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**News for Investors****Announcement No. 739****27 October 2010**

## 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 financing business and the company’s ability to maintain its market position despite the slowdown in the automobile sales during the past two years. In addition, strong positions in selected niche markets for commercial vehicles, support from 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 ASK’s auto loan portfolio, which is considered more volatile to adverse changes in economic factors, despite generate higher returns. Intensified competition during upward trend of interest rate might squeeze the spread and constrain profitability. The rating takes into consideration the deterioration in asset quality of a subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), despite an improvement in overall asset quality since late 2009. ASK has diversified its sources of funds to secure the financial flexibility which has been constrained by regulatory lending limits from a major funding source.

Although domestic demand for automobiles dropped by 10.8% in 2009, ASK has been able to maintain its market position in retail auto financing loans, which was the largest portion of the consolidated loan portfolio. Outstanding retail auto financing loans totalled Bt10,257 million in 2009, up 9.5% from Bt9,364 million in 2008. In 2010, the recovery of the domestic economy and the automobile sales supported an expansion of ASK’s retail auto financing loans. The portfolio value reached Bt11,406 million at the end of June 2010, up 11.2% from the end of 2009. However, ASK’s consolidated outstanding loans increased by only 3.8% in 2009 to Bt12,267 million from Bt11,820 million in 2008, mainly due to slowdowns in the leasing and factoring businesses of the subsidiary. The size of outstanding consolidated loan portfolio rose in the first half of 2010 to Bt13,467 million, or up 9.8% from the end of 2009. At the end of June 2010, 84.7% of the consolidated loan portfolio was retail auto financing loans held by ASK, up from 79.2% in 2008 and 83.6% in 2009, while the proportion of BGPL’s leasing and factoring loan portfolio decreased to 15.1% of consolidated loans, down from 16.1% in 2008 and 20.5% in 2009.

ASK’s overall customer concentration risk is considered low, due to the nature of retail auto financing loans. In addition, its diversified portfolio mix of retail auto hire purchase loans helps reduce product concentration risk. At the end of June 2010, ASK’s outstanding retail auto hire purchase loans comprised passenger cars and pick-up trucks (37.8%), vans (23.0%), big trucks (25.4%), taxis (11.6%), buses (0.9%), and refinancing loans (1.2%). In general, although loans for commercial vehicles, such as big trucks, vans and taxis, have generated higher returns, the composition of such assets in the loan portfolio causes an operator to carry higher credit risk than other major auto financing companies which have concentrated on passenger cars and pick-up trucks. To mitigate the higher risk, ASK implemented a segmentation strategy and focuses on the less risky specific sub-segments of each asset type and target customer group.

Despite a seemingly riskier loan portfolio, the ratio of non-performing loans or NPL (loans with more than three installments past due) to average loans is considered low, when compared with other auto financing companies. The experienced and capable management team, efficient risk management system and conservative underwriting policy are the factors that help the company keep asset quality at a satisfactory level. However, the NPL ratio did rise from 0.99% in 2005 to 1.78% in 2008, but improved to 1.45% in 2009. In addition, intensified competition in the auto financing industry has pressured the profitability of ASK and other major operators. The return on average equity (ROAE) ratio improved to 11.00% in 2009 from 10.56% in 2008 while the return on average assets (ROAA) ratio was at 1.57% in 2008 and 1.58% in 2009. The company's ROAA ratio was considered low in a cross-industry comparison. The ROAA ratio substantially improved to 2.14% for the first half of 2010 (annualized), mainly due to a rise in net interest income and lower provisioning expenses. However, more time is needed to demonstrate if the profit improvement is sustainable.

