

Asia Sermkij Leasing Public Company Limited

Company Rating:
BBB+
Rating Outlook:
Stable
Rating History:
Company Rating
Issue Rating
Secured
Unsecured

7 Oct 2008

BBB+/Stable

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Rating Rationale

TRIS Rating affirms the company rating of Asia Sermkij Leasing PLC (ASK) at “BBB+”. The rating reflects the company’s experienced management team in the auto hire purchase business and the ability to maintain market position despite the slowdown in auto hire purchase market, as a consequence of the downturn of Thailand’s automobile industry. In addition, a strong position in selected niche markets for commercial vehicles, supports from the major shareholders, efficient risk management systems, and long-term relationships with dealers also support the rating. However, these strengths are partially offset by the nature of its auto loan portfolio, which is considered more volatile to adverse changes in economic factors, despite higher returns. Intensified competition during uncertain economic conditions has constrained the company’s profitability and portfolio expansion. These factors also impacted ASK’s asset quality as reflected in the weakening non-performing loans (NPL) ratio. In addition, a tightened funding flexibility from major source of funds, due to revised regulations, has partly constrained the company’s financial strengths.

ASK was established in 1984 by the Bangkok Bank Group to provide retail auto financing loans under hire purchase contracts. In 1992, Chailease Finance Ltd., the largest leasing company in Taiwan and part of the Koo Group, joined with the Bangkok Bank Group to establish Bangkok Grand Pacific Lease PLC (BGPL), which subsequently purchased all of ASK’s shares from the Bangkok Bank Group. BGPL provides hire purchase and leasing loans to corporate clients, emphasizing machinery and equipment (M&E) loans, loans for commercial vehicles, as well as factoring loans. The shareholding was restructured in 2004, before the company was listed on the Stock Exchange of Thailand (SET) in 2005. BGPL, which was previously the parent company of ASK, became a wholly-owned subsidiary of ASK. Currently, the Bangkok Bank Group holds 13.5% in ASK, with the Koo Group from Taiwan, under Chailease Finance Ltd., A.K. Enterprise (Thailand) Co., Ltd., and Mr. John Lee Koo, is the largest shareholder (72.9% combined ownership).

Although domestic automobile demand shrank by approximately 30% in the first half of 2009, ASK has been able to maintain its retail auto loan business, which was the largest portion of consolidated loan portfolio. At the end of June 2009, ASK had Bt11,676 million in consolidated outstanding loans, down slightly from Bt11,820 million in 2008, mainly due to slowdowns in the leasing and factoring businesses of BGPL. Of the consolidated loan portfolio, 82.1% was retail auto financing loans held by ASK, up from 77.1% and 79.2% in 2007 and 2008, respectively, while the proportion of BGPL’s loan portfolio decreased to 17.7% of its consolidated loans, down from 22.4% and 20.5% in 2007 and 2008, respectively.

ASK’s overall customer concentration risk is considered low, due to the nature of retail auto financing loans. In addition, ASK’s diversified portfolio mix of retail auto hire purchase loans helps reduce product concentration risk. At the end of June 2009, ASK’s outstanding retail auto hire purchase loans comprised passenger cars and pick-up trucks (42.9%), vans (15.1%), big trucks (26.4%), taxis (13.1%), buses (1.1%) and refinancing loans (1.4%). Although loans for commercial vehicles, such as big trucks, vans and taxis, have generated higher returns, the composition of ASK’s retail portfolio carried

higher credit risks than other major auto financing companies which have concentrated on passenger cars and pick-up trucks. This was because the asset liquidation for repossessed passenger cars and pick-up trucks were less of a concern than for ASK's targeted vehicle types. To mitigate the higher risks, therefore, the company implemented a segmentation strategy that focused on the less risky sub-segments of each asset type and target customer group.

