Impact of merger & acquisition on financial performance: A case study on Bank of Ayudhya be acquired by MUFG

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ผลกระทบทางการเงินจากการควบรวมกิจการ: กรณีศึกษาธนาคารกรุงศรีอยุธยาถูกเข้าซื้อกิจการโดยกลุ่ม MUFG

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As we know, the merger & acquisition deals could significantly affect the performance and business result of target company, especially on financial aspect. In fact, merger & acquisition became a major method for expanding business scale, enhancing competitive, improving financial performance. Due to several reasons, regulators did not welcome foreign bank involved too much influence in Thai financial market. In the end of year 2013, a surprising news was revealed in social media, Bank of Ayudhya accepted the investment from Mitsubishi UFJ Financial Group, becoming its oversea subsidiary. It was one of biggest banking merger & acquisition deals in Thailand. My research mainly focus on how the acquisition deal impact on financial performance of Bank of Ayudhya. I applied measurements of financial analysis which represents the aspect of growth, profitability, credit quality, statutory capital and stock performance. In the end, the report stated several changes on financial performance of Bank of Ayudhya after the deal, mostly became better but not comprehensively in every aspects. Meanwhile, the report also provided the recommendations and suggestions for potential readers.

Field of Study:	Business and Managerial Economics	Student's Signature ....
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I wish my individual study could deliver a valued message to everyone who want to gather ideas in this field. Thank you.

Yang Liu

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Chapter 1: Introduction

1.1 Background

25 years ago, July 1997, the Asia Financial Crisis was occurred and significantly affect the economics of Asia. One of triggers was the Bank of Thailand announced freely floating currency rate of THB. Many economists considered that detonation point of this crisis was fired by Thailand terrible reserve situation of foreign currency during that period, however nowadays when we looked back, people realized it was not that easy, the consequence was occurred by a long term accumulated financial systemically problem. Such as furious speculate in real estate and stock market, weak risk management in banking system, extremely high of bad debt level, foreign funds can highly liberalization played in Thai financial industry, etc.

This crisis not only cost Thailand long time and huge wealth to recover, but also educated Thailand essential lessons. One of those lessons was how to build a solid and health banking system. The relevant policies after the crisis were moved into the area of how to enhance the risk management skill of domestic banks, how to encourage the merger transactions within domestic banking group, how to limit the influence of foreign funds and tight the entry of foreign financial power into Thailand, etc. Therefore, in a long period, we cannot see many cases of foreign banks acquired majority shares of Thai local banks or obtained the local license to set up subsidiary in Thailand. However, the thing always owned two faces, with the time pass, the Bank of Thailand and other relevant authorities found that the existing foreign bank still achieved better performance in term of faster growth, fatter profitability, lower non-performing loan than local banks. Thus, the regulator started to discuss internally, how to encourage foreign financial group to invest Thailand, help the local banks to form a healthy competition within Thai banking industry.

Later, in year 2003, Thailand eased restriction regarding to foreign ownership on financial entities from not more than 25% to not more than 49%, meanwhile allow foreign commercial bank operated maximum 5 sub-branches in Thailand. In year 2011, the regulations revised the polices more easing. Bank of Thailand stated that existing foreign commercial banks (Thailand branches) can be upgraded to subsidiaries in Thailand.

Furthermore, they will be permitted to open maximum 20 sub-branches and installed maximum 20 ATM machines in Thailand after they successfully upgraded to subsidiaries. In fact, after year 2012 Thai regulators including Bank of Thailand and Ministry of Finance no more granted license to any application of establishing foreign bank branch in Thailand. They only encourage existing foreign bank branches upgraded and/or incorporate subsidiary directly (register capital not less than THB 20 billion), or engaged financial business in Thailand via merger, acquisition of local entities. In the end of year 2013, a surprising news was revealed in social media, Bank of Ayudhya accepted the investment from Mitsubishi UFJ Financial Group, becoming its oversea subsidiary. It was the biggest banking merger & acquisition deal in last decades. Including the investors, stakeholders, customers, regulators, etc all strongly wanted to see how this famous long history local bank will be developed after the acquisition deal. Meanwhile this deal definitely will be a benchmark for future consideration, especially for its competitors to learn. If they receive foreign investment in the future, they will consider this deal as an example, it will surely determine their judgement and decision.

1.2 Brief background of Bank of Ayudhya

Bank of Ayudhya Public Company Limited (In year 2014, the bank re-branded name as “Krungsri”) was incorporated on April 1, 1945 and successfully listed on the Stock Exchange of Thailand on September 26, 1977. Currently Bank of Ayudhya is Thailand’s fifth largest bank in term of total assets, total loans outstanding amount and total deposit. Krungsri can provided full financial service such as banking, international trading finance, consumer finance, investment, wealth and asset management, leasing, insurance, etc. As at September 30, 2021, Krungsri Bank owned 653 branches totally (within that, 652 were domestic branches and 1 was oversea branch “Vientiane, Lao PDR”), with total 14,177 staffs (number will be 33,469 if excluded staff who worked at subsidiaries of Krungsri Group). As at end of third quarter year 2021, market share of Krungsri in business of personal loan, credit card, automobile hire purchasing was 28% (market rank number 1), 15% (market rank

number 1), 29% (market rank number 1) respectively.
Meanwhile market share of Krungsri in SME loan market and corporate loan market was 9% (market rank number 5), 9% (market rank number 5) respectively.
On December 18, 2013, Krungsri reached key milestone that became a subsidiary of MUFG Bank, Ltd. which is the wholly-owned subsidiary of Mitsubishi UFJ Financial Group (MUFG), Japan's largest banking group and one of the world's largest financial groups.

Table 1: Top 8 shareholders of Bank of Ayudhya as at end of September 2021

	Name of Shareholders	Percentage Holding
1	MUFG Bank Ltd	76.88%
2	Stronghold Assets Company Limited	2.26%
3	The Great Luck Equity Company Limited	2.26%
4	GL Asset Company Limited	2.26%
5	BBTV Statelvison Company Limited	2.26%
6	BBTV Asset Management Company Limited	2.22%
7	Bangkok Broadcasting & TV Co., Ltd	2.19%
8	Mahakij Holdings Co., Ltd	2.16%

Source: Bank of Ayudhya official website/investor/factsheet

1.3 Objectives and Contributions

Merger and acquisition were rapidly becoming a popular method in many industries for corporate developing, especially in term of reinforcing the financial performance. Therefore, the objectives of my study were to observe how the impact on financial performance after a Thai local bank be acquired by a foreign bank. However, there was big voice that the merger was not a good way for bank to fast grow up, Delong (2003) observed that on average bank mergers do not create value. Moreover, merger and acquisition were not that common in ASEAN banking industry, especially in Thailand. Levine, Barth and Caprio (2006) found that the tough regulation restrictions on bank activates and barriers to foreign investor adversely affect banking sector performance. Due to the willing and relevant policies of regulator, for a long time, we did not see much case regarding to Thai local banks be acquired by foreign banks. Thus, I select Bank of Ayudhya as example which can certainly answer abovementioned questions and objectives.