In terms of funding sources, ASK has benefited as an affiliate of Bangkok Bank PLC (BBL). However, this benefit has been constrained by the regulatory lending limits to related entities of a financial institution, 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 limit ASK's financial flexibility and the ability to enjoy a secured source of funds from BBL. ASK's borrowings from BBL have been reduced since late 2008 and the amount of borrowings stay below regulatory limit at present. ASK has been trying to diversify its funding sources to other financial institutions and the capital markets, including bill of exchanges (B/E) and debentures, by keeping the available credit line from BBL as a financial cushion to mitigate its liquidity risk. At the end of June 2010, ASK's funding through B/Es was 15.6% of total consolidated borrowings. In general, funding through B/Es exposes to refinancing risk. However, ASK's refinancing risk can be mitigated by monthly installment payments and the establishment of back-up credit facilities that completely cover ASK's funding needs. In the mid of this year, the company has already refinanced its Bt3,000 million borrowings with new three-year borrowings.

### 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 for commercial vehicles. ASK's experienced and capable 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 the fact that ASK will have sufficient funding flexibility, both for relieving liquidity constraints and for future expansion.

### Key Rating Considerations

#### *Strengths/Opportunities*

- Experienced and capable management team
- Strong market position in niche markets for targeted commercial vehicles
- Strong support from major shareholders
- Efficient risk management systems

#### *Weaknesses/Threats*

- Higher risk exposure from nature/characteristics of targeted commercial vehicles segments
- Relatively low profitability in a cross-industry comparison
- Intensified competition

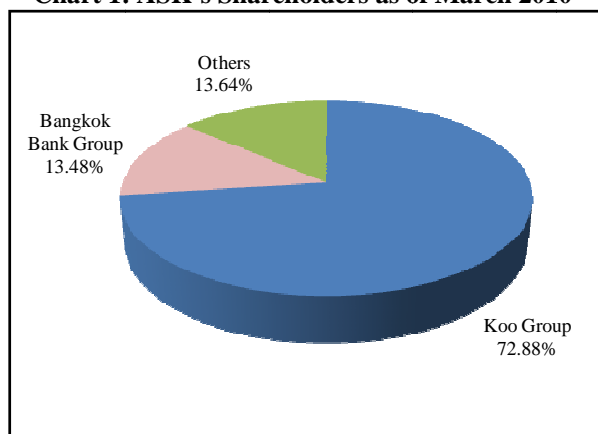
- Limited financial flexibility compared with commercial bank-based operators

### Corporate Overview

ASK was established by the Bangkok Bank Group in 1984, with initial paid-up capital of Bt10 million, 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 machinery and equipment (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, 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 Stock Exchange of Thailand (SET). To relieve a conflict of interest between ASK and its parent company, BGPL, both of which provided hire purchase loans and the company's shareholding was restructured. BGPL became a wholly-owned subsidiary of ASK, with BGPL's shareholders becoming ASK's shareholders. In 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 changed to support ASK in the form of lending.

**Chart 1: ASK's Shareholders as of March 2010**

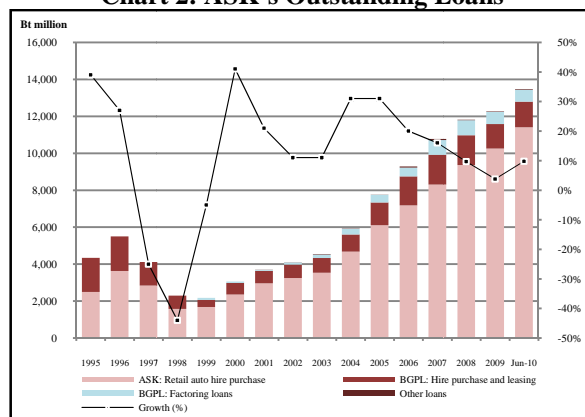


Source: ASK

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, the loan portfolio expanded to Bt11,820 million or year-on-year growth of 9.7%. In 2009, outstanding loans grew by only 3.8% to Bt12,267 million, mainly due to a slowdown of the leasing and factoring businesses. Retail auto loans continued to grow, rising by 11.2% to Bt11,406 million at the end of June 2010, from Bt10,257 million in 2009. This growth followed the recovery in domestic auto sales during the first half of 2010.

