be mainly driven by the high-quality corporate segment due to its stringent underwriting standards particularly in the small and medium enterprise (SME) and retail segments.

In our view, BAY's overall asset quality remains at manageable levels given the bank's limited exposure to vulnerable segments. The bank has maintained a broadly stable non-performing loan (NPL) ratio over the past two years. The figure stood at 2.63% at the end of June 2021, below the Thai commercial banks' average of 3.67% at the same period. This was owing to debt relief programs, the active writing off of delinquent loans, and healthy provision levels. However, we project the bank's NPL ratio to gradually rise to 2.8%-3.2% over the next two years after the expiration of debt relief programs. BAY also set aside sizeable provisions in 2020 to strengthen its reserves against potential credit losses in the future. The bank's NPL coverage ratio was 175.8% at the end of June 2021, slightly higher than the Thai commercial banks' average of 162%. Hence, we expect the bank's credit cost to gradually fall to pre-COVID-19 levels.

## Average funding profile

We expect BAY to maintain its average and diversified funding profile over the next few years. Similar to its peers, BAY has experienced a huge influx of deposits during the period of uncertainty induced by COVID-19. The bank's customer deposits rose by a record of 17.1% in 2020 and slow down to 3.1% year-to-date (YTD). With the loan contraction of -0.7% YTD and deposit growth of 3.1% YTD, the loan-to-deposit ratio significantly dropped to 96.3% at the end of June 2021, from 116% at the end of December 2019.

Deposits accounted for 83.4% of BAY's total funding at the end of June 2021, the lowest among major Thai commercial banks. Above-average reliance on wholesale funding is due to interbank funding from its parent bank. BAY's current account savings account (CASA) deposits have grown significantly since the beginning of 2020. The bank's CASA ratio improved to 57.7% at the end of June 2021 from 49.5% at the end of December 2020. Although the figure is below that of other major Thai commercial banks, we view that it is appropriate for BAY's loan portfolio which has a relatively high exposure to fixed-rate auto hire-purchase lending. BAY's cost of funds fell to 1.02% during the first six months of 2021, compared with 1.39% in the same period last year, thanks to declining interest rates and the lower base of fixed deposits. Nonetheless, its overall funding cost remains relatively higher than large Thai commercial banks' average of 0.79%, mainly due to the higher mix of wholesale funding and high-yield deposits.

## Adequate liquidity

We assess BAY's liquidity profile on a stand-alone basis as adequate, on par with other mid-sized Thai banks. Similar to other major Thai banks, BAY experienced an influx of deposits in 2020. The bank's liquidity coverage ratio (LCR) stood at 148% at the end of December 2020, well above the regulatory requirement of 100%. BAY's liquid assets to total deposits were at a satisfactory 36.8% level at the end of June 2021. We also view available credit facilities and the support the bank receives from the MUFG Group as a strong back-up for its liquidity.

## BASE-CASE ASSUMPTIONS (For 2021-2023)

- Loan growth: 2%-5%
- Credit cost: 1.6%-1.8%
- NPL to gross loans: 2.8%-3.4%
- CET-1 ratio: 13%-15%
- Risk-adjusted NIM: 1.7%-2%

## 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 credit ratings and/or outlook of BAY could change if the credit profile of the MUFG Group changes or we view there to be a material adverse change in BAY's strategic importance to the MUFG Group. The bank's SACP could be revised down if its CET-1 ratio falls below 11.8%.

## 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, 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 information technology 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% post 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 the transfer of 100% of charter capital in SHBank Finance Company Limited, which operates consumer finance business in Vietnam, from Saigon Hanoi Commercial Joint Stock Bank (SHB Finance).

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

Unit: Mil. THB

	Jan-Jun 2021 <sup>2</sup>	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	2,659,302	2,609,374	2,359,592	2,173,622	2,088,771
Average assets	2,634,338	2,484,483	2,266,607	2,131,197	1,985,980
Investment in securities	185,594	177,251	130,292	137,369	86,156
Loans and receivables	1,830,303	1,842,030	1,822,361	1,676,344	1,554,321
Allowance for doubtful accounts	80,205	76,407	67,384	61,360	55,476
Deposits	1,890,939	1,834,505	1,566,885	1,426,348	1,319,229
Borrowings <sup>3</sup>	376,748	389,689	427,788	399,747	422,587
Shareholders' equities	307,053	289,179	272,116	243,718	225,987
Average equities	298,116	280,647	257,917	234,853	217,378
Net interest income	38,552	81,304	76,423	75,329	68,535
Non-interest income <sup>4</sup>	27,791	32,683	45,185	34,251	31,946
Total revenue	66,342	113,987	121,608	109,580	100,481
Operating expenses <sup>5</sup>	24,637	48,465	52,169	51,741	48,210
Pre-provision operating profit (PPOP)	41,706	65,522	69,439	57,839	52,271
Impairment losses on loans and securities	15,342	36,644	28,203	26,180	22,970
Net income	21,205	23,340	33,131	25,192	23,561
Net fee and service income	8,275	17,564	21,777	21,248	19,675
Gains on investments	10,845	109	9,232	374	896

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 2021 <sup>6</sup>	-----Year Ended 31 December -----			
		2020	2019	2018	2017
<b>Earnings</b>					
Return on average assets <sup>6</sup>	1.61	0.94	1.46	1.18	1.19
Net interest margins <sup>6</sup>	3.03	3.40	3.54	3.75	3.66
Risk-adjusted net interest margin <sup>6</sup>	1.82	1.87	2.23	2.45	2.43
Net interest income/average assets <sup>6</sup>	2.93	3.27	3.37	3.53	3.45
Non-interest income <sup>7</sup> /average assets <sup>6</sup>	2.11	1.32	1.99	1.61	1.61
Net fee and service income/total revenue	12.47	15.41	17.91	19.39	19.58
Cost-to-income	37.14	42.52	42.90	47.22	47.98
<b>Capitalisation</b>					
CET-1 ratio <sup>8</sup>	12.76	12.85	13.05	12.46	12.56
Tier-1 ratio <sup>8</sup>	12.76	12.85	13.26	12.52	12.64
BIS ratio <sup>8</sup>	17.80	17.92	17.81	16.15	16.50
CET-1/BIS ratio <sup>8</sup>	71.69	71.74	73.29	77.17	76.12
<b>Asset Quality</b>					
Credit costs <sup>6</sup>	1.68	2.01	1.62	1.62	1.53
Non-performing loans/total loans <sup>9</sup>	2.63	2.49	2.27	2.30	2.43
Allowance for loan losses/non-performing loans	175.79	175.12	163.82	160.77	148.43
<b>Funding &amp; Liquidity</b>					
CASA/total deposit	57.69	49.50	40.67	43.93	44.55
Loan/total deposits	96.29	99.91	116.02	117.22	117.52
Deposits/total liabilities	80.39	79.07	75.06	73.91	70.82
Liquid assets/total deposits <sup>10</sup>	36.79	34.48	26.59	24.84	28.33
Liquid assets/total assets	29.37	27.46	20.50	19.09	21.69

6 Annualised

7 Net of fee and service expenses

8 Bank-only

9 Excluding interbank and accrued interests

10 Including interbank borrowing

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Banks Rating Methodology, 3 March 2020

**Bank of Ayudhya PLC (BAY)**

<b>Company Rating:</b>	AAA
<b>Issue Ratings:</b>	
Up to THB20,000 million senior unsecured debentures due within 3 years	
- 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

**TRIS Rating Co., Ltd.**

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