Chapter 2: Literature Review

Several studies were conducted regarding to how merger & acquisition affect the target bank, meanwhile those studies also perform the analysis to find the answer whether those acquisition made target bank better or not in financial filed. The conclusion was quite varied depend on many different factors such as size of the bank, geographic location, period of economic cycle, risk management level of both bidder and target bank, operating efficient level, policy of local regulator, local financial system and competition, organizational and local culture, integration effort, etc. Based on that research, I found that the acquisitions may enable banks to benefit from new business opportunities that have been created by changes in several aspects. For instance, Berger et al. (1999) pointed the consequences of acquisitions, which will made changes in business efficiency, market power, economy of scale, business scope, availability of SME services, efficiency of cross border payment systems. The blow part was the 5 main reasons which made a positive effect on financial performance for a target bank:

1) Bigger economy of scale. Economies of scale are due to the fact that within a certain output range, fixed costs do not change much, and more fixed costs can be shared with new output, thereby reducing the total costs. This concept was considered also can be applied in banking industry. Fukuiyama (1993) found that different organization size of banks performed differently, after banks be consolidated into one, their scale efficiency was found to be positively changed. Hannan (1998) found that banks mergers have resulted in higher banks concentration, which in turn leads to economy of scale.
2) Stronger market power. From the perspective of firm, having stronger market power, means it can achieve more profitable business result. This idea also be overserved by many studies, such as Hunter and Wall (1989) found that after acquisition, the target company's performance can be enhanced by increasing market power. Hughes (1990), Meon and Weill (2005) stated that the cross-border acquisition made target bank more risk and portfolio diversification which led an increased market power of target bank.
3) Better performance in stock market. It is not easy to completely

realize whether acquisition boost bright look of performance in stock market. If the acquisition bank took advantage of superior information, even the stock price rose afterwards (normally during the transaction period, the stock will be temporary stop trading), the caused may not due to better operating business but caused by inefficiency market. Sushka and Bendeck (1988) stated that acquiring target bank can be reap the benefit of those potential advantages (superior information), which boost the trend of stock price sharply upward in short period. Resti and Siciliano's (2001) case study regarding to analysis of Italian bank mergers between 1992 to 1997 found that there are clearly positive shareholder wealth effects.

4) Improved operating efficiency. The comparative relationship between resource input (can be labour resource, capital resource, etc) and output during the process of business operating. If the operating efficiency improve, then the profitability and turnover situation of the company will be better off (such as fatter margin level, lower cost expense, higher profit, faster turnover cycle spending, etc). Cornett, Mcnutt and Tehranian (2006) stated that the operating performance of target banks improved, that larger

bank merger produces bigger gains. Cornett (2006) found evidence of revenue efficiency improvement for large merger. This conclusion was also matched and found by De Guevara and Maudos (2007), they stated that cost efficiency of Spanish bank was improved between year 1986 to year 2002 during a period of bank consolidation, mainly due to largely declines in marginal cost.

5) Financial innovations. Target banks especially in emerging market normally has lower adoption in innovations such as fin-tech, financial derivatives products, block chain, new risk management tools, new financial engineering model etc. Therefore, they can reap benefit from financial innovation via accepting foreign banks acquisition (especially the bank from developed countries) which they do not owned much experience on it. Frame and White (2004), DeYoung (2007) stated that those new innovations can significantly change the competitive and strategic conditions faced by financial enterprise. Almost always to achieve above mentioned advantages via merger and acquisition.

Obviously, the merger and acquisition may not always lead to success, it was high chance ended by an adverse effect in post-acquisition period. There are several reasons and causes which may affect the performance of target bank, such as cultural conflict, communication difficulties, negative synergy effect, unexpected integration process. Normally the main determination why chooses merger and acquisition as expanding method was synergy effect. As its's definition, synergy effect means two companies whose combined strength was greater than the simply sum together of their separate strength, and new value-added effect of new combining entity will larger than the individual companies before. However, do not gather the synergy effect the acquisition and target company's expectation was a main reason why the result of the deal finally failure. Many studies were conducted and concluded similar opinion. Furthermore, the failure may also cause by other factors, Appelbaum and Lefrancois (2007) stated that the merger integration success or failure depend on different factors such as communication, leadership, culture and stress. Especially in the case of foreign acquisition, both the target and biding company has their owned home country and organization culture. This type of cross-border transaction may largely lead to an unsuccessful result of acquisition, this idea was also mentioned in many research studies. Buono et al. (1985), Nahavandi and Malekzadeh (1988) stated that the barriers were mainly due to culture clashes, Schweiger and DeNisi (1991) think the reason was caused by communication failure, meanwhile Risberg (2001) considered the reason was employee’s perceptions and reactions. Berry (1980), Nahavandi and Malekzadeh (1988) stated that culture not similar was recognized to be a main source of culture conflict which led to unexpected result of an acquisition.

Chapter 3: Methodology and Data

3.1 Methodology

The measures I plan to use regarding to the topic of this study, mainly via financial ratio analysis. In details, focusing on 5 different aspects in term of Growth, Profitability, Credit Quality, Statutory Capital, and Stock Performance.   The application of financial ratio analysis will not only be used for analysing the trend, change, average level before and after the transaction, but also could help find the strength and weakness of Bank of Ayudhya, and further providing the suggestion to potential readers.