**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 2010, retail auto financing loans accounted for 84.7% of ASK's total consolidated loans; M&E leasing, together with loans for commercial vehicles through BGPL, accounted for 10.3% and factoring loans for 4.8%. The remainder (0.2%) was other loans such as floor plan loans and personal loans.

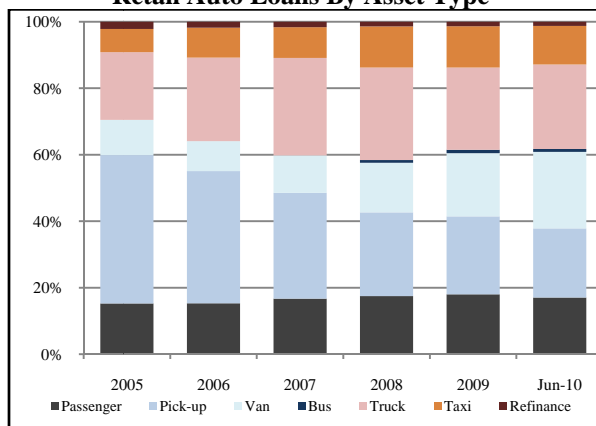
### ■ Diversified auto loan portfolio helps maintain ASK's portfolio during slowdown in domestic demand for automobiles

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 loans for 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.

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 2010, retail auto hire purchase loans comprised loans for passenger cars and pick-up trucks (37.8%), vans (23.0%), big trucks (25.4%), taxis (11.6%), buses (0.9%) and refinancing loans (1.2%). ASK has concentrated on major and popular brands of vehicles, which enable the company to mitigate the risk from resale value and liquidation. In 2009, retail auto hire purchase loans by manufacturer were as follows: Isuzu (35.4%), Toyota (42.5%), Hino (7.7%) and other brands (14.4%).

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



Source: ASK

▪ **Financial lease business is growing at a slower pace**

The number of small- and medium-sized enterprises (SME) increased after the 1997 financial crisis. Normally, SMEs face difficulties in 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, the lessee can 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 M&E loans, 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 Bt1,321 million in 2009 as loan demand decreased from target customers as well as BGPL's conservative underwriting policy. The loan portfolio has held steady and was valued at Bt1,385 million at the end of June 2010. Despite the economic recovery, the loan portfolio is expected to grow at a slower pace compared with the past period because a number of negative factors remain constraints. 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.

▪ **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 the only two companies in Thailand that offer international factoring through membership in the Factors Chain International (FCI), an organization that has 252 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 11.2% of BGPL's total factoring loans in 2009, due to the fact that the international



factoring business in Thailand remains in its early stage. 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 the global economic downturn. In the second half of 2008, BGPL's profitability was burdened by 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 slowdown the factoring business. Outstanding factoring loans fell substantially, dropping to Bt659 million in 2009 and held at Bt642 million at the end of June 2010. The factoring business is also expected to expand but with a conservative policy for growth.

▪ ***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 of 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 2010, ASK's active dealers comprised 164 new auto dealers and 128 used 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 tools (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 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 asset quality, resulting in a relatively low NPL ratio. In addition, as a subsidiary of the Chailease Group, the company is audited by its foreign parent company annually to strengthen its operating processes and ensure the processes meet the standards.

### **ASSET QUALITY**

ASK's asset quality is controlled through efficient risk management systems in use during the underwriting process. Together with a segmentation strategy, a credit scoring system and checks of a blacklist from an internal database and the National Credit Bureau Co., Ltd. are utilized to screen potential target customers or asset types. More stringent collection practices were implemented to maintain a low delinquency rate during the economic slowdown in 2008-2009. The same caution has extended through the present, given the current uncertain economic and political situations.

