TRIS RATING
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BANK OF AYUDHYA PLC

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FINANCIAL INSTITUTIONS

Company Rating:	AAA
Outlook:	Stable

Last Review Date:

Date	Rating	Outlook/Alert
13/12/17	AAA	Stable

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". The rating reflects BAY's status as a highly strategic member of Mitsubishi UFJ Financial Group (MUFG Group), the largest financial group in Japan. The rating reflects the business and financial support MUFG has provided to the bank and the expected support from its parent group in times of financial distress. BAY is a subsidiary of MUFG Bank Ltd. (MUFG Bank), formerly known as the Bank of Tokyo Mitsubishi (BTMU). MUFG Bank is a wholly-owned subsidiary and a core member of MUFG (rated "A/Positive" by S&P Global Ratings).

BAY's stand-alone credit profile reflects its diversified business mix and franchise strengths in consumer finance, retail banking, and corporate markets. However, BAY's moderate capital and average funding profile constrains its standalone credit profile.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of MUFG Group

TRIS Rating expects BAY to receive extraordinary support from the MUFG Group in times of financial distress. We also expect BAY to continue receiving business and funding supports from the group, despite modest revenue and earnings contributions.

We believe the MUFG Group has a strong and long-term commitment to support BAY. BAY has continually executed the group strategy in expanding its client base by leveraging existing relationships with Japanese corporates (JPCs) and multinational corporations (MNCs), and the MUFG Group's network Group. These include, for example, securing payroll accounts and providing financing to the supply chains of JPCs and MNCs, and supporting local business client's overseas expansion. We, therefore, think there is a close link between BAY and the group's reputation. We also factor in active involvement of the MUFG Group at the board of director and management levels.

Expanding a diversified franchise

We expect BAY to maintain its lead in consumer finance and Japanese corporate banking. This, together with MUFG Group's extensive network, will continue to support the bank's expansion into other segments. BAY stood out among Thai banks for its high growth rates in lending over recent years, relative to the industry. Total loans and deposits grew, respectively, by 7% and 19% year-on-year (y-o-y) in 2017. Hire-purchase, credit cards and personal loans, and Japanese corporates were key drivers of its recent loan growth.

BAY is the fifth largest Thai commercial bank, based on a total asset size of Bt2,093 billion at the end of the September 2018. The bank continues to gain market shares in loans and deposits. Market share in loans stood at 14.1% out of 11 listed Thai commercial banks in the same period, comparable with large Thai commercial banks. Market share in deposits was 11.7%. BAY's loan portfolio is well-diversified across wholesale and retail segments. At the end of third quarter of 2018 (Q3/2018), its loan portfolio comprised Thai and Japanese corporations (26% and 11%, respectively), small and medium enterprises or SMEs (15%), and retail clients (48%). Retail loans included auto hire-purchase (22% of total loans), mortgage loans (15%), and credit card and personal loans (11%).

In our opinion, deepened client relationships will allow BAY to generate higher fee income and further diversify its earnings mix over time. The bank expects to achieve this by providing total banking solutions to its clients. These include, for example, investment banking, foreign exchange and transaction banking for corporate and SME clients, and wealth management services to high net-worth clients. BAY's net fee and service income accounted for 20% of total revenue in 2017, around the Thai commercial bank average. The majority of fee income relates to transaction, loan-related, and bancassurance fees. BAY also operates securities, fund management, and insurance brokerage businesses through subsidiaries and joint ventures.

Sufficient capital to support growth

We expect BAY's Basel-III compliant core equity tier-1 (CET-1) ratio to be within a 12%-13% range over the next three years, sufficient to support its business expansion. We also forecast the bank's loan growth of 7%-8%, and its dividend pay-out ratio to remain in a range of 25%-30% in the same period. In our opinion, BAY's capital is moderate relative to other Thai commercial banks. This reflects the bank's strong loan growth over recent years, despite low dividend pay-outs. As of September 2018, BAY's CET-1 ratio was 12.76%, compared with the Thai commercial bank average of around 15%. The bank's CET-1 to total capital was 77.3% in the same period.

Average profitability

We expect BAY's profitability to remain on par with the other Thai commercial banks. We think BAY will be able to maintain its high net interest margin (NIM) on a risk-adjusted basis[1], which reflects its competitiveness in the high-yield segments. Its risk-adjusted NIM of 2.38% in 2017 compared well with the Thai bank average of 1.96%. However, the bank's relatively high operating expenses from its retail businesses and branch expansion could still pressure overall profitability. BAY's cost-to-income of 48% in 2017 remained on the high side, when compared with the Thai commercial bank average of 44%. This resulted in return on average assets (ROAA) of 1.2% in 2017, comparable to an average of other Thai commercial banks.

