

# TISCO BANK PLC

No. 60/2019  
26 April 2019

## FINANCIAL INSTITUTIONS

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

Last Review Date: 25/07/18

### 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 on TISCO Bank PLC (TISCOB) and the ratings on senior unsecured debentures of up to Bt100,000 million, due within 2021 at “A” with a “stable” outlook. The ratings reflect TISCOB’s stable franchise in auto lending as well as strong capital and earnings. These strengths, however, are constrained by TISCOB’s relatively modest banking operations, and a moderately high reliance on wholesale funding.

## KEY RATING CONSIDERATIONS

### Modest commercial bank franchise with strength in auto lending

TISCOB is a 99.99%-owned core banking of TISCO Financial Group PLC (TISCO). TISCOB is a smaller-sized Thai commercial bank based on its asset size at the end of 2018, with a 2.0% market share in loans and a 1.6% share in deposits. Net interest and dividend income represented 74.1% of its total revenue in 2018. A large portion of non-interest income comprised net fees and service income, at 19.6% of total revenue.

The TISCO Group is a major provider of auto hire-purchase lending. According to TRIS Rating’s database, the TISCO Group secured 8.6% market share in 2017, ranking 4<sup>th</sup> out of 18 hire-purchase lenders in Thailand.

### Auto lending still dominates retail banking

We expect the TISCO Group to continue capitalising on its expertise in auto lending and high-growth segment of auto title loans. The title loan segment includes loans booked at TISCOB and loans booked at TISCO’s subsidiary, Hi-Way Co., Ltd., under the brand “Somwang Ngern Sang Dai”. Altogether, the title loan segment grew at a compound annual growth rate (CAGR) of 18.5% over the past three years.

TISCOB’s initial strategy to diversify into other retail banking segments by acquiring the retail banking business from Standard Chartered Bank (Thai) PLC (SCBT) in 2017 appeared to be a positive move. The acquisition provided TISCOB an instant reach to a larger pool of retail loan customers, including credit card, personal loans, mortgage and home-equity loans, and retail depositors. This has helped enhance the Group’s retail banking franchise to some extent. While the recent sale of the acquired credit card and personal loans may limit the prospects for TISCOB’s retail banking expansion, we believe it also helps limit credit risk for the bank.

### Solid capital

In our opinion, TISCOB’s capital ratio is high relative to other Thai commercial banks. We forecast TISCOB’s Basel-III compliant core equity tier-1 (CET-1) ratio in a range of 17%-18% over the next three years, sufficient to support its business expansion. We also assume the bank’s loan growth of around 5% per year and a dividend pay-out ratio to remain in the range of 65%-75% over the same period. Its CET-1 ratio accounted for 78% of total capital at the end of 2018, indicating an average quality of capital.

### Healthy earning supports capital

We expect TISCOB to maintain its high profitability sufficient to withstand potential volatility across a business cycle. Healthy risk-adjusted net interest margin (NIM) and low operating expenses support the bank’s robust

profitability.

TISCOB's return on average asset (ROAA) was 1.7% in 2018, above the Thai commercial banks' average of 1.3%. We forecast TISCOB to maintain its high NIM on a risk-adjusted basis at around 3.3%-3.4%, to reflect contribution from high-yield segments and a sale of its personal loan portfolio. The risk-adjusted NIM of TISCOB was 3.2% in 2018, well above industry standards of 2.1%.<sup>1</sup> We also forecast its cost-to-income ratio in a range of 44%-45%, to reflect its planned investments in information technology (IT) system over the next three years.

### Good asset quality

We think TISCOB will be able to maintain a generally good asset quality. We factor in its prudent risk management and cautious loan growth strategy, which led to a relatively low non-performing loan (NPL) ratio and healthy loan-loss provision. The bank's reported NPL was 2.67%, up from 2.16%, reflecting in part a temporary effect from an internal NPL reclassification due to an upgrade in its revenue recognition system for instalment loans, comprising mortgage, auto-cash, and hire purchase (HP) lending. The reclassification affected reported NPLs of instalment loans, but the bank expects the figure to normalise by mid-2020 after the system upgrade is complete.

We also expect the pressure on the bank's asset quality to remain relatively contained over the next three years. This is due to its relatively small exposure to vulnerable segments such as small and medium enterprises (SMEs) and mortgage lending as well as zero exposure to unsecured lending, i.e. credit cards and personal loans. The majority of its HP lending is captive-financing for new cars with an overall good asset quality.

### High reliance on wholesale funding

TISCOB's funding reflects that of smaller-sized Thai commercial banks, with a relatively low proportion of sticky retail deposits. TISCOB's deposit as a percentage of total funding rose to 78.5% at the end of 2018, from 72.9% in the previous year. Current account-savings account (CASA) to total deposit was also down to 29.4% from 37.7% over the same period, as fixed deposits grew. The loan-to-deposit ratio was down to 121.2% in 2018 from 135.0% in 2017, remaining above the Thai commercial bank's average. However, we notice a recent growth in term deposits away from wholesale funding. We believe the move was to comply with net stable funding ratio (NSFR) requirements and to lock in long-term funding costs. The remaining borrowing also reflects the bank's strategy on flexible funding sources.

