

THANACHART CAPITAL PLC

No. 89/2013

28 October 2013

Company Rating: A+

Outlook: Stable

New Issue Rating: A+

Rating History:

Date	Company	Issue (Unsecured/ Subordinated)
16/01/12	A+/Sta	A+/-
12/03/10	A/Pos	A/-
14/07/05	A/Sta	A/-

Rating Rationale

TRIS Rating affirms the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's existing senior debentures at "A+". At the same time, TRIS Rating assigns the rating of "A+" to TCAP's proposed issue of up to Bt1,300 million in senior debentures. The ratings are based on TCAP's position as the investment holding company of the Thanachart Group, management control of Thanachart Bank PLC (TBANK), the core bank subsidiary, through a 50.96% ownership stake, and the stable stream of dividends TCAP receives from TBANK. The ratings take into consideration TCAP's experienced management team and its improved risk management system. The ratings also reflect the strong business support TCAP receives from its Canadian strategic partner, Bank of Nova Scotia (BNS), which holds a 49% stake in TBANK through Scotia Netherlands Holdings BV. However, the ratings are partially offset by TCAP's weak asset quality, relatively low but improved reserves for loan losses, and the intense competition in the banking industry.

TCAP's company rating is one notch lower than the company rating of TBANK. The one notch difference reflects the structural subordination of TCAP's obligations to those of TBANK, TCAP's reliance on dividends from TBANK, and the supervisory barriers which may affect TBANK's ability to pay dividends.

Based on consolidated asset size as of June 2013, TCAP was ranked sixth among all 15 Thai commercial banks, with 8.2% market share in loans and 7.2% market share in deposits. In 2012 through the first half of 2013, TBANK and its subsidiaries contributed more than 90% of the consolidated net operating income of TCAP. The remainder was from the operations of TCAP and the subsidiary companies, which operate the distressed asset management business.

During the past few years, TCAP's risk management system has improved, in an effort to comply with international standards. However, TCAP's risk profile is still hurt by a high level of non-performing assets (NPA; the sum of classified loans more than three months overdue, plus restructured loans and foreclosed property). TCAP has resolved the legacy non-performing loans (NPLs), most of which were assumed when TBANK bought Siam City Bank PLC's (SCIB) loan portfolio. As a consequence of TCAP's efforts, the amount of consolidated NPLs fell from Bt39.5 billion in 2010 to Bt33.8 billion in 2012. However, several loans became NPLs during the second quarter of 2013. As a result, the balance of outstanding NPLs rebounded to Bt35.9 billion at the end of June 2013. The ratio of NPLs to total loans rose to 4.55% as of June 2013, higher than the industry average of 2.96%. During the first half of 2013, TCAP set aside additional reserves for loan losses. The additional reserves will absorb the increased credit risk from further deterioration in the loans. As of June 2013, TCAP's NPAs, expressed as a percentage of the sum of its regulatory capital plus the allowance for doubtful accounts, were 60%, falling from 81% in 2011. Despite the recent improvement,

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this ratio still far above the industry average of 37%. TCAP faces a continuing challenge to control its NPLs and to enlarge its loan loss reserves.

TCAP's financial performance has improved after the smooth post-merger integration of TBANK and SCIB. In 2012, consolidated net profit rose to Bt9.8 billion, up by 11% year-on-year (y-o-y). The improvement in net profit was mainly the result of increases in non-interest income and the control of operating costs. For the first half of 2013, TCAP delivered net income of Bt11.2 billion, up by 120% y-o-y. The greater net profit was largely due to a one-time gain from the sale of TBANK's investment in Thanachart Life Assurance Co., Ltd. (TLIFE) by TBANK. Despite the improvements, TCAP's profitability remains relatively weak compared with its peers. In 2012, TCAP's return on average assets (ROAA) of 1.01% remained below the industry average of 1.41%.