Asset quality under control

We expect the bank to maintain overall good asset quality and to continue strengthening its loan loss provisions, thanks to a diversified portfolio and strong risk management. We estimate the bank's prospective credit cost to be in the range of 1.5%-1.6% over the next three years. We believe this is appropriate for BAY, given the high-yield nature of its loan book. The credit cost was 1.53% in 2017, comparable with an average of Thai commercial banks.

We also expect its non-performing loan (NPL) formation, inclusive of bad debt written-offs, to remain stable in the range of 1.2%-1.3% over the next three years. That figure was 1.2% in 2017, a slight improvement from 1.3% in 2016. BAY has maintained an NPL ratio below those of its peers. BAY's NPL ratio, including interbank, slightly lowered to 2.04% at the end of Q3/2018, below the Thai commercial bank average of 3.10%. However, similar to other Thai commercial banks, BAY remains exposed to certain weak segments. We think gradual increase of special-mentioned loans (SML) ratio and relapse rate of restructured debt continue to signal lingering pressure in asset quality, notably among SMEs. As of Q3/2018, SML ratio rose to 3.64% from 3.47% at the end of 2017. Further, the bank continues to improve its provision for loan losses. NPL coverage ratio rose to 157% at the end of Q3/2018, above the Thai bank average of 139%. BAY's over-reserve position also improved to 162% in the same period.

Average funding

In our opinion, BAY's funding profile will remain average when compared with other Thai commercial banks over the next three years. We think BAY will leverage its diverse client base to improve its funding, in addition to financial supports it receives from MUFG. In our view, borrowing from MUFG equates a stable low-cost wholesale funding, not reflected in conventional funding metrics. Under BAY's funding strategy, the relationship the bank develops with its clients by providing value-added services will, over time, allow it to raise more deposits, notably the current account-savings account (CASA).

BAY, at present, lacks stable low-cost deposit funding at a level comparable with other large Thai commercial banks. However, we think the bank has made progress in increasing its deposit funding. Deposits as a percentage of total funding rose to 78% at the end of Q3/2018, from 70% at the end of 2016. The most recent figure remained somewhat below the Thai bank average of 86%. CASA to total deposits including bills of exchange (B/Es) of 44% at the end of Q3/2018 was below the Thai bank average of 62%. BAY's loan-to-deposit ratio including B/Es was 121% at the end of Q3/2018, also above the Thai bank average of 101%.

[1] This is net interest income less loan loss provisions divided by average earnings assets.

Liquidity is adequate

In our opinion, available credit facilities and the supports the bank receives from the MUFG group provide strong back-up for its liquidity. On a stand-alone basis, BAY's liquidity profile is on par with other mid-sized Thai banks. As of September 2018, liquid assets made up 24% of deposits including B/Es. Liquid assets to short-term liabilities were 24% in the same period.

RATING OUTLOOK

The "stable" rating outlook reflects the 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 rating and/or outlook of BAY could change if the credit profile of the MUFG Group changes or if TRIS Rating's view on 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 Asian financial crisis in 1997, 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 with GE Capital Thailand Co., Ltd. (GECT) to enter the credit card business by setting up Krungsriayudhya 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 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 later 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 hire-purchase 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. (GECAI) and other shareholders. On the transfer date, AYCAL had outstanding loans of Bt75.3 billion. After acquiring AYCAL, BAY restructured its auto hire-purchase subsidiaries into a single subsidiary to offer one-stop total solutions. AYCAL merged all the auto hire-purchase 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 Bt1.6 billion. In November 2009, BAY acquired GE Money Thailand (GEMT), which had a retail loan portfolio of Bt45.8 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 Bt13.9 billion and deposits of Bt9.6 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 Bt39 per share. GECIH participated in the offer and tender of 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 from 72.01% to 76.88%. The founding family, the Ratanarak Group, remains a key partner, as it owns approximately 20% of BAY's shares.

MUFG Bank is a wholly-owned subsidiary of MUFG, the largest financial group in Japan. MUFG Bank became BAY's major shareholder after acquiring a 72.01% stake through a voluntary tender offer in December 2013. After the integration of MUFG Bank Bangkok branch with BAY on 5 January, 2015, MUFG Bank's stake in BAY increased from 72.01% to 76.88%. The Ratanarak Group remains a key partner of BAY through its 20% stake.

