

HATTHA BANK PLC

No. 58/2025
25 April 2025

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Issue Ratings:
Senior unsecured BBB+
Outlook: Stable

Last Review Date: 26/04/24

Company Rating History:

Date	Rating	Outlook/Alert
07/05/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Hattha Bank PLC (HTB) and the ratings on its senior unsecured debentures at “BBB+” with a “stable” rating outlook. The ratings are constrained by the sovereign rating on the Kingdom of Cambodia (Cambodia, rated “BBB+/Stable”¹).

We assess HTB’s group status as a ‘highly strategic’ subsidiary of Krungsri Group, led by its core entity, Bank of Ayudhya PLC (BAY, rated “AAA/Stable”). The enhanced rating on HTB before a cap on the sovereign rating is “AA+”, which is one notch below the group credit profile of Krungsri Group assessed at “aaa”, according to TRIS Rating’s “Group Rating Methodology”.

At the same time, HTB’s stand-alone credit profile (SACP) remains at “bb+”. HTB’s SACP reflects adequate business position. In addition, with ongoing support from BAY, we assess HTB’s capital, funding, and liquidity positions as adequate. However, the credit profile is constrained by HTB’s mid-sized banking franchise, and high loss experience.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of BAY

TRIS Rating assesses HTB as a ‘highly strategic’ entity under Krungsri Group. We believe BAY will continue to demonstrate strong commitment in providing business and financial support to HTB in the foreseeable future.

HTB is a wholly owned subsidiary of BAY under the solo consolidated supervision of the Bank of Thailand (BOT). HTB’s commercial bank operations in Cambodia align with BAY’s medium term regional business expansion plan. HTB’s business direction and financial targets are influenced by BAY through the board of directors. Five out of 10 board members including the chairman are representatives from BAY’s top management. HTB’s risk management framework also aligns with the group’s overall risk management policy.

For financial support, we expect BAY to inject additional capital into HTB in 2025, and to continue providing a committed credit line of USD485 million. Since the acquisition in 2016, BAY has injected a total of USD133 million in capital into HTB.

Business support from BAY and MUFG

BAY’s comprehensive organizational restructuring of HTB in 2024 demonstrates its commitment to solve HTB’s asset quality issue. The restructuring has led to changes to the majority of HTB’s top management, including deployment of secondees from Thailand as the Chief Risk Officer and Chief Underwriting Officer to oversee risk management and the underwriting process, and enhancements to other key operational workflows.

At the same time, Mitsubishi UFJ Financial Group (MUFG) has appointed a new deputy CEO to HTB to oversee multinational corporations (MNCs) and Japanese corporate (JPC) clients within the MUFG network. These actions reflect BAY’s and MUFG’s strong and long-term commitment to supporting HTB and the strategic role within the group.

¹ The rating assigned to Cambodia is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of the credit profile of Cambodia. The rating is assigned without participation from any representatives from Cambodia.

Strategic shift towards a healthy future

HTB has outlined four strategic pillars to achieve healthy and sustainable growth: 1. Loan portfolio diversification – expanding into SMEs and corporate segments, 2. Enhanced profitability – increasing fee-based income and optimization of deposit rates, 3. Portfolio quality stabilization – maintaining new booking quality and recovering legacy losses, and 4. Operational efficiency – streamlining branches and the workforce for greater productivity.

Capital position should remain adequate with BAY's support

Our assessment of HTB's capital position as 'adequate' reflects our expectation of a capital injection from BAY in 2025. We estimate HTB's equity to asset (E/A) ratio to range from 15%-17% in 2025-2027. We expect HTB to incur further losses in 2025, as losses from legacy non-performing loans (NPL) continue to outweigh income from new loans. We expect a breakeven by the second half of 2026 and positive net profit in 2027.

HTB's capital metrics deteriorated in 2024 due to large losses. The solvency ratio declined to 18.5% at the end of 2024 from 19.2% a year earlier but remained above the National Bank of Cambodia (NBC) minimum requirement of 16.25% (15% of total capital and 1.25% for conservation buffer). Similarly at the end of 2024, the E/A ratio fell to 13% from 17.5% at the end of 2023.