### Adequate liquidity

TISCOB's liquidity is adequate. The liquid asset to total asset ratio was 21.1% at the end of 2018, comparable to other Thai banks. The liquidity coverage ratio (LCR) is above the regulatory requirement<sup>2</sup>, but weaker than the 158% average for smaller banks' and 183% for commercial banks reported by the Bank of Thailand (BOT).

### BASE-CASE ASSUMPTIONS

The followings are our base-case assumptions for TISCOB's performance during 2019-2021:

- Loan growth at 5%-5.5%
- Credit cost of 0.6%-0.8%
- NPL ratio of 2.1%-2.4%
- CET-1 ratio at 17%-18%
- Risk-adjusted NIM at 3.3%-3.4%

### RATING OUTLOOK

The "stable" outlook reflects our expectation that TISCOB will maintain its strength in auto lending, good asset quality, high earnings capacity, and strong capital.

### RATING SENSITIVITIES

A rating upgrade will depend on TISCOB's ability to sustain its strong capital, diversify its banking businesses and/or improve its funding. We could revise a rating downward if there is material weakness in TISCOB's asset quality, capital, and profitability.

### COMPANY OVERVIEW

<sup>1</sup> This is net interest income less credit cost divided by average earnings assets.

<sup>2</sup> 90% in 2019 and 100% in 2020.

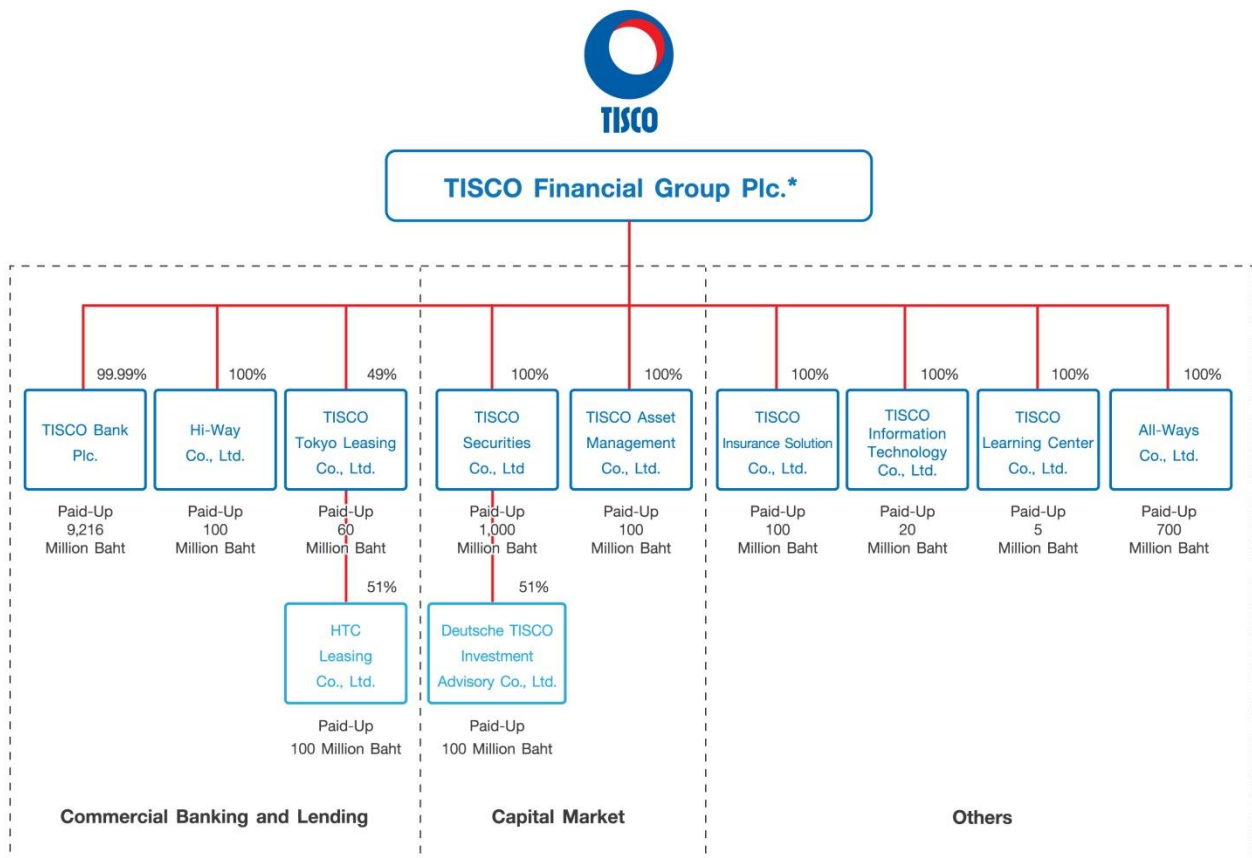
TISCOB, formerly named “TISCO Finance PLC”, was established in 1969 as a finance company owned by Bankers Trust New York Corporation (60% holding), Bancom Development Corporation (20%), and Kasikorn Bank PLC (20%). TISCOB was listed on the Stock Exchange of Thailand (SET) in 1983. In the aftermath of 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 a transfer of Bt33.7 billion of loan assets and Bt14.6 billion of deposits to TISCOB and All-Ways Co., Ltd., a subsidiary of TISCO. Around Bt31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans. The remaining Bt2.2 billion were loans to small and medium-sized enterprises (SMEs). The majority of deposits were retail current accounts and savings accounts (CASA).