1) Growth:

- Asset Growth, total asset can be used when we would like to know how big or how about the size of a company, and revenue was generated from the item in asset, therefore it is always be used to rank the bank, % = (Total $Asset_{T+1}$ - Total $Asset_T$)/Total $Asset_T$
- Loan Growth, the loan was defined as book value of loans to customers and accrued interest receivables minus allowance for doubtful account, minus deferred revenue, and minus revaluation

allowance for debt restructuring. Loan was a key asset for all financial institution especially for bank to measure its operation performance. % = ($Loan_{T+1}$ – $Loan_T$)/ $Loan_T$

- Deposit Growth, deposit was one of the essential sources of fund for a bank to perform its credit business, how to maintain and attract low cost funding like deposit, is another key measure for a bank's operating performance, % = ($Deposit_{T+1}$ – $Deposit_T$)/$Deposit_T$
- Net Profit Growth, for any companies, the net profit was always and widely used to measure the business result, and be concerned by investor who interested the performance of a company, % = (Net $Profit_{T+1}$ – Net $Profit_T$)/ Net $Profit_T$

2) Profitability:

- Return on Equity (ROE), it is a quite comprehensive ratio which can provide the view of many aspects, such as profitability (Net profit/Total revenue), turnover efficiency (Total revenue/Total assets) and level of leverage (Total assets/ Total equity), therefore this ratio always and widely be used in large corporate for business analysis, % = Profit After Tax / Total Equity
- Operating Cashflow Return on Assets (OCRA) which is derived

from Healy, Palepu and Rubback (1991). OCRA = Operating Cashflow / Total Asset

However, I revise slightly from original measures which defined by Healy, Palepu and Rubback (1991). The operating cashflow will be defined as EBITDA (earnings before tax, interest expense, fixed asset deprecation, intangible asset amortisation). Asset will be defined as book value of total asset.

- Earnings Per Share (EPS): It is the net profit or the net loss of the company that common shareholders can enjoy for each share they hold. Earnings per share is usually used to reflect the operating results of a company, measure the profit level and investment risk of common stocks. EPS is the basis for investors and other information users to evaluate profitability of a company, predict the potential growth of a company, important ratio for them to determine their following economic decisions. EPS = Profit After Tax / Total Number of Outstanding Shares
- Cost to Income Ratio: It reflected how much the bank needs to pay for each unit of income. The lower ratio, the lower cost of every unit income, and the stronger ability to achieve the income. Ratio = Operating Expense/ Operating Revenue

3) Credit Quality

- Non-performing Loan Ratio (NPL ratio): Non-performing loan is a loan that the obligor is in default since they have not made the scheduled payment for a specified period. This ratio was an important measure that show the bank’s level of credit risk and quality of outstanding loans. NPL ratio = Non-performing Loans / Total Loans.
- Coverage Ratio: The reserve for potential loan losses to the gross amount of non-performing loans. It is an important indicator that show bank's ability to mitigate credit loss risk. Normally this ratio should not be less than 100%, Otherwise the reserve will not be sufficient to cover potential credit loss. The higher ratio, the stronger ability to mitigate risks. Ratio = (Normal Reserve+ Special Reserve)/ (Classification of Subprime Loan+ Classification of Suspicious Loan+ Classification of Loss Loan)

4) Statutory Capital

- Capital Adequacy Ratio (CAR): It is a measure of how much capital a bank has available, it shows as below:

$$CAR = \frac{Tier\ 1\ Capital + Tier\ 2\ Capital}{Risk\ Weighted\ Assets}$$

Tier 1 capital or we could call core capital, it was normally sum up by ordinary/common share, preferred share, paid in capital, unappropriated profit, etc. To supplement or add up more Tier-1 capital was considered that the most useful and fundamental way for banks to improve their ability to mitigate potential risks. Tier 2 capital is a bank's subordinated capital, including general reserves, special reserves, subordinated long term debt (including several types of bonds) and mixed instruments (debt/equity instruments) etc. As a bank's supplementary capital, it can also play an important role in resisting potential risks, but it will be considered later than tier 1 capital.

Risk-weighted assets, it refers to the classification of a bank’s asset, the different coefficients of assets according to the risk nature of that type of asset, will be allocated vary proportion when calculated the risk weighted asset. There are many items of asset with zero risk weight, at the same time many items of asset with high-risk weight. This depends on the configuration of each bank’s asset-liability structure. In general, the higher risk weight, also means higher returns.

5) Stock Performance

- The movement of stock price is a comprehensive presentation of a company’s financial and non-financial information. Normally as a single and normal investor, we cannot obtain all necessary information and the market was not that perfect effective. Therefore, when the different investors have confidence on the future of a company which base their own judgement, it will bring a stronger purchasing power rather than selling power, as a result, the stock price is likely to grow upwards, and vice versa. In the analysing part, I will not only show the stock trend of Bank of Ayudhya itself, but also its domestic competitor such as Bangkok Bank, Siam Commercial Bank, Kasikorn Bank for 10 years (cover year 2009 to year 2019). It will be very interest to see any difference or worse or outstanding performance especially around news announcing moment, and overall price trend after the acquisition completion.

3.2 Data:

The data was collected regarding to the relevant figure of Bank of Ayudhya 5 years before and 5 years after acquisition (Data of Year 2014 will be collected but will not be analysis as it is the deal closing and consolidating period). The source of those data was mainly collected from official website of Bank of Ayudhya, public information which be disclosed in Stock Exchange of Thailand, Securities and Exchange Commission, research report which published by securities firm.

Chapter 4: Data Analysis

(all figures in this part will be based on separated basis)

4.1 Growth

5 Years before Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)							
Unit: THB Million	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Average Growth
Total Asset	744,718	760,625	828,727	886,823	986,467	1,073,419	
Asset Growth		2.14%	8.95%	7.01%	11.24%	8.81%	7.63%
Total Loan	518,297	540,545	567,547	623,096	715,823	803,293	
Loan Growth		4.29%	5.00%	9.79%	14.88%	12.22%	9.24%
Market Average		-1.8%	11.3%	14.9%	13.7%	11.0%	9.82%
Total Deposit	540,747	524,686	581,241	564,179	692,994	768,390	
Deposit Growth		-2.97%	10.78%	-2.94%	22.83%	10.88%	7.72%
Net Profit	2,287	2,544	6,043	6,051	6,496	8,023	
Net Profit Growth		11.24%	137.54%	0.13%	7.35%	23.51%	35.95%
Market Average		-6.6%	34.5%	17.2%	21.2%	23.6%	17.98%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2008-2013.

Performance of The Thai Banking System in Year 2009, 2010, 2011, 2012, 2013, BOT Press Release, BOT official website.