Asset quality on recovery path

We believe HTB's asset quality likely reached a turning point at the end of 2024 as legacy delinquent loans began to stabilize and new loan originations since 2023 showed improving credit quality. That said, the recovery could be at a slow pace due to several structural challenges, including Cambodia's financially vulnerable household sector and the country's limited experience in managing large volumes of distressed assets. The absence of a well-developed debt recovery framework such as structured collection processes, liquidation procedures, litigation enforcement, and asset disposal through asset management company (AMC), together with HTB's significant outstanding legacy NPLs, may continue to weigh on the pace of improvement.

We attribute the improved quality of new loans to the strengthened risk management framework implemented throughout 2024. This includes the introduction of centralized credit approval and centralized collateral valuation processes. More specifically, HTB tightened the credit scoring criteria, placing greater emphasis on borrowers' repayment capacity, and suspended approvals for loans secured by soft titles.

In addition, HTB's new collection initiative entails a dedicated collection team with more intensive collection efforts, refined collection strategies, and better alignment of incentive programs. The team also focuses on resolving legacy problem loans through litigation, haircut arrangements, and restructuring programs.

Adequate funding and liquidity position stems from parental support

TRIS Rating assesses HTB's funding and liquidity profile as 'adequate', supported by BAY's committed credit facility of USD485 million. The facility also serves as a liquidity buffer.

On a standalone basis, HTB's funding profile remains weaker than other major Cambodian banks. The current and savings account (CASA) deposits remained modest at 24.6% of total deposits as of end-2024, up from 16.5% at end-2023, but still well below the top-10 bank average of 37%. This contributed to a high overall funding cost, with HTB's funding cost rising to 6.6% at end-2024—above that of its peers. The loan-to-deposit ratio (LDR) improved to 105%, down from 132% in the previous year, mainly due to loan contraction. Customer deposits to total funding rose to 76.6% as of end-2024 up from 68.1% as of end 2023, though the ratio remains lower than that of other major Cambodian banks.

Going forward, a change in funding strategy, once successful, should lead to a gradual improvement in HTB's standalone funding position. HTB expects to grow its lower-cost CASA funding from the expanding corporate and SME segments within the MUFG and BAY network and from payroll accounts associated with these clients. We also expect the limited funding pressure in Cambodia to help ease HTB's funding cost over the next one to two years, given a slow credit expansion and a downward trend in interest rates.

BASE-CASE ASSUMPTIONS

TRIS Rating's key assumptions for the operations of HTB during 2025-2027 are as follows:

- Loan growth: -15% in 2025, 5% in 2026 and 10%-15% in 2027
- Net interest margin: 3.7% in 2025, slowly improving to 6% in 2027
- Cost-to-income: 115% in 2025, improving to 60% in 2027
- NPL ratio: 30% in 2025, improving to 17% in 2027
- Credit cost: 500 bps in 2025 and around 250bps in 2026-2027

RATING OUTLOOK

The “stable” outlook reflects our expectation that HTB will continue to be assessed as a ‘highly strategic’ subsidiary of BAY. However, as the rating on HTB is capped by the sovereign rating we assigned to Cambodia, a change in the sovereign rating outlook could result in a corresponding change in the rating outlook on HTB.

RATING SENSITIVITIES

An upward revision of our assessment of Cambodia’s sovereign risk could result in a rating upgrade on HTB, although this is unlikely in the near to medium term.

An upward revision of the SACP could result from a sustained improvement in asset quality and a consistent recovery in financial performance, while capital is maintained at an adequate level.

A downward revision of our assessment of Cambodia’s sovereign risk could lead to a rating downgrade on HTB. The rating could also be lowered if HTB’s group status is reclassified to “strategically important” and its SACP is downgraded by one notch.

COMPANY OVERVIEW

HTB was originally established in Cambodia in 1994 as a food security project by OCSD/OXFAM–Quebec, a Canadian organization. The project provided micro loans to rural Cambodian people. Two years later, the food security project was registered with the Ministry of Interior of Cambodia as a non-governmental organization (NGO) called Hattha Kaksekar (HKL). In Khmer, "Hattha Kaksekar" means "Farmer's Hand" or "A Helping Hand for Farmers"

In 2001, HTB was registered with the Ministry of Commerce of Cambodia and was transformed into a private limited company with a new name, Hattha Kaksekar Ltd. (HKL). The company was granted a three-year license by NBC to offer microfinance services across Cambodia. HTB was then offered a permanent microfinance license in 2007. In 2010, NBC offered HTB an MDI or "micro-finance deposit taking institution" license, permitting HTB to officially mobilize deposit from the public.