Despite a riskier loan portfolio, the ratio of NPL (loans with more than three installments past due) to average loans is quite low, when compared with other auto hire purchase companies. The experienced management team, efficient risk management system and conservative underwriting policy are the factors that could help the company keep asset quality at an acceptable level; however, the NPL ratio did rise from 0.99% in 2005 to 1.88% at the end of June 2009. In addition, intensified competition in the auto hire purchase industry has pressured the profitability of ASK and other major operators. The ratio of return on average assets was at 1.57% in 2008, lower than 1.64% in 2007 due partly to a Bt22 million loss from the factoring business. This level is considered low in a cross-industry comparison.

In terms of sources of fund, ASK has been benefited by being an affiliate of the Bangkok Bank PLC (BBL). However, this benefit has been constrained by the revised regulations regarding lending limits to a related entity of financial institutions, released on 3 August 2008 by the Bank of Thailand (BOT). The regulation limits the amount of debt financing from a commercial bank to any related company. Debt financing provided to related entities is capped at not over 5% of a commercial bank's capital funds or 25% of the borrower's liabilities, whichever is lower. The regulations provide a five-year grace period, but no new credit facility can be offered if that makes the total credit amount exceed the regulatory limits.

At the end of June 2009, borrowings from BBL accounted for 34.62% of ASK's total liabilities. The new regulations limit ASK's financial flexibility and the ability to enjoy a secure source of funds from BBL. ASK has been trying to diversify its funding sources to other financial institutions and the capital markets, in part by leveraging the creditworthiness of its foreign parent company, and by keeping the available credit line from BBL as a financial cushion to mitigate its liquidity risk. The funding structure and refinancing plan for Bt3,000 million term loan, which will mature in 2010, will be closely monitored.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that ASK will be able to maintain its market positions in the niche markets of the commercial vehicles. ASK's experienced management team plus efficient risk management and operating systems will help the company control asset quality. Support from major shareholders is expected to continue. The outlook also takes into consideration that ASK will be able to manage to have sufficient funding flexibility, both for relieving liquidity constraints and supporting business expansion.

Key Rating Considerations

Strengths/Opportunities

- Experienced management team in the auto financing business
- Strong market position in niche markets of targeted commercial vehicles
- Strong supports from major shareholders
- Efficient risk management systems

Weaknesses/Threats

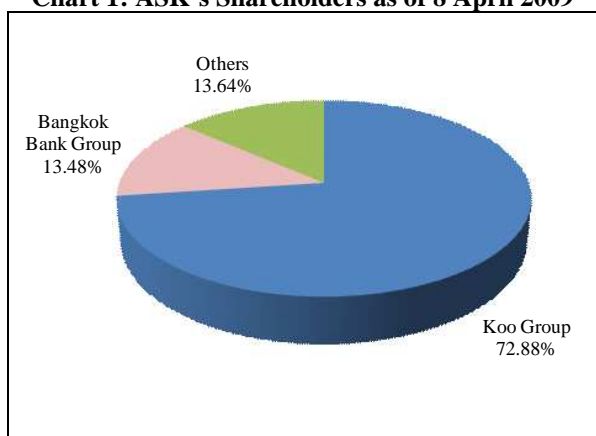
- Higher risk exposure from nature/characteristics of targeted commercial vehicles
- Relatively low profitability in a cross-industry comparison
- Tightened financial flexibility
- Pressure from uncertainty in operating environment

Corporate Overview

ASK was established by the Bangkok Bank Group in 1984, with an initial Bt10 million in paid-up capital, to operate an auto hire purchase business. In 1991, the company began expanding into provincial areas, opening its first branch in Rayong. Paid-up capital increased to Bt50 million in 1992, the same year ASK became a wholly-owned subsidiary of BGPL. BGPL, which concentrates on M&E and factoring loans to corporate clients, was established in 1989 by the Bangkok Bank Group and Chailease Finance. In 1994, ASK opened a second provincial branch in Samutsakhon. Following this event, its paid-up capital increased to Bt160 million to support portfolio growth and enhance operational efficiency during a period of economic growth.