5 Years after Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)							
Unit: THB Million	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Average Growth
Total Asset	1,126,740	1,652,551	1,805,967	1,999,809	2,049,902	2,234,725	
Asset Growth		46.67%	9.28%	10.73%	2.50%	9.02%	15.64%
Total Loan	871,387	1,187,273	1,304,954	1,387,176	1,505,105	1,612,854	
Loan Growth		36.25%	9.91%	6.30%	8.50%	7.16%	13.62%
Market Average		4.3%	2.0%	4.4%	6.0%	2.00%	3.74%
Total Deposit	843,748	1,052,072	1,102,914	1,316,705	1,420,893	1,558,780	
Deposit Growth		24.69%	4.83%	19.38%	7.91%	9.70%	13.30%
Net Profit	16,697	14,140	15,731	12,683	17,666	19,586	
Net Profit Growth		-15.31%	11.25%	-19.38%	39.29%	10.87%	5.34%
Market Average		-10.2%	3.6%	-5.8%	10.80%	30.80%	5.72%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2014-2019. Performance of the Thai Banking System in Year 2015, 2016, 2017, 2018, 2019, BOT Press Release, BOT official website.

For total assets, it was expended from THB 760.63 billion to THB 1,073.42 billion before acquisition, equivalent an average increase of 7.63% annually. Within that period, the growth rate was fluctuated but we can see year 2010 and year 2012 was 2 fast growing years which compared with previously year. Mainly due to Bank of Ayudhya merged GE Money Thailand (GEMT) business on year 2009 (fully consolidated on year 2010), Hongkong and Shanghai Banking Corporation (HSBC) retails banking business and on year 2011 (fully consolidated on year 2012). Compared to the growth of total assets before acquisition, the growth speed of total asset was significantly faster. Total assets were increased from THB 1,652.55 billion to THB 2,234.73 billion, an average growth rate of 15.64%. Especially the first year after the deal was completed. The sharply increasing in year 2015 was largely thanks to a 1) higher loan outstanding amount which be transferred from BTMU Bangkok branch (increased THB 290,693 million), 2) deposit from other financial institutions (increased THB 32,016 million), 3) loans to money market (increased THB 113,730 million). For the change of total loan balance, the average growth rate of total loan balance was 9.24% before acquisition. The grow rate was single digit before year 2012, but the change was stronger to double digit after that year. Total loan balance was sharply rose in year 2012 and 2013, almost all products lines were better off such as loan to corporate customers (increased 3.7% in year 2012), loan to SME customers (increased 12.6% in year 2012), loan to retail customers (increased 24.2%, especially credit card business rose 30.1%, auto hire purchasing business rose 29.5%). The robust growth of credit cards and personal loans should thanks to successfully consolidation of HSBC bank's retail portfolio business. Auto hire purchasing loan grew fast due to the Thailand government first car tax free promotion program. Compared with the situation among the banking industry, the five-year average rate was similar as industry average level during that period. Moreover, mostly time the Bank of Ayudhya was better than industry average level except in year 2010 and 2011. The reasons of why their loan growth was slower in year 2010, mainly due to real estate and construction sector contracted than previously year. Meanwhile the lessened growth of total loan in year 2011 was clearly caused by serious flooding, and SME credit asset took big portion of Bank of Ayudhya's credit portfolio. Same result as total asset, we can easier see that the growth rate after acquisition was significantly larger than before, the total loan balance was increase from THB 1,187.27 billion to THB 1,612.85 billion, equivalent an average rising rate of 13.62% annually. Interesting thing that the trend was turned to be flat after year 2015, the growth rate maintained single digit until end of year 2019. The main increasing was occurred in year 2014-2015, except the loan to SME customer was dropped, other products lines were better off such as loan to corporate customers (increased 84.6% in year 2015), loan to SME customers (decreased 8.2% in year 2015), loan to retail customers (increased 12.0%, credit card business rose 6.8%, auto hire purchasing business rose 9.9%, housing mortgaged loan soar 20.4%). We can see that the main reasons of loan balance sore were loan to corporate customer which play a key contribution by a transfer corporate loan from BTMU Bangkok branch. For deposit, it is an important source of funds for a bank, collected stable and cheap deposit play an essential role in bank operating. Before Bank of Ayudhya was acquired, the average growth rate of deposit balance was 7.72%, within that, there are 2 years that recorded a negative change which mainly caused by high competition among banks in Thailand. In details such as year 2011, almost all type and tenor deposit were dropped such as saving account (decreased 0.5% in year 2011), time deposit <6months (decreased 30.4% in year 2011), time deposit >1 year (decreased 28.5% in year 2011). However, after Bank of Ayudhya was acquired, the situation was changed. Even the rate was fluctuated, but deposit outstanding amount was positively going up year by year, from THB 1,052.07 billion to THB 1,558.78 billion, an average growth rate of 13.30% annually. Particular in year 2015, the first year after acquisition, the deposit amount was soar more than 24%, mainly resulted from deposit transfer from BTMU Bangkok branch. In details, current account (increased 46.4% in year 2015), saving account (increased 26% in year 2015), time deposit <6months (increased 117.3% in year 2015), time deposit 6months -1 year (increased 28.3% in year 2015). Moving to profit and loss side, it is important for a bank to keep sustainable profit growth. I found a very interesting thing between these two periods. Before acquisition, the net profit was rose from THB 2,544 million to THB 8,023 million, an average growth rate of 35.95%. The profitability level was moved in a big range of 0.13%-137.54% but all years went up positively. However even the average growth rate was 35.95%, but only 1-year (net profit of year 2010 increased 137.54%) growth higher than this average level which means another 4 years were lower than average level of growth. For example, year 2011, the net profit only better 0.13% which compared with previously year. The reason mainly caused by heavy flooding in year 2011 which the Bank of Ayudhya recorded one-time impact expense and lower interest margin (helped the impacted customer and citizens), if excluded those effects, the net profit can be achieved two-digit growth rate. The average growth rate of net profit among the banking industry was 17.89%, it is clearly that Bank of Ayudhya achieved a satisfied result than market. Should be attention that only year 2009 and 2010 (thanks to transfer higher quality asset from other entities), all remaining years, the net profit of Bank of Ayudhya actually was weaker than the market average performance. On the other hand, after the Bank of Ayudhya be acquired, the net profit was suffered heavier fluctuation. There 3 years made positive growth, but 2 years negatively adverse, in total, an average growth of 5.34% only in 5 years. This average level was in line with the banking industry (market average growth rate was 5.72% during those five years). Should be attention that the Bank of Ayudhya performed much worser than industry average level when the market stagnated. In details, year 2015 the bank generated higher net interest income resulting by lending growth, and non-interest income such as net fees and service income which largely driven by the business transfer from BTMU Bangkok branch. However higher operating expense, such as employee's expense increased from THB 10.48 billion to THB 13.62 billion and significantly higher impairment loss of loans and debt securities, from THB 5.05 billion to THB 9.19 billion. Therefore, as a result the net profit of year 2015 was lower than year 2014, a negative movement as shown in bottom line. Situation was same in year 2017, the revenue was increased 8.4% which contributed by almost all products line, like higher net interest income, non-interest income, fee income, non-fees income and service income. But the growth of revenue cannot cover the increase of expense, same as before, in year 2017 the bank spent higher operating expense, recorder higher impairment loss, and achieved a lower net profit which compared with year 2016.