TCAP's capital base remains sufficient to support its growth plans in the medium term. As of June 2013, the company reported a Tier 1 capital ratio (on a fully consolidated basis) of 7.64% and a total capital ratio of 12.85%, up from 7.50% and 12.07% in 2012. These two ratios were above the minimum requirements of 6.00% and 8.50% set by the Bank of Thailand.

Rating Outlook

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will be able to leverage the synergies among TBANK and BNS to strengthen its competitive positions in its core lines of business. The strong financial support and business know-how received from major shareholders, TCAP and BNS, will enhance TBANK's overall business and financial performance in the future.

Thanachart Capital PLC (TCAP)

Company Rating:	A+
Issue Ratings:	
TCAP14NA: Bt9,000 million senior debentures due 2014	A+
TCAP22NA: Bt3,000 million senior debentures due 2022	A+
TCAP238A: Bt500 million senior debentures due 2023	A+
TCAP258A: Bt900 million senior debentures due 2025	A+
Up to Bt1,300 million senior debentures due within 2023	A+
Rating Outlook:	Stable

Financial Statistics*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2013	2012	2011	2010	2009	2008
Total assets	1,024,069	1,028,072	895,157	882,757	459,965	394,090
Investment in securities	135,959	152,456	154,184	147,615	97,112	39,385
Loans and receivables	789,227	756,403	638,084	610,602	289,424	279,774
Allowance for doubtful accounts	30,543	24,891	27,286	27,959	10,534	10,008
Deposits	702,545	693,421	435,865	532,382	265,871	269,730
Borrowings**	176,418	177,283	322,804	225,262	118,245	72,756
Shareholders' equity	90,326	85,234	75,681	71,720	47,407	32,361
Net interest income	12,875	24,234	24,315	23,029	14,148	11,084
Bad debts and doubtful accounts	8,091	2,900	2,077	1,653	2,849	3,593
Non-interest income	20,499	14,947	11,916	11,400	9,777	6,089
Operating expenses	11,548	24,067	22,246	17,630	10,912	9,238
Net income	11,190	9,751	8,772	10,302	7,175	3,342
Net income (excluding non-controlling interests of subsidiaries)	6,031	5,481	5,002	5,639	5,109	2,768

* Consolidated financial statements

** Including interbank and money market

Key Financial Ratios*

Unit: %

	Jan-Jun 2013	----- Year Ended 31 December -----				
		2012	2011	2010	2009	2008
Profitability						
Net interest income/average assets	1.25 **	2.52	2.74	3.43	3.31	3.10
Non-interest income/average assets	2.00 **	1.55	1.34	1.70	2.29	1.70
Fees and service income***/total income	12.39	14.77	12.73	12.39	15.70	16.43
Operating expenses/total income	24.58	37.06	39.60	37.97	34.22	33.59
Operating profit/average assets	1.34 **	1.27	1.34	2.26	2.38	1.21
Return on average assets	1.09 **	1.01	0.99	1.53	1.68	0.93
Return on average equity	12.75 **	12.12	11.90	17.30	17.99	10.34
Asset Quality						
Non-performing loans/total loans	4.55	4.46	6.20	6.46	4.06	4.24
Non-performing assets/total assets	7.62	7.58	10.16	9.16	5.50	6.10
Bad debts and doubtful accounts/average loans	1.05 **	0.42	0.33	0.37	1.00	1.38
Allowance for doubtful accounts/total loans	3.87	3.29	4.28	4.58	3.64	3.58
Capitalization						
Shareholders' equity/total assets	8.82	8.29	8.45	8.12	10.31	8.21
Shareholders' equity/total loans	11.44	11.27	11.86	11.75	16.38	11.57
BIS ratio	12.85	12.07	12.53	13.08	18.00	13.93
Liquidity						
Total loans/deposits****	112.25	108.31	97.58	90.87	86.53	86.90
Deposits****/total liabilities	75.30	74.07	79.80	82.85	81.07	89.00
Total loans/total assets	77.07	73.57	71.28	69.17	62.92	70.99

* Consolidated financial statements

** Non-annualized

*** Including net insurance premium/life insurance premium income

**** Including bills of exchange

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