The company was negatively impacted by foreign exchange losses incurred during the financial crisis in 1997. Consequently, its paid-up capital was increased substantially to Bt460 million, in order to strengthen the company's capital base. In 2004, the shareholding was restructured in preparation for a listing on the SET. To relieve a conflict of interest between ASK and its parent company, BGPL, both of which provided hire purchase loans, the company's shareholding was restructured. BGPL became the wholly-owned subsidiary of ASK, with BGPL's shareholders becoming ASK shareholders. That same year, the company opened another new provincial branch in Phitsanulok. In 2005, the company was listed on the SET with an initial public offering (IPO) of 23 million shares at Bt8.90 per share. The Koo Group is currently the major shareholder with a total of 72.9% of the shareholding: Chailease Finance (37.4%), A.K. Enterprise (Thailand) Co., Ltd. (35.0%) and Mr. John Lee Koo (0.5%). The Bangkok Bank Group, whose shareholding was diluted after the 1997 financial crisis, has moved to support ASK in the form of lending.

Chart 1: ASK's Shareholders as of 8 April 2009

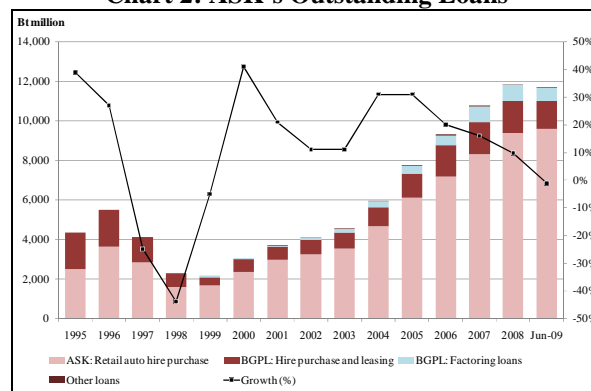


Source: ASK

On a consolidated basis, after the shareholding was restructured in 2004, the company's outstanding loans grew by more than 30% per year, increasing from Bt4,543 million in 2003 to Bt7,756 million in 2005. The loan portfolio has grown at a slower pace since 2006, along with the slow growth of the economy and the uncertain political situation. Outstanding loans grew by 19.8% to Bt9,291 million in 2006 and by 16.0% to Bt10,776 million in 2007. Although domestic auto demand fell by 2.5% in 2008, loan portfolio expanded to Bt11,820 million or growth of 9.7%. In 2009, outstanding loans fell by 1.2% to Bt11,676 million at the end of June 2009, mainly

due to a slowdown of the leasing and factoring businesses. Retail auto loans continued to grow at 2.3% to Bt9,582 million at the end of June 2009, from Bt9,364 million in 2008, despite a 28.0% drop in domestic auto sales for the first half of 2009.

Chart 2: ASK's Outstanding Loans



Source: ASK

BUSINESS ANALYSIS

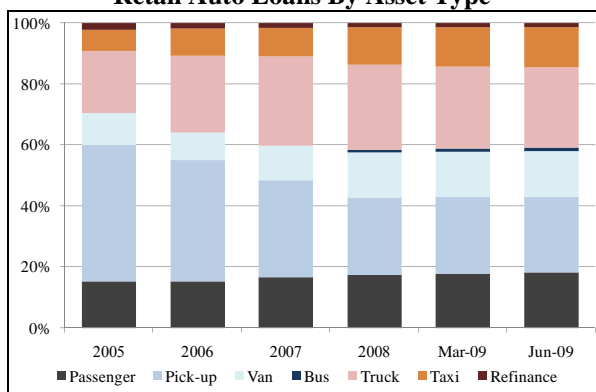
ASK and BGPL provide hire purchase and leasing loans for automobiles, M&E loans, and working capital loans in the form of factoring. At the end of June 2009, retail auto financing loans accounted for 82.1% of total consolidated loans; M&E leasing, together with loans for commercial vehicles through BGPL, accounted for 11.9% and factoring loans for 5.8%. The remaining (0.2%) was other loans such as floor plan loans and personal loans.

▪ ***Diversified auto loan portfolio mix helps maintain portfolio during slowdown in domestic auto demand***

Retail auto hire purchase loans are the major portion of ASK's consolidated outstanding loans. ASK has diversified its portfolio mix to reduce product concentration while its customer base is diversified by the nature of the business. At the end of June 2009, retail auto hire purchase loans comprised loans for passenger cars and pick-up trucks (42.9%), vans (15.1%), big trucks (26.4%), taxis (13.1%), buses (1.1%) and refinancing loans (1.4%). ASK has concentrated on major and popular brands, which enable the company to mitigate the risk from resale value and liquidation. In 2008, retail auto hire purchase loans by manufacturer were for Isuzu (30.5%), Toyota (42.3%), Hino (12.0%) and other brands (15.2%).

During the slowdown in the domestic auto industry, competition is more intense. Major operators, especially commercial bank-based operators, have implemented aggressive strategies to acquire new customers. Most of them have concentrated on traditional products, such as passenger cars and pick-ups. Therefore, ASK's diversified product mix has helped the company maintain its market share and partly eliminates severe competition with those players.

Chart 3: Composition of ASK's Retail Auto Loans By Asset Type



Source: ASK

▪ **Financial lease business slows in 2009**

The number of small and medium-sized enterprises (SME) increased after the 1997 financial crisis. Normally, SMEs face difficulty raising funds from traditional financing sources, such as commercial banks, due to their shorter track records and lack of fixed assets that can be used as collateral. Financial leases offer a source of additional funding by financing with leased assets, allowing the lessee to use its limited funds as working capital rather than for an outright asset purchase. Lessees benefit as the monthly rental fee is fully tax deductible and lowers tax payments. However, the leasing industry in Thailand remains a nascent industry in comparison with other developed countries, even though it started more than 20 years ago.

BGPL is a financial leasing company that focuses on M&E loans. The company also offers financing for commercial vehicles. BGPL's target customers are small corporations. Contracts are either financial leases or hire purchase agreements. The outstanding loans for M&E, including commercial vehicles, rose significantly to Bt1,227 million in 2005, from Bt925 million in 2004. Outstanding loans grew by 27.7% to Bt1,567 million in 2006. Since 2007, signs of an economic slowdown have prompted BGPL to become more

stringent in its underwriting policy. Outstanding loans increased slightly to Bt1,616 million at the end of 2007. The sharp economic slowdown in late 2008 caused BGPL to slow its business, holding outstanding loans at Bt1,612 million at the end of 2008. The loan portfolio decreased to Bt1,388 million at the end of June 2009, as the uncertainty surrounding economy continued into 2009.

The company tries to mitigate customer credit risk and the liquidity risk of leased assets by concentrating on customers in high potential industries and industries in which technologies do not change rapidly. In 2008, interest income from the BGPL's hire purchase and leasing business constituted approximately 17.2% of total interest income of ASK's lending businesses on a consolidated basis. This proportion was down slightly from 18.8% in 2007.

▪ **Additional income from factoring**

Since 1999, BGPL has offered factoring loans, a type of working capital loan, by leveraging the expertise of its foreign parent company. Similar to the leasing business, BGPL also concentrates on SMEs in high potential industries with good performance and a strong repayment ability. BGPL evaluates the credit risk of both the customer (the seller side of the invoice) and the customers' receivables (the buyer side of the invoice). In addition, BGPL mostly provides factoring contracts with recourse, which means that BGPL maintains the right to recourse from the seller side in the event that the buyer side defaults.

BGPL is one of only two companies in Thailand that offer international factoring through membership in the Factors Chain International (FCI), an organization that has 247 members in 66 countries worldwide. BGPL became connected with FCI through its foreign parent company. Only a member of the international association is able to operate an international factoring business, as membership partly reflects a guarantee of a member's creditworthiness. However, international factoring accounted for only 13.1% of BGPL's total factoring loans in 2008, due to the fact that the international factoring business in Thailand remains in its early stage as most international businesses in Thailand are more familiar with traditional financial products offered by commercial banks.