4.2 Profitability

5 Years before Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: THB Million	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Average ratio
Total Equity	88,140	91,888	92,552	95,257	99,387	
Return on Equity (ROE)	2.89%	6.58%	6.54%	6.82%	8.07%	6.18%
Market Average	3.1%	6.8%	7.5%	9.5%	12.1%	7.80%
EBITDA	4,039.06	8,358.55	10,204.85	9,798.02	11,833.25	
Operating Cashflow Return on Assets (OCRA)	0.53%	1.01%	1.15%	0.99%	1.20%	0.98%
Market Average	0.9%	1.1%	1.1%	1.2%	2.6%	1.38%
Earnings Per Share (Baht)	0.42	0.99	1.00	1.07	1.32	0.96
Cost to Income Ratio	56.4%	52.0%	49.7%	50.3%	48.9%	51.46%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2009-2013.

Performance of The Thai Banking System in Year 2009, 2010, 2011, 2012, 2013, BOT Press Release, BOT official website.

5 Years after Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: THB Million	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Average ratio
Total Equity	166,579	178,726	185,526	195,929	211,709	
Return on Equity (ROE)	8.49%	8.80%	6.84%	9.02%	9.25%	8.48%
Market Average	8.64%	8.64%	7.71%	7.95%	9.91%	8.57%
EBITDA	18,482.94	20,723.29	17,810.54	20,604.69	26,319.99	
Operating Cashflow Return on Assets (OCRA)	1.12%	1.15%	0.89%	0.92%	1.28%	1.07%
Market Average	1.10%	1.13%	1.04%	1.11%	1.39%	1.15%
Earnings Per Share (Baht)	1.93	2.14	1.72	2.40	2.66	2.17
Cost to Income Ratio	47.1%	47.1%	48.0%	47.2%	42.9%	46.46%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2015-2019

Return on equity was a comprehensive and useful tool to measure a company in term of profitability (Net profit/Total revenue), turnover efficiency (Total revenue/Total assets) and level of leverage (Total assets/ Total equity). Therefore, this ratio always be used and analysis the performance of a company. Before the Bank of Ayudhya be acquired, the average ROE was 6.18%. Pay attention the period before year 2010, ROE stand much lower than this average level, such as ROE of year 2009 was only 2.89%. The reason was mainly caused by completing the acquisition of GE Money Thailand's business, which lengthen the overall turnover and send leverage level up in this year. The situation of year 2013 was satisfied, proved by its annual ROE performance (8.07%) higher than long term average level at 6.18%. The better-than-expected performance mainly thanks to robust loan growth and lower funding cost which led to better profitability and business efficiency. However, during these five years period, average ROE of whole banking industry was 7.80% which was higher than the average level of Bank of Ayudhya. The main reason was same as abovementioned, with some merger and consolidation with other institutions, the overall leverage level was higher than market average level.

Meanwhile with faster growth of total asset, it took time to integrate smoothly, therefore operating efficiency of the bank was obviously weaker than the whole market in those five years. OCRA was in range of 0.53% to 1.2%, equivalent an average level of 0.98%. It was also lower than average OCRA of whole banking market. In a midterm period, the Bank of Ayudhya's EPS was in an upwards trend, the earnings per shares was increased 214.29% from THB 0.42 per shares to THB 1.32 per shares at the end of year 2013. For the costs to income ratio, it was a measurement to see how good of a bank to well-control its cost. Before Bank of Ayudhya be acquired, the ratio of costs to incomes was gradually dropped year by year, which indicated the bank has ability to manage the overall cost within an appropriate position.

The situation was improved a lot after the Bank of Ayudhya be acquired, the average ROE was 8.48%. The higher ROE represented the overall performance of the bank better off in term of profitability, operating efficiency, and level of leverage. As BTMU become the major shareholder and strategical partner, the Bank of Ayudhya can reap the benefit not only obtained outstanding assets and business portfolio from BTMU, learned advance management skill in term of business and risk field, but also can rely on its global network to expand bigger business territory, financed lower cost funding from both domestic and overseas. The average ROE still lower than the market level, however the percentage of the ratio was very close and some year even higher than the market average level. OCRA ratio was stood in range of 0.89% to 1.28%, both ROE and OCRA lessened in year 2017, the reason was caused by new accounting standard of IFRS 9 which will be soon applied in Thailand, therefore the bank started to record more provision, which lead to a lower profit in that year. Earnings per share was in an uptrend channel, a big jump from THB 1.72 per shares to THB 2.66 per shares, equivalent a growth of 54.65%, mainly thanks to stable profit generated during the period. For the ratio of cost to income, we know this ratio cannot be unlimited decreasing, it finally will be stand at a certain level. The Bank of Ayudhya tried hard to well-control its cost (mostly was the funding cost, it is a difficult balance between attracting more deposit with good rate and how much loan bank can lend out). We can see the ratio was kept in similar level during year 2014-2018, and further dopped to 42.9% in year 2019, equivalent an average level of 46.46%, much lower than the level before it be acquired.

4.3 Credit Quality

5 Years before Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: %/ Million THB	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Average
Gross Non-Performing Loan	52,080	38,149	29,536	21,292	27,014	
Non-Performing Loan Ratio (NPL Ratio)	8.1%	5.5%	3.7%	2.4%	2.7%	4.5%
Market Average	5.2%	3.9%	2.7%	2.4%	2.3%	3.3%
Loan Loss Reserves (LLR)	38,603	33,988	31,366	31,127	39,185	
Coverage Ratio	74.12%	89.09%	106.20%	146.19%	145.05%	112.13%
Market Average	75.8%	92.4%	123.1%	157.2%	168.3%	123.36%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2009-2013.