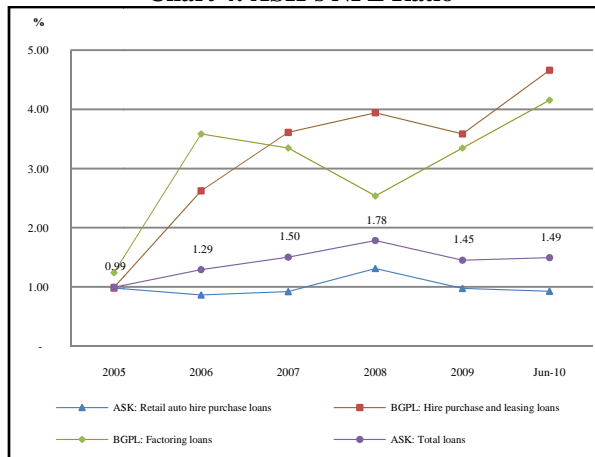
▪ ***Retail auto financing loan quality improves***

Although ASK's portfolio composition appears riskier than traditional auto financing operators, its NPL ratio (percentage of loans with more than three instalments 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. The recovery of the economy, a stringent underwriting policy and process, as well as bad debt write-offs, helped improve the ratio to 0.97% in 2009 and 0.93% at the end of June 2010. In contrast with ASK, as a consequence of the economic slowdown, the NPL ratio for BGPL loans has deteriorated, partly due to higher customer concentration than retail auto financing loans and shrinkage of the loan portfolio, both in leasing and factoring businesses. The NPL ratio for BGPL's hire purchase and leasing loans rose from 0.99% in 2005 to 3.94% in 2008, but improved to 3.58% in 2009, while the ratio for factoring loans was 2.54% in 2008, rising from 1.24% in 2005. The NPL ratio of factoring loans continued to deteriorate in 2009 to 3.35%.

BGPL has been hit by the deterioration in customer credit quality, prompting the company

to strengthen its underwriting policy, as well as slow down extensions of new loans. The NPL ratio for hire purchase and leasing loans increased to 4.66% at the end of June 2010 while the factoring loans also deteriorated to 4.15%.

**Chart 4: ASK's NPL Ratio**



Source: ASK

The weaker asset quality of the leasing 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. The consolidated NPL ratio improved to 1.45% at the end of 2009, mostly due to improvement in retail auto financing loans.

■ **Cushion for doubtful accounts was strengthened to confront deteriorating asset quality**

ASK's cushion for doubtful accounts has improved since the shareholding was restructured in 2004. The ratio of allowance for doubtful accounts 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, but fell to 1.34% in 2008 due to the increase of bad debt write-offs. Increased concern over the consequences of the economic slowdown pushed the company to strengthen its provision policy in 2009 by increasing the allowance percentage 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% for consolidated loans. The portfolio expansion and bad debt write-offs in 2009 caused the ratio to drop to

0.82% at the end of 2009 for retail auto financing loans and 1.40% for consolidated loans. The ratio was at 0.86% for retail auto loans and 1.42% for consolidated loans at the end of June 2010.

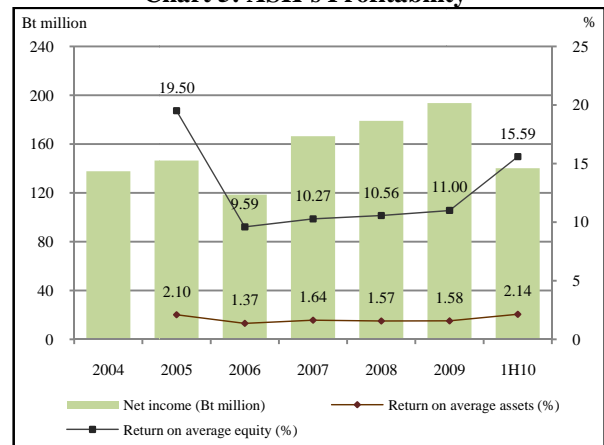
However, despite the fact that the allowance policy has been strengthened, continuing deterioration in asset quality pushed the consolidated NPL coverage ratio (the ratio of allowance for doubtful accounts to NPLs) to 78.84% in 2008, from 123.42% in 2005. This measure improved to 99.70% at the end of June 2010.