In 2018, TISCOB and All-Ways Co., Ltd., respectively, completed a sale of personal loan portfolios and credit card business to Citibank N.A., Bangkok Branch. The combined portfolios totalled an approximate of Bt5.2 billion.

**Table 1: TISCO Group Structure**



\*Listed in The Stock Exchange of Thailand

Source: TISCO’s company website

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

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	290,698	288,275	260,742	269,800	305,886
Average assets	289,487	274,509	265,271	287,843	323,958
Investment in securities	6,994	5,932	5,553	7,185	13,309
Loans and receivables	237,209	245,607	221,978	234,769	258,569
Allowance for doubtful accounts	11,052	10,709	7,501	5,570	6,380
Deposits	195,216	181,499	155,951	159,046	206,391
Borrowings <sup>2</sup>	53,590	67,492	69,370	77,582	68,089
Shareholders' equities	30,323	28,925	27,444	25,815	24,004
Average equities	29,624	28,184	26,629	24,909	21,788
Net interest income	11,794	10,848	10,236	9,440	8,860
Non-interest income <sup>3</sup>	4,129	3,791	3,561	3,695	3,609
Total revenue	15,923	14,639	13,797	13,135	12,469
Operating expenses <sup>4</sup>	7,396	6,518	5,435	4,634	4,625
Pre-provision operating profit (PPOP)	8,527	8,121	8,362	8,500	7,845
Impairment losses on loans and securities	2,390	2,760	3,740	4,870	3,978
Net income	4,910	4,301	3,688	2,914	3,098
Net fee and service income	3,126	3,182	3,043	3,068	3,003
Gains on investments	440	20	12	24	142

- 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 -----				
	2018	2017	2016	2015	2014
<b>Earnings</b>					
Return on average assets	1.70	1.57	1.39	1.01	0.96
Interest spread	3.65	3.55	3.50	2.92	2.39
Net interest margins	3.97	3.86	3.80	3.24	2.70
Net interest income/average assets	4.07	3.95	3.86	3.28	2.73
Non-interest income <sup>5</sup> /average assets	1.43	1.38	1.34	1.28	1.11
Net fee and service income/total revenue	19.63	21.74	22.06	23.36	24.09
Cost-to-income	46.45	44.52	39.39	35.28	37.09
<b>Capitalisation</b>					
CET-1 ratio <sup>6</sup>	17.85	15.98	14.73	13.98	12.55
Tier-1 ratio <sup>6</sup>	17.85	15.98	14.73	13.98	12.55
BIS ratio <sup>6</sup>	22.91	20.72	19.59	18.01	16.79
CET-1/BIS ratio <sup>6</sup>	77.92	77.12	75.19	77.62	74.75
<b>Asset Quality</b>					
Credit costs	0.99	1.18	1.64	1.97	1.47
Non-performing loans/total loans <sup>7</sup>	2.18	1.84	1.98	2.62	2.00
Non-performing assets/total assets	2.49	3.45	3.99	3.97	2.34
Allowance for loan losses /non-performing loans	175.05	201.89	146.28	80.65	108.10
<b>Funding &amp; Liquidity</b>					
CASA/total deposits <sup>8</sup>	29.39	37.73	35.73	32.38	25.61
Loan/total deposits <sup>8</sup>	121.49	135.29	142.31	147.58	125.26
Deposits <sup>8</sup> /total liabilities	74.99	70.00	66.86	65.20	73.23
Liquid assets/total deposits <sup>9</sup>	30.77	27.20	27.19	22.45	23.68
Liquid assets/short-term liabilities <sup>10</sup>	27.33	23.23	21.89	17.95	19.18

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

## RELATED CRITERIA

- Commercial Banks, 30 March 2017

- Group Rating Methodology, 10 July 2015

**TISCO Bank PLC (TISCOB)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Up to Bt100,000 million senior unsecured debentures due within 2021	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
- TISCO205B: Bt6,000 million senior unsecured debentures due 2020	A
- TISCO208A: Bt2,000 million senior unsecured debentures due 2020	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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