Performance of The Thai Banking System in Year 2009, 2010, 2011, 2012, 2013, BOT Press Release, BOT official website.

5 Years after Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: %/Million THB	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Average
Gross Non-Performing Loan	32,239	34,834	37,622	38,446	41,334	
Non-Performing Loan Ratio (NPL Ratio)	2.2%	2.2%	2.1%	2.1%	2.0%	2.12%
Market Average	2.7%	3.0%	3.1%	3.1%	3.1%	3.0%
Loan Loss Reserves (LLR)	45,313	499,00	55,841	61,808	67,715	
Coverage Ratio	140.55%	143.25%	148.43%	160.76%	163.82%	151.36%
Market Average	156.3%	159.6%	171.9%	193.3%	149.9%	166.2%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2015-2019

Non- Performance Loan Ratio (NPL ratio) was a key indicator that measure the credit quality and risk management capability for a financial institution. Before Bank of Ayudhya was acquired, the total loan outstanding was increased from THB 540.55 billion to THB 803. 29 billion, a jump of 48.61%. While the outstanding amount of gross non-performing loan was lessoned from THB 52.08 billion to THB 27.01 billion, a decline of 48.14%. The total loan outstanding amount was big expanded but gross non-performing loan amount was declined. Therefore, NPL ratio was dropped gradually from 8.1% to 2.7%, equivalent average NPL ratio was 4.5%. Compared to average situation of credit quality among the banking industry, Bank of Ayudhya was weaker in both NPL ratio and coverage ratio (higher gross non-performance loan with lower reserve for potential default).

However, the quality of credit asset was significantly improved after Bank of Ayudhya be acquired. The total loan outstanding was increased from THB 1,187.27 billion to THB 1,612.85 billion, a jump of 35.85%. While the outstanding amount of gross non-performing loan was jumped from THB 32.24 billion to THB 41.33 billion, an increase of 28.19%. The growth of non-performing loan outstanding was in line as total loan outstanding rising. As a result, the NPL ratio from year 2015 to year 2019 was in stable range of 2.0%-2.2%, equivalent an average rate of 2.12% annually only. Coverage ratio was another ratio which can determine the ability to hedge risks. The higher coverage ratio means the bank has stronger ability to mitigate risks, however it is a trade-off relationship between reserve and profitability performance. Higher reserve means the bank need recorder more provision which will lessen its profitability, therefore the bank will not unlimitedly increase their coverage ratio, instead there will stand at an appropriate level. We can see that before year 2011, the coverage ratio was even less than 100% then gradually turned closely to 100% at end of year 2011. The average level of coverage ratio before Bank of Ayudhya be acquired was 112.13%, indicating the management of bank was considered that reserve the provisions just cover potential credit loss rather than higher buffer. However, the situation and mindset were changed after the executive management changed to Japanese. Bank of Ayudhya started to improve its coverage ratio not only cover its potential credit loss but also left a wider safety buffer, it can be proved that the average coverage ratio was jumped to 151.36% during year 2015-2019. Moreover, the bank also implemented the disposal of its NPL asset to asset management companies to reduce the outstanding of NPL, such as in year 2015, totalling reducing outstanding amount of NPLs by THB 2,874 million. (Year 2016 sold THB 2,878 million NPL assets, Year 2017 sold another THB 2,858 million, Year 2018 sold only THB 1,464 million and no more sales of NPL assets in Year 2019). Compared with the average situation of credit quality among the banking industry, Bank of Ayudhya has become more prudent and economic especially after it be acquired. Usually, investors may consider that higher coverage ratio means better ability to ageist the potential risk, however higher provision will contract the profitability for a bank. Which means that the bank should not unlimited recorded provision but do not effort on controlling sale of non-performing loan. How to balance these two items, was always a big topic for each bank. The Bank of Ayudhya’s management team put lots of effort on credit risk like what abovementioned, trying to lower size of its non-performance loan with appropriate level of provision.

4.4 Statutory Capital

5 Years before Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: Billion THB / %	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Average
Tier 1 Capital	76.47	79.90	80.84	81.75	84.73	
Tier 2 Capital	17.27	29.78	30.28	44.80	37.60	
Total Capital	93.74	109.68	111.12	126.55	122.33	
Risk-weighted Asset	662.47	692.42	682.14	747.05	832.18	
Capital Adequacy Ratio	14.15%	15.84%	16.29%	16.94%	14.70%	15.58%
Market Average	16.1%	16.2%	15.1%	16.3%	15.7%	15.88%
Capital Adequacy Ratio Required by Bank of Thailand	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2009-2013.

Performance of The Thai Banking System in Year 2009, 2010, 2011, 2012, 2013, BOT Press Release, BOT official website.

