

## Press Release

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### **TRIS Rating Affirms Company & Senior Unsecured Debt Ratings of "TISCOB" at "A" and Subordinated Debt Rating at "A-", with "Stable" Outlook**

TRIS Rating has affirmed the company rating and the ratings of senior unsecured debentures of TISCO Bank PLC ("TISCOB") at "A", and has affirmed the ratings of the bank's subordinated debentures at "A-". The outlook remains "stable". The ratings reflect TISCOB's strong competitive position in automobile hire-purchase 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 hire-purchase loan segment, and its reliance on wholesale funding.

The "stable" outlook reflects the expectation that TISCOB will maintain its strong competitive position in automobile hire-purchase lending and a strong capital and earnings position. The rating could be revised downward in case of a sustained period of substantially weakened profitability, severe deterioration of asset quality. The rating upgrade will depend on the bank's ability to sustainably gain market shares, significantly diversify its loan portfolio and improve its funding capability.

TISCOB is the core banking, a 99.99% owned subsidiary 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 2016, with a 2% market share in loans and a 1.4% share in deposits. TISCOB has a relatively stable business profile, with net interest and dividend income representing 73.7% and net fees and service income representing 21.9% of total revenue in 2016. The bank is specialized in automobile hire-purchase lending, which represented around 61% of its loan portfolio at the end of 2016. TISCOB was the fourth-largest automobile loan provider with approximately 10% market share in 2015 among the 16 automobile loan providers in TRIS Rating's database. In line with the down cycle of domestic automobile sales amid the economic slowdown over the past few years, TISCOB's loan portfolio has contracted since 2014. At the end of 2016, TISCOB's loans and receivables totalled Bt222 billion, a 5.4% decrease from the prior year.

TISCO has recently entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT). The acquisition, estimated to be completed in the third quarter of 2017, will entail transfers of loan assets and liabilities from SCBT's retail banking operation to TISCOB. As of 30 September 2016, the net asset value of the transfers was approximately Bt5.5 billion, comprising Bt41.6 billion in assets and Bt36.1 billion in liabilities. Some of SCBT's existing retail banking staffs are expected to be retained by TISCOB to ensure continued operation of the acquired business comprising personal loans, mortgage loans, wealth management, and retail deposit products. The acquisition will enable TISCOB to have an immediate entry to some of the retail banking products which currently are not parts of its business. TRIS Rating views the acquisition as a credit positive event as it will help reduce the bank's dependence and concentration on automobile hire-purchase lending.

TISCOB has a strong capital position with its Basel-III compliant total capital ratio of 19.6% at the end of 2016, which was among the highest across listed Thai commercial banks. Around 75% of the total capital was core equity tier-1. Its capital position is viewed sufficient to support its business expansion in the next few years. TISCOB's profitability is ranked among the highest in the industry based on its return-on-average-asset of 1.39% and return-on-average-equity of 13.85% in 2016. Contribution of fee and service income was around the average of Thai commercial banks. Its earnings capacity is viewed sufficient to withstand potential volatility across a business cycle.

The bank's asset quality is on an improving trend as indicated by the decline of credit costs to 1.6% in 2016 from the peak of 2% in 2015. It continues to add to its excess reserves for loan losses. Non-performing loan (NPL) coverage ratio has significantly improved from a low 80.7% in 2015 to 146.3% in 2016, which appeared to be on a high side relative to peers' average. NPL also lowered to 2.31% in 2016 from 2.94% in 2015, following a notable decrease of its hire-purchase loans and its corporate lending. TISCOB's loss experience over the past five years with its credit costs averaging 1.45% per annum was around the industry norm.

(Continue on page 2)

TISCOB's funding structure mirrors the typical funding profile of small Thai banks, characterised by relatively high proportions of fixed deposits and borrowings, and the low current account and savings account (CASA) ratio compared with that of their larger peers. The bank's CASA ratio of 36% at the end of 2016, improving from 32% in the previous year, remained the lowest among the industry. Borrowings of 25.5% of total funding including shareholders' equities at the end of 2016, which mainly consisted of senior debentures and has been on a rise over the past five years, reflected TISCOB's strategy towards cheaper and more flexible funding sources relative to its fixed deposits. Its loan-to-deposit ratio including bills of exchange (B/Es) of 142% was well above the industry average. The bank's liquidity position is assessed to be adequate although its liquid asset to total deposit ratio, including B/Es and interbank borrowing of 27% at the end of 2016 appeared to be below industry average.

## **TISCO Bank PLC (TISCOB)**

### **Company Rating:**

A

### **Issue Ratings:**

Up to Bt70,000 million senior unsecured debentures due within 2021 A

- TISCO176A: Bt2,780 million senior unsecured debentures due 2017 A

- TISCO177A: Bt1,900 million senior unsecured debentures due 2017 A

- TISCO178A: Bt5,000 million senior unsecured debentures due 2017 A

- TISCO17NA: Bt4,000 million senior unsecured debentures due 2017 A

- TISCO17DA: Bt5,000 million senior unsecured debentures due 2017 A

- TISCO182A: Bt4,000 million senior unsecured debentures due 2018 A

- TISCO182B: Bt1,500 million senior unsecured debentures due 2018 A

- TISCO182C: Bt2,500 million senior unsecured debentures due 2018 A

- TISCO193A: Bt5,000 million senior unsecured debentures due 2019 A

- TISCO194A: Bt5,000 million senior unsecured debentures due 2019 A

TISCO22DA: Bt1,243 million subordinated debentures due 2022 A-

### **Rating Outlook:**

Stable

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