## PROFITABILITY

■ **Profitability improved in 2010**

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 Bt194 million in 2009.

**Chart 5: ASK's Profitability**



Source: ASK

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 pushed yields down to 8.68%, the company was able to lower its average funding cost to 4.74% in 2008, from 5.27% in 2007, causing the spread to continue to improve to 3.94%. Low-cost funding from short-term borrowings, including B/E, helped improve the

spread to 4.37% in 2009 and 4.66% for the first half of 2010, despite a drop in yield to 8.47% and 8.55% for the same periods. Rising interest rates in an intensely competitive environment might squeeze the spread in the future.

Profitability improved in 2010 with net profit reaching Bt140 million for the first half of 2010. The ROAA ratio was 2.14% (annualized), compared with 1.57% and 1.58% in 2008 and 2009, respectively, which is considered low in a cross-industry comparison. Despite the recent improvement in 2010, time will prove if the rise is sustainable.

▪ **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 supported 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.

#### 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 interest rate risk. The average funding cost is expected to increase, while the average yield from outstanding loans remains fixed, despite the fact that ASK can provide new loans at higher rates from the loans due within a year. 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. However, an increase in short-term borrowings, which was mainly due to higher current portion of long-term debts, caused the ratio of short-term borrowings to increase to 71%. Long-term borrowings both from commercial banks and debentures issued in 2010 improved the ratio to 65% at the end of June 2010. However, the company remained exposed to risk from an increase in short-term interest rates and the duration mismatch.

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

During 2004-2009, ASK funded an average of 75% 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 the company has borrowed mainly from an affiliated local bank, BBL, which is its second major shareholder.

Regulatory lending limits released by the BOT on 3 August 2008 constrained the financial flexibility provided by BBL. To lower concerns over funding flexibility, ASK needs to either terminate its status as a company related to BBL or diversify its funding sources. The company has been trying to diversify to seek funding from other commercial banks and other sources. At the end of June 2010, the proportion of ASK's borrowings from BBL substantially decreased and stayed below regulatory limit of its total borrowings. In 2009, ASK accessed the capital market through sales of long-term debentures and B/Es. In general, funding through B/Es is exposed to refinancing risk as the B/E market is highly vulnerable to adverse changes in the economy. At the end of June 2010, funding through B/Es totaled Bt1,809 million or 15.6% of its total consolidated borrowings. Nevertheless, the monthly instalment received and the establishment of back-up credit facilities helped ASK mitigate the refinancing risk and cover the company's funding needs

**Table 1: ASK's Funding Structure**

Percentage	2004	2005	2006	2007	2008	2009	Jan-Jun 2010
Short-term borrowings	78.7	84.3	76.6	75.5	64.8	70.6	64.7
OD and short-term borrowings	78.7	69.0	75.7	64.4	56.7	42.1	43.1
- Related parties	28.0	33.6	21.7	26.7	25.9	2.3	5.4
- Others	50.7	35.4	54.0	37.7	30.8	39.8	37.8
Current portion of long-term borrowings	-	15.4	0.9	11.1	8.1	28.5	21.5
- Related parties	-	15.4	0.9	11.1	-	19.0	17.2
- Others	-	-	-	-	8.1	9.5	4.3
Long-term borrowings	21.3	15.7	23.4	24.5	35.2	29.4	35.3
- Related parties	21.3	15.7	13.0	4.5	20.1	2.8	2.6
- Debentures	-	-	-	-	-	-	4.3
- Others	-	-	10.4	20.0	15.1	26.6	28.4
Total borrowings	100.0	100.0	100.0	100.0	100.0	100.0	100.0
- Related parties	49.3	64.6	35.6	42.3	46.0	24.1	25.2
- Others	50.7	35.4	64.4	57.7	54.0	75.9	74.8
Total borrowings	100.0	100.0	100.0	100.0	100.0	100.0	100.0