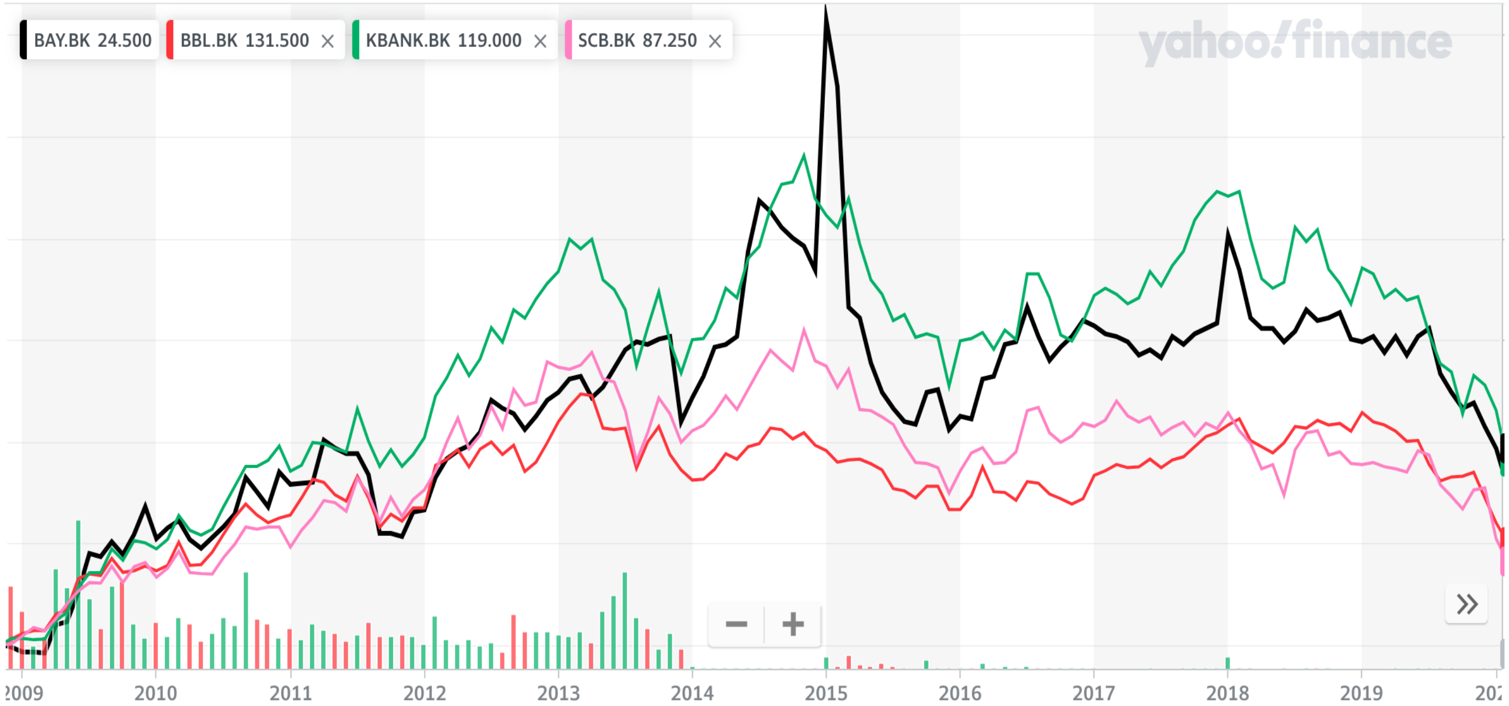
5 Years after Bank of Ayudhya was acquired by Mitsubishi UFJ Financial Group (MUFG)						
Unit: Billion THB / %	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Average
Tier 1 Capital	146.18	158.83	167.53	175.38	191.67	
Tier 2 Capital	20.08	32.26	51.50	53.60	75.34	
Total Capital	166.28	191.09	219.03	228.98	267.01	
Risk-weighted Asset	1,222.65	1,345.70	1,399.55	1,513.42	1,612.38	
Capital Adequacy Ratio	13.60%	14.20%	15.65%	15.13%	16.56%	15.03%
Market Average	17.4%	18.0%	18.2%	18.3%	19.6%	18.30%
Capital Adequacy Ratio Required by Bank of Thailand	8.5%, The Bank of Thailand required the bank to maintain a minimum CAR at 8.5% and gradually increase the conservation buffer by 0.625% per year from January 1, 2016 until reaching 2.5% (8.5%+2.5% up to 11.0%)					

Source: Annual Report, Audited Financial Statement, Bank of Ayudhya, Year 2015-2019

Capital was not only used as funds for credit business, but also it can enhance the stability of bank, further prevent the system risk of whole banking industry. Therefore, global central banks including Bank of Thailand always pay attention on the capital adequacy. There is a well-known normative framework, the Basel Accords (I, II, III). It brings two important concept "Capital Adequacy" and "Risk Weighed Asset", different type of asset will be giving different proportion when we calculate the capital adequacy ratio. The Basel Accords not only required to calculation those ratio and figures, but also persuade the bank and regulator more transparent which need disclosed information of capital timely.

From the above table, we can see before the acquiring, the total capital of Bank of Ayudhya was increased THB 28.59 billion or 30.50%, mainly contributed by tier 1 capital including ordinary stock, retain earning, etc. Meanwhile the risk weighted assets were jumped from THB 662.47 billion to THB 832.18 billion, an increase of 25.62%. To consider together, capital adequacy ratio was in range of 14.15% - 16.95% (the ratio was growing year by year except year 2013 which was lessened), equivalent average rate of 15.58%. The rate was slightly lower than the average capital adequacy rate among the banking industry (15.88%), but all the mentioned periods were satisfied the minimum requirement of 8.5% which set by Bank of Thailand. Moving to the 5 years after Bank of Ayudhya be acquired, total capital was continued sharply rising from THB 166.28 billion to THB 267.01 billion, an increase of THB 100.73 billion or 60.58%. The expanding largely thanks to accumulated retain earnings during reporting period. After Bank of Ayudhya be acquired, the risk weighted assets were also entered into fast soaring route, the outstanding amount was grown from THB 1,222.65 billion to THB 1,612.38 billion, an increase of 31.88%. The movement mainly due to easing financial environment, loose monetary policy, the bank holds huge assets including equity investment, debt investment (government bonds, corporate bonds, etc), mortgaged loan, also off-balance item. In summary the capital adequacy ratio was in range of 13.60% - 16.56% during year 2015-2019, equivalent average level of 15.03%. The rate was lower than the average capital adequacy rate among the banking industry (18.30%), it was indicating that the Bank should consider supplement more core capital to match with its fast growth of credit and non-credit business. Same as before, the adequacy ratio was complied with minimum requirement by Bank of Thailand, indicating the Bank of Ayudhya has solid capital foundation to operating its credit business and certain level of ability to mitigate some potential risks.

4.5 Stock Performance



Source: https://finance.yahoo.com/quote/BAY.BK?p=BAY.BK&.tsrc=fin-srch.

Notes: Black line was Bank of Ayudhya, Green line was Kasikorn Bank, Red line was Bangkok Bank, Pink line was Siam Commercial Bank

It is clearly that the stock price trend between year 2009 and year 2014 was in an upwards trend, except two period the price trend was depression, the second half of year 2011 and year 2013. Meanwhile stock price was THB 36 per share on December 15, 2013, it is very obviously that the stock price sharply rose after the news of acquisition announced (end of December 2013). The price of share continually moved up to THB 51.75 per share on the end of September 2014 in line with the positive outlook from investor side. Interesting thing was the price of stock did not stop its step, the trend further rocket jumped during second half of year 2014 and beginning of year 2015 (especially after all regulators approved this deal and all transaction conditions be fulfilled), the price of stock hit the historical high of THB 90.5 per share on Jan 18, 2015 (on Jan 5, 2015 The Bank of Tokyo-Mitsubishi UFJ Ltd (BTMU)

Bangkok branch was successfully intergrade into Bank of Ayudhya). After that, the stock price entered sliding channel, a significantly drop of 68.51% from THB 90.5 per share (Jan 18,2015) to THB 28.5 per share (Jan 3, 2016). There are several reasons such as 1) macroeconomic side, the Thailand suffer subdued demand and the world recorded a weaker than expected recovery, 2) company itself side, extremely high P/E level when the price hit THB 90.5 per share, and it was first time in a decade, net profit of Bank of Ayudhya was dropped. Overall, except the period between end of year 2013 to beginning of year 2015, stock price of Bank of Ayudhya was big shacked than its competitors. Other times the trend of stock price among top local banks (Kasikorn Bank, Bangkok Bank, Siam Commercial Bank) were similar movement. Bank of Ayudhya stood at rank two performance which just behind Kasikorn Bank in long term.
From year 2018, stock price trend of main Thai local banks included the Bank of Ayudhya was entered into downing route. The whole market was suffered many challenges such as 1) tense

trade war between USA and many countries such as China, resulting in higher trade tariff and quotation on big number of products, 2) global central bank slowly controlled its easing monetary policy, still loose in general but started stepping down the fast speed and extremely high volume of injecting new currency into system, 3) and also domestically Thai local banks implemented promotion of digital banking, resulting lower income of digital transfer fee, 4) due to the analysing period only covered from year 2009 to year 2019, therefore the big black swan event of pandemic covid-19 was not considered in my picture.

Chapter 5 Conclusion

5.1 Summary of findings

The development of a bank usually takes many years, it can be clearly seen that the deal of acquiring boost the speed of development for Bank of Ayudhya. Thanks to the new executive management team (mainly from Japan), relying on their advance management skill especially in the field of credit business, prudent risk appetite, the quality of credit assets has been greatly improved. Since MUFG owned solid global networking and large number of Japanese corporates based in Thailand, in terms of growth of credit asset, growth of total asset, growth of deposit, those ratios were also achieved a better result. The findings were match what Hunter and Wall (1989) found. Meanwhile the new management pay more attention on the cost control, operating efficiency, and financial structure. As a result, the relevant financial indicators such as EPS, ROE and cost to income ratio have been largely improved. This conclusion was also matched what De Guevara and Maudos (2007) stated. On the other hand, after being acquired, the overall business has truly entered a period of rapid development, but obviously the banks have not kept up with the sufficiency funds in terms of capital. Although the overall capital adequacy ratio meets the minimum regulatory requirements, but it is below the average level of the banking industry, even lower than the level before being acquired. Furthermore, the merger could bring a stronger market power, Hunter and Wall (1989) found that after acquisition, the target company's profitability can be enhanced by increasing market power. However, in my case study, the net profit of bank was generated on a weaker result than the average level of the overall banking industry, especially during the period of macro economy was in sluggish time. Lastly the stock performance, the existing shareholders truly obtained large capital gain when the merger news disclosed. They hold big confidence and hope on the bank's future, the price of the share sharply rose, further climbing and reaching its history high price. This was same as what Sushka and Bendeck (1988) stated. The acquiring target bank can be reaping the benefit of those potential advantages (superior information), which boost the trend of stock price sharply upward in short period. However, the following trend of the stock price was mainly in line with the whole market, it did not show an extremely outstanding performance compared with other local banks, which means that the integration and synergy effect of post-deal did not bring shareholders more wealth.

5.2 Answer to the research question of my study

After the deal of acquisition, I find the financial performance of Bank of Ayudhya has changed a lot, obviously result was robust in many fields but not comprehensively. Although not all indicators are better than the figure before the merger, some key indicators can still see the impact from new shareholders and executive management. In addition, thanks to the huge number of Japanese companies in Thailand, the Japanese culture play a key role in business development. Japanese client prefers do business with their friends and acquaintances who come from the same place, so in this regard, Bank of Ayudhya have gained more business opportunities from it which other local banks cannot compete with them. In addition, in terms of SMEs loan and retail finance such as credit card, auto hire purchasing. The Bank of Ayudhya continued to maintain its position as the industry leader, since Japanese brand car dominated in Thailand auto market, the relationship between Bank of Ayudhya with those brands such as Honda, Toyota, Isuzu enhance the bank’s market share in auto hire purchasing segment. After being acquired, the bank has also made greater improvements in the field of fin-tech, investment, wealth management, and internationalization. As a world-renowned financial institution, MUFG treat Bank of Ayudhya and will continued rely on it as the main platform for its business development in other Southeast Asia countries.

5.3 Limitation of my study

This research report has some limitations. For example, the report mainly based on the financial indicators or ratio which I think can be used to represent financial performance of a bank, however there is no way to show all financial indicators and compare those ratios with the industry in all aspects (lack of public information). In addition, some changes of those ratios, it is difficult to stated that fully caused by the impact of mergers and acquisitions, perhaps those changes were affected by bank own development or macro-market influence. Furthermore, culture crash was one of the main factors that affect the performance of a company, such as conflict between the executive management with front line staff, or high turnover of staff may affect the business development. The cultural differences between Thais and Japanese, especially in aspects of life, work and language are quite different. Therefore, this is one of the limitations that my report cannot answer whether those culture conflict adversely impact the Bank of Ayudhya’s financial performance or not.

5.4 Suggestion for the potential reader

There is no way for any M&A transactions to know all the possible result in advance, especially impact on financial aspect.

Mergers and acquisitions in different industries may has different impact on financial results. The integration after mergers and acquisitions, especially the chemical reactions that take place within the enterprise, are often unpredictable in advance. My suggestion was provided to other local banks, particular when they consider the possible bid from foreign banks. They can clearly learn the impact of merger and acquisition on financial performance from this report and clearly realize the impact could not bring a perfect financial result in all aspects. How reap the benefit from acquisition deal to enhance the strength and supplement weakness, will be a key point. Meanwhile with strictly access restrictions, present competition among local banks, cannot make those bank become a regional or even international financial group, especially not easy develop overseas network via their own attempt. Therefore, another suggestion was made for regulators. How to balance the healthy development of the local banking industry with foreign investment (merger & acquisition) to participate in the Thai financial market when they formulate relevant policies.

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