In 2016, HTB was acquired by BAY, a member of MUFG, and became BAY’s solo consolidated wholly-owned subsidiary. Since the acquisition, HTB has received additional equity injections totaling USD133 million from its parent bank. Its paid-up capital stood at USD140 million at the end of 2024. The bank received a commercial bank license from NBC and was renamed Hattha Bank in August 2020.

HTB provides loans, savings and deposit accounts, local money transfers, automated teller machines (ATM), mobile banking services, and payroll services. At the end of 2024, the number of branches was 161 nationwide, plus the headquarters in Phnom Penh. Customers use loans from HTB for a number of different purposes, such as agricultural loans, loans for the trade and commerce sector, the construction sector, and personal (household) loans.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Mil. USD

	----- Year Ended 31 December -----				
	2024	2023	2022	2021	2020
Total assets	1,602	2,130	2,389	2,056	1,575
Average assets	1,866	2,259	2,222	1,815	1,401
Investment in securities	16	16	16	0	0
Loans and receivables	1,101	1,553	1,927	1,680	1,312
Allowance for expected credit loss	182	91	24	24	23
Deposits	1,048	1,176	1,193	1,040	804
Borrowings ²	320	552	727	632	473
Shareholders' equities	209	372	422	333	260
Average equities	291	397	377	296	229
Net interest income	70	133	163	128	101
Non-interest income ³	(11)	5	7	6	5
Total revenue ⁴	176	258	283	224	179
Operating expenses ⁵	60	67	73	73	55
Pre-provision operating profit (PPOP)	(2)	71	97	62	51
Expected credit loss	161	125	5	5	20
Net income	(162)	(44)	74	45	26

1 Consolidated financial statement

2 Including interbank and money market

3 Net of fee and service expenses and other income

4 Interest income and fee income

5 Excluding fees and service expenses

Unit: %

	----- Year Ended 31 December -----				
	2024	2023	2022	2021	2020
Earnings					
Return on average assets	(8.66)	(1.93)	3.32	2.48	1.83
Net interest margin	3.87	6.24	7.79	7.47	7.69
Risk-adjusted net interest margins	(5.07)	0.37	7.56	7.20	6.17
Net interest income/average assets	3.74	5.87	7.32	7.06	7.23
Non-interest income ⁶ /average assets	(0.61)	0.21	0.33	0.35	0.34
Cost-to-income	103.02	48.56	43.01	53.96	51.47
Cost-to-average assets	3.22	2.95	3.29	4.00	3.90
Capitalization					
Tier-1 ratio ⁷	10.65	14.35	17.31	17.51	16.35
Tier-2 ratio ⁷	7.82	4.87	4.34	3.52	1.84
BIS ratio ⁷	18.46	19.22	21.65	21.03	18.19
Equity/total assets	13.03	17.47	17.65	16.20	16.48
Asset Quality					
Credit costs	12.16	7.16	0.26	0.32	1.70
Non-performing loans/total loans ⁸	35.59	14.56	2.25	1.49	1.35
Loan loss reserves/total loans ⁸	16.53	5.88	1.25	1.45	1.78
Loan loss reserves/non-performing loans ⁸	46.44	40.36	55.61	96.73	131.34
Funding & Liquidity					
CASA/total deposits	24.56	16.49	18.53	22.93	19.42
Loan/total deposits	105.06	132.12	161.53	161.57	163.23
Deposits/total liabilities	75.20	66.87	60.63	60.36	61.13
Liquidity coverage ratio	251.35	245.33	146.03	164.27	130.98
Liquid assets/total assets	32.82	24.73	15.08	15.19	13.60
Liquid assets/total deposits	50.18	44.82	30.20	30.03	26.65

⁶ Net of fee and service expenses and other income

⁷ Consolidated basis

⁸ Based on reported NPL, excluding accrued interests and interbank assets

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Financial Institution Rating Methodology, 25 September 2024
- Sovereign Credit Rating Methodology, 30 May 2024
- Group Rating Methodology, 7 September 2022

Hattha Bank PLC (HTB)

Company Rating:	BBB+
Issue Ratings:	
HTB25OA: THTB1,500 million senior unsecured debentures due 2025	BBB+
HTB261A: THTB1,300 million senior unsecured debentures due 2026	BBB+
Rating Outlook:	Stable

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