BGPL's outstanding factoring loans increased by 16.4%, from Bt414 million in 2005 to Bt482

million in 2006. The outstanding loan portfolio grew by 65.3% to Bt797 million in 2007, which increased the proportion of factoring loans to ASK's consolidated outstanding loans to 7.4%, up from 5.2% in the previous year. Outstanding loans increased to Bt815 million at the end of 2008. Although the company has relatively stringent underwriting and monitoring policies, the company was a victim of global economic downturn. In the second half of 2008, BGPL's profitability was burdened from a Bt22 million full provision for an international import factoring account. As a consequence of that account and the sharp economic downturn, BGPL also decided to slow the factoring business as M&E loans. Outstanding factoring loans fell substantially, dropping to Bt677 million at the end of June 2009.

▪ **Strong relationship with dealers**

The auto dealer is the most important marketing channel for the traditional auto financing business. Maintaining good relationships with dealers is one of the key success factors of the business, because most new accounts are referred from dealers. With over 20 years experience in the auto financing business, ASK's strong relationships with dealers have been maintained by providing them with continued good and quick service. Moreover, ASK has cooperated with them in conducting joint marketing campaigns to boost the dealer's sales volumes and acquire new loan accounts. At the end of June 2009, ASK had relationships with 182 new active auto dealers and 154 used active auto dealers.

▪ **Efficient risk management system**

Although ASK is a small financial service provider compared with a commercial bank, the full range of risk management (credit risk, financial/market risk and operational risk) has been implemented. Sound risk management mechanisms have been set up to reduce the company's overall risk and enhance the company's performance. The capability to segment customers and a conservative underwriting policy have helped the company acquire good credit profile customers, despite the higher risk from the nature of each asset type. Effective monitoring and collection systems are used to manage and control its asset quality, resulting in a relatively low NPL ratio. In addition, as a subsidiary of the Chalease Group, the company is audited by its

foreign parent company annually to ensure and strengthen its operating processes to meet higher standards.

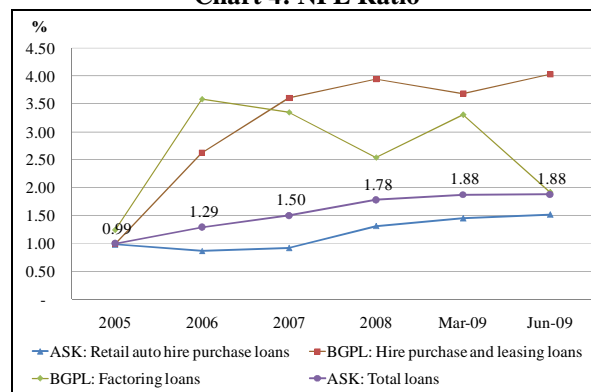
ASSET QUALITY

ASK's asset quality is controlled through efficient risk management systems in use during the underwriting process. A credit scoring system and checks of a blacklist from an internal database and the National Credit Bureau Co., Ltd. are utilized with the segmentation strategy to screen potential target customers or asset types. More stringent collection practices are also being implemented to maintain a low delinquency rate during the economic slowdown.

▪ **Weakening but remains acceptable asset quality**

Although ASK's portfolio composition appears riskier than other traditional auto hire purchase operators, its NPL ratio (percentage of loans with more than three installments past due to average loans) is quite good. The NPL ratio for retail auto loans was approximately 1% during 2005-2007. The ratio rose to 1.31% in 2008 from 0.92% in 2007, but stayed in line with the industry trend. Although the NPL ratio deteriorated to 1.52% at the end of June 2009, it was lower than the industry average of 3.5%.

Chart 4: NPL Ratio



Source: ASK

The NPL ratio for BGPL loans has also deteriorated, partly due to higher customer concentration than retail auto financing loans. As a consequence of economic slowdown, the NPL ratio for BGPL's hire purchase and leasing loans rose from 0.99% in 2005 to 4.03% at the end of June 2009, while the ratio for factoring loans was 3.27% at the end of June 2008, rising from 1.24% in 2005. BGPL was hit from an import factoring account worth Bt22 million in late 2008,

prompting the company to strengthen its underwriting policy, as well as slow down its factoring business. Therefore, the factoring NPL ratio improved to 2.54% in 2008 and 1.92% at the end of June 2009.

The weaker asset quality of the M&E and factoring loans caused ASK's consolidated NPL ratio to rise to 1.88% at the end of June 2009, from 1.78% in 2008, 1.50% in 2007, 1.29% in 2006, and 0.99% in 2005.

▪ ***Cushion for possible loan losses strengthened to confront deteriorating asset quality***

ASK's cushion for loan losses has improved since the shareholding was restructured in 2004. The ratio of allowance for possible loan losses to average retail auto hire purchase loans improved to 0.95% in 2007, from 0.86% in 2006 and 0.76% in 2005, but fell slightly to 0.91% in 2008. The consolidated ratio of allowance for doubtful accounts improved to 1.49% in 2007, from 1.08% in 2005, and also fell to 1.34% in 2008 due to increased write-offs of bad debts. Increased concerns on the consequences of economic slowdown push the company to strengthen its provision policy in 2009 by increasing percentage of allowance for every new loan disbursement. The ratio of allowance for doubtful accounts to average loans improved to 1.04% at the end of June 2009 for retail auto loans and 1.55% at the same time for consolidated loans. However, despite the fact that allowance policy has been strengthened, a continuing deterioration in the asset quality pushed the consolidated NPL coverage ratio (the ratio of allowance for doubtful accounts to NPL), to 81.67% at the end of June 2009, from 123.42% in 2005.

PROFITABILITY

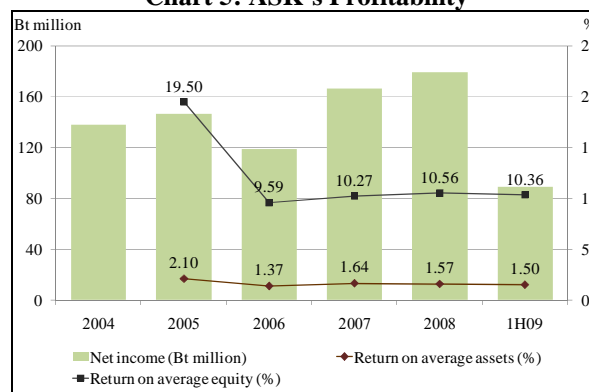
▪ ***Relatively low profitability***

ASK has reported increasing profits since 2005, following its portfolio expansion. Net profit increased from Bt138 million in 2004 to Bt146 million in 2005. Profit dropped to Bt119 million in 2006 due to higher interest rate expenses from larger borrowings to fund the expansion. The recapitalization in late 2006, coupled with portfolio growth in 2007, improved its net profit to Bt166 million in 2007. The company reported Bt179 million in 2008 and Bt89 million for the first half of 2009.

However, intense competition during rising interest rates means returns could not rise as

much as funding costs, resulting in a narrower spread. ASK's consolidated spread fell to 3.37% in 2006, from 5.36% in 2005. In 2007, the company concentrated on the higher yielding portfolio segments, improving consolidated interest yields to 8.94% in 2007, from 8.75% in 2006. The spread rose to 3.67% in 2007. Although intense competition in 2008 pressured ASK's yields to 8.68%, the company was able to lower its average funding costs to 4.74% in 2008, from 5.27% in 2007, causing the spread to continue to improve to 3.94%.

Chart 5: ASK's Profitability



Source: ASK

Despite an improved performance and spread, ASK's profitability is considered low in a cross-industry comparison. The return on average assets ratio fell to 1.37% in 2006 from 2.10% in 2005, due to the burden of larger interest expenses. The ratio improved to 1.64% in 2007 and decreased slightly to 1.57% in 2008, partly due to the impact of a Bt22 million in bad debt from the factoring business.

▪ ***Non-interest income supports performance***

Non-interest income from related services, such as car registration services, insurance recommendation services, as well as penalty fees from late payments, has played a supporting role in profitability. ASK's consolidated non-interest income has accounted for an average of 15% of total consolidated income since 2005. If the company is able to increase the revenue contribution from fee-based income, profitability will be enhanced. However, the slowdown in new loan disbursements has also constrained non-interest income. The ratio fell to 11.9% for the first half 2009 from 13.9% in 2008.

FUNDING/LIQUIDITY

▪ **Exposure to interest rate risk**

ASK provides fixed rate loans over the contract period, but it has relied more on short-term borrowings. During a period of rising interest rates, the company unavoidably faces an interest rate risk. The average funding cost is expected to increase, while the average yield from outstanding loans remains fixed, despite the fact that half of the installments are due within a year and ASK can provide new loans at higher rates. However, intense competition is expected to pressure overall returns, constraining the overall spread.

The company has tried to refinance its short-term obligations with longer-term fixed rate borrowings to cover the mismatched duration gap and stabilize the overall spread. The proportion of short-term borrowings decreased to 66% at the end of June 2009 from 76% in 2007. During interest rate rise trend, floating rate funding is costly and pressures the spread. Interest rate swaps has been implemented as a tool to partly reduce interest rate risk.

▪ **Concern on duration mismatch due to regulatory funding limitation**

After the change in shareholder structure in 2004, ASK funded an average of 80% of its total borrowings through short-term borrowings (short-term promissory notes (P/N), short-term loans and current portion of long-term loans), creating a mismatch in the company's assets and liabilities. However, ASK's liquidity risk was considered acceptable because ASK has borrowed mainly from its related local bank, BBL, which is its second major shareholder who never canceled or lowered the credit facilities available to the company.

Unfortunately, the BOT regulation, released on 3 August 2008, has limited the financial flexibility provided by BBL. The percentage of borrowings from BBL to total liabilities was 44.8% in 2008 and 35.2% at the end of June 2009. This exceeds the regulatory limit of 25%. To lower concerns over funding flexibility, ASK needs to either terminate its status as a BBL related company or diversify its funding sources to other sources. The company has been trying to diversify its funding sources to other commercial banks. In addition, in 2009, ASK has accessed capital market through bills of exchange (B/E), causing a refinancing risk. The company's funding source restructure plan will be closely

monitored and expected to resolve financial flexibility soon.

Table 1: ASK's Funding Structure

Percentage	2004	2005	2006	2007	2008	Jan-Jun 2009
Short-term borrowings	78.7	84.3	76.6	75.5	64.8	66.4
OD and short-term borrowings	78.7	69.0	75.7	64.4	56.7	56.2
- Related parties	28.0	33.6	21.7	26.7	25.9	15.6
- Others	50.7	35.4	54.0	37.7	30.8	40.5
Current portion of long-term borrowings	-	15.4	0.9	11.1	8.1	10.2
- Related parties	-	15.4	0.9	11.1	-	-
- Others	-	-	-	-	8.1	10.2
Long-term borrowings	21.3	15.7	23.4	24.5	35.2	33.6
- Related parties	21.3	15.7	13.0	4.5	20.1	20.4
- Others	-	-	10.4	20.0	15.1	13.3
Total borrowings	100.0	100.0	100.0	100.0	100.0	100.0
- Related parties	49.3	64.6	35.6	42.3	46.0	36.0
- Others	50.7	35.4	64.4	57.7	54.0	64.0
Total borrowings	100.0	100.0	100.0	100.0	100.0	100.0

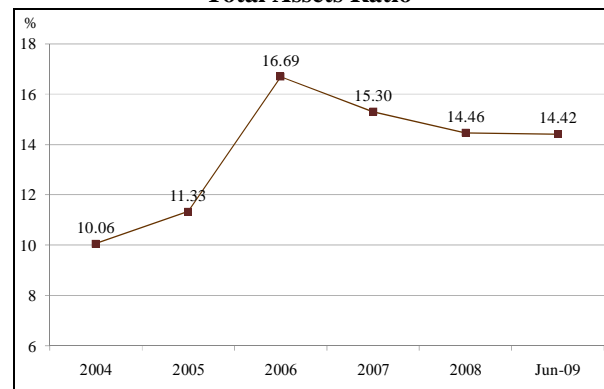
Source: ASK

CAPITALIZATION

▪ **Adequate capital for conservative expansion policy**

ASK's capital base improved slightly after the recapitalization through a Bt115 million IPO in 2005. This provided funds for a substantial 30.7% growth in the loan portfolio. The ratio of shareholders' equity to total assets rose to 11.33% in 2005, from 10.06% in 2004. The ratio significantly improved after a successful rights offering in 2006 doubled paid-up capital. The ratio improved to 16.69% at the end of 2006.

Chart 6: ASK's Shareholders' Equity to Total Assets Ratio



Source: ASK

ASK's capital base was growing slowly due to relatively low profitability. Its operating income has not been sufficient to fund the loan expansion that averaged 18% annual growth in 2006 and 2007. In addition, dividend payments after the SET listing reached the stated maximum payout of 70% of profits, partly mitigating any rise in the equity base. The high payouts and low profits caused the ratio of shareholders' equity to

total assets fell to 15.30% in 2007 and 14.46% in 2008. The ratio fell slightly to 14.42% at the end of June 2009. Given that ASK wishes to maintain a high dividend payout, the capital base is

considered adequate to facilitate a conservative portfolio expansion of about 10%-15% annually over the medium term.

Financial Statistics*

Unit: Bt million

	Jan-Jun 2009	----- Year Ended 31 December -----			
		2008	2007	2006	2005
Total assets	11,722	11,938	10,866	9,444	7,898
Total loans	11,676	11,820	10,776	9,291	7,756
Allowance for doubtful accounts	181	159	161	124	84
Short-term borrowings	6,508	6,433	6,782	5,905	5,761
Long-term borrowings	3,300	3,500	2,200	1,800	1,070
Shareholders' equity	1,691	1,726	1,662	1,576	895
Net interest income	305	539	464	360	397
Bad debts and doubtful accounts	56	92	85	45	49
Non-interest income	70	160	148	144	131
Operating expenses	183	357	311	304	292
Net income	89	179	166	119	146

* *Consolidated financial statements*

Key Financial Ratios*
Unit: %

	Jan-Jun 2009	----- Year Ended 31 December -----			
		2008	2007	2006	2005
Profitability					
Net interest income/average assets	2.57 **	4.73	4.57	4.16	5.71
Net interest income/total income	52.09	46.99	44.13	40.25	53.81
Operating expenses/total income	31.27	31.13	29.59	33.94	39.52
Operating profit/average assets	1.14 **	2.19	2.12	1.79	2.69
Return on average assets	0.75 **	1.57	1.64	1.37	2.10
Return on average equity	5.18 **	10.56	10.27	9.59	19.50
Asset Quality					
Non-performing loans***/average loans	1.88	1.78	1.50	1.29	0.99
Bad debts and doubtful accounts/average loans	0.48 **	0.82	0.85	0.53	0.72
Allowance for doubtful accounts/total loans	1.55	1.34	1.49	1.33	1.08
Capitalization					
Debt/equity (times)	5.93	5.92	5.54	4.99	7.82
Shareholders' equity/total assets	14.42	14.46	15.30	16.69	11.33
Shareholders' equity/total loans	14.48	14.60	15.43	16.97	11.54
Liquidity					
Short-term borrowings/total liabilities	64.88	62.99	73.69	75.06	82.26
Total loans/total assets	99.61	99.01	99.17	98.38	98.20
Total loans/total borrowings	119.04	119.00	119.97	120.58	113.55

* Consolidated financial statements

** Non-annualized

*** Loans with more than three installments past due

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

- AAA** The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.
- AA** The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.
- A** The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.
- BBB** The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.
- BB** The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.
- B** The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.
- C** The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.
- D** The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year. The symbols and definitions for short-term ratings are as follows:

- T1** Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
- T2** Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
- T3** Issuer has acceptable capacity for meeting its short-term obligations.
- T4** Issuer has weak capacity for meeting its short-term obligations.
- D** The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a "**Rating Outlook**" that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "**Rating Outlook**" are as follows:

- Positive** The rating may be raised.
- Stable** The rating is not likely to change.
- Negative** The rating may be lowered.
- Developing** The rating may be raised, lowered or remain unchanged.

TRIS Rating may announce a "**CreditAlert**" as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

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