In September 2016, BAY completed a 100% acquisition of Hattha Kaksekar Ltd. (HKL), a micro-finance institution in Cambodia, with a 100% shareholding. The newly acquired business contributed an additional Bt14,304 million of loans, representing 1% of BAY's total loan portfolio, and Bt11,778 million of deposits, representing 1.1% of BAY's total deposits, based on its consolidated financial statements.

BTMU changed its legal name to MUFG Bank on 1 April 2018.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS[1]

Unit: Bt million

		------------------ Year Ended 31 December -----------			
	Jan-Sep 2018[2]	2017	2016	2015	2014
Total assets	2,093,283	2,088,771	1,883,188	1,705,516	1,211,362
Average Assets	2,091,027	1,985,980	1,794,352	1,458,439	1,195,484
Investment in securities	118,009	86,156	133,701	111,603	61,790
Loans and receivables	1,671,388	1,554,321	1,452,746	1,307,027	1,015,397
Allowance for doubtful accounts	62,676	55,476	49,462	44,944	39,776
Deposits	1,376,585	1,319,229	1,108,288	1,046,290	837,556
Borrowings[3]	394,280	422,587	474,726	383,180	198,417
Shareholders' Equities	237,777	225,987	208,768	190,748	131,670
Average Equities	231,882	217,378	199,758	161,209	126,612
Net interest income	55,594	68,535	61,977	56,351	47,944
Non-interest income[4]	25,502	31,946	29,510	26,423	22,816
Total revenue	81,096	100,481	91,487	82,774	70,760
Operating expenses[5]	37,865	48,210	43,080	38,947	34,300
Pre-provision operating profit (PPOP)	43,231	52,271	48,407	43,826	36,460
Impairment losses on loans and securities	19,389	22,970	21,315	20,186	18,107
Net income	18,992	23,561	21,684	18,853	14,323
Net fee and service income	15,629	19,675	18,175	17,229	14,770
Gains on investments	378	896	599	409	1,237

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-Sep 2018[2]	2017	2016	2015	2014
		------------ Year Ended 31 December ------------			
Earnings					
Return on average assets	1.21[6]	1.19	1.21	1.29	1.20
Interest spread	3.40[6]	3.37	3.36	3.71	3.79
Net interest margins	3.64[6]	3.58	3.57	3.98	4.13
Net interest income/average assets	3.54[6]	3.45	3.45	3.86	4.01
Non-interest income[7]/average assets	1.99[6]	1.94	1.98	2.18	2.28
Net fee and service income/total revenue	19.27	19.58	19.87	20.82	20.87
Cost-to-income	46.69	47.98	47.09	47.05	48.47
Capitalisation					
CET-1 ratio[8]	12.76	12.56	12.14	12.22	10.32
Tier-1 ratio[8]	12.82	12.64	12.24	12.33	10.45
BIS ratio[8]	16.50	16.50	15.06	14.50	14.25
CET-1/BIS ratio[8]	77.33	76.12	80.61	84.28	72.42
Asset Quality					
Credit costs	1.60[6]	1.53	1.54	1.74	1.85
Non-performing loans/total loans[9]	2.04	2.00	2.11	2.15	2.74
Allowance for loan losses/non-performing loans	156.99	143.99	138.58	134.06	127.25
Allowance for loan losses/required allowance	161.55	151.66	149.84	144.65	154.77
Funding & Liquidity					
CASA/total deposits[10]	43.68	44.55	50.77	49.74	49.18
Loan/total deposits[10]	121.42	117.82	126.31	120.61	117.59
Deposits[10]/total liabilities	74.19	70.82	68.69	71.54	79.98
Liquid assets/total deposits[11]	24.25	28.33	25.14	24.86	18.91
Liquid assets/short-term liabilities[12]	24.14	26.01	23.26	23.63	16.61

6 Annualised
7 Net of fee and service expenses
8 Consolidated basis
9 Including interbank; excluding accrued interests
10 Including bills of exchange
11 Including bills of exchange and interbank borrowing
12 Financial liabilities with maturity less than one year

RELATED CRITERIA

- Group Rating Methodology, 10 July 2015
- Commercial Banks, 30 March 2017

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Rating Outlook:	Stable

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