Press Release

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TRIS Rating Affirms Company & Senior Unsecured Debt Ratings of "KK" at "A-" and Hybrid Tier 2 Capital Securities at "BBB", with "Stable" Outlook

TRIS Rating has affirmed the company rating of Kiatnakin Bank PLC ("KK") at "A-", and the ratings of KK's senior unsecured debentures and hybrid Tier 2 capital securities at "A-" and "BBB", respectively. The outlook remains "stable". The ratings reflect KK's strengthened business position following its successful integration of capital market and commercial banking operations to create an integrated operating platform that will significantly enhance its niche position in the Thai banking industry with unique strengths in fee-based businesses. The ratings take into account KK's diverse sources of revenue, particularly those from non-credit businesses, and its strong capital position. The ratings are however constrained by KK's small market shares in loans and deposits, and relatively weak funding capability.

The "BBB" rating for KK's hybrid Tier 2 capital securities (KK25DA) reflects the subordination risk of the securities and the non-payment risk of the securities, as defined by the non-viability loss absorption clause in the bond indenture. The features of the securities comply with the BASEL III guidelines, and the securities are qualified as Tier 2 capital under the Bank of Thailand's (BOT) criteria. The securities are subordinated, unsecured, non-deferrable, and non-convertible. The securities are also callable by KK prior to the maturity date, if the call date is at least five years after issuance and as long as the bank gets approval from the BOT. The holders of the securities are subordinated to KK's depositors and holders of KK's senior unsecured debentures. The principal of the securities can be written down in the event that the regulator deems the bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause.

The "stable" outlook reflects the expectation that KK will maintain its business position with the strengths in non-credit fee based businesses and its strong capital and earnings position. The rating could be revised downward in case of a sustained period of substantially weakened profitability, or a severe deterioration of asset quality. Rating upgrade will depend on KK's ability to significantly increase its shares of earnings from fee-based businesses or materially improve its funding capability.

KK is a small size commercial bank in the Thai banking industry. It was ranked 9th among 11 listed Thai commercial banks in terms of consolidated asset size, with 1.6% market share in loans and 1.0% share in deposits as of December 2016. After the merger with Phatra Capital PLC in 2012, KK and its subsidiaries ("Kiatnakin Phatra Financial Group" or "KKP Group") have reorganized their businesses into three strategic focuses – (i) Credit Business, (ii) Private Banking, and (iii) Investment Banking. KK has diverse sources of revenue, with net interest income and non-interest income contributing 58.7% and 41.3%, respectively in 2016. While lending business is expected to continue to be its largest revenue contributor in the medium term, the bank's strategic focus for revenue growth is on fee based businesses, particularly private banking business. With its strong base of high net-worth clients, strengths in investment products, and integrated operating platform, the bank is well positioned to compete in the domestic private banking space. It also has a strong market position in investment banking and securities brokerage business.

With relatively high funding costs compared with its larger peers, the bank has strategically focused on specific high yield segments of the domestic loan market. As of the end of 2016, automobile hire purchase loans accounted for 66.3% of its loan portfolio. Around 52% of the hire purchase loans were for used cars financing. It also has a sizable exposure in real estate and construction loans which accounted for 15.5% of its loan portfolio at the end of 2016. While the bank had the highest credit cost ratio among peers over the past few years due to the high yield nature of its loan portfolio, it had the widest interest spread with necessary cushion to absorb credit losses. On the back of economic slowdown and deteriorating asset quality, the bank has slowed down its lending business over the past two years, resulting in continued contraction of its loan portfolio since 2014. As of December 2016, KK's loans and receivables totalled Bt177