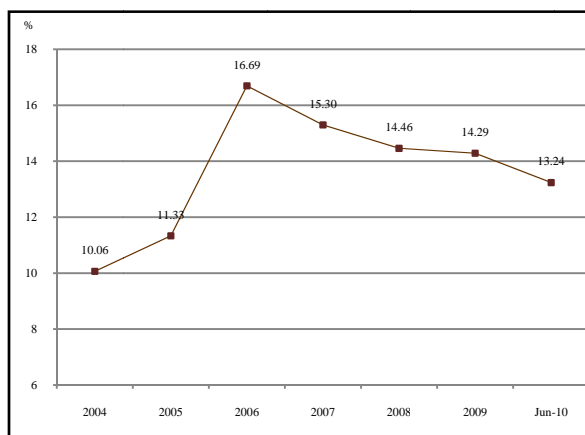
Source: ASK

### 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, which 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

As it is common for commercial lenders, expansion of the loan portfolio is typically financed by borrowing. In addition, ASK's capital base has grown slowly due to its high dividend payout. After the SET listing, ASK's dividend payments reached the stated maximum payout of 70% of profits, slowing any rise in the equity base. As a result, the ratio of shareholders' equity to total assets decreased to 15.30% in 2007 and 14.46% in 2008. The ratio fell to 14.29% and 13.24% at the end of 2009 and June 2010, respectively. Given that ASK wishes to maintain a high dividend payout, the capital base is considered adequate to facilitate expansion of the loan portfolio at a conservative annual rate of about 10%-15% over the next two years.



# Financial Statistics\*

Unit: Bt million

	Jan-Jun 2010	----- Year Ended 31 December -----			
		2009	2008	2007	2006
Total assets	13,618	12,569	11,938	10,866	9,444
Total loans	13,467	12,267	11,820	10,776	9,291
Allowance for doubtful accounts	192	172	159	161	124
Short-term borrowings	7,506	7,431	6,433	6,782	5,905
Long-term borrowings	4,099	3,100	3,500	2,200	1,800
Shareholders' equity	1,803	1,796	1,726	1,662	1,576
Net interest income	344	617	539	464	360
Bad debts and doubtful accounts	48	114	92	85	45
Non-interest income	88	158	160	148	144
Operating expenses	191	373	357	311	304
Net income	140	194	179	166	119

\* Consolidated financial statements

**Key Financial Ratios\***
*Unit: %*

	Jan-Jun 2010	----- Year Ended 31 December -----			
		2009	2008	2007	2006
<b>Profitability</b>					
Net interest income/average assets	2.63 **	5.03	4.73	4.57	4.16
Net interest income/total income	53.14	51.65	46.99	44.13	40.25
Operating expenses/total income	29.57	31.28	31.13	29.59	33.94
Operating profit/average assets	1.47 **	2.35	2.19	2.12	1.79
Return on average assets	1.07 **	1.58	1.57	1.64	1.37
Return on average equity	7.79 **	11.00	10.56	10.27	9.59
<b>Asset Quality</b>					
Non-performing loans***/average loans	1.49	1.45	1.78	1.50	1.29
Bad debts and doubtful accounts/average loans	0.38 **	0.95	0.82	0.85	0.53
Allowance for doubtful accounts/total loans	1.42	1.40	1.34	1.49	1.33
<b>Capitalization</b>					
Debt/equity (times)	6.55	6.00	5.92	5.54	4.99
Shareholders' equity/total assets	13.24	14.29	14.46	15.30	16.69
Shareholders' equity/total loans	13.39	14.64	14.60	15.43	16.97
<b>Liquidity</b>					
Short-term borrowings/total liabilities	63.53	68.98	62.99	73.69	75.06
Total loans/total assets	98.89	97.60	99.01	99.17	98.38
Total loans/total borrowings	116.04	116.48	119.00	119.97	120.58

\* Consolidated financial statements

\*\* Non-annualized

\*\*\* Loans with more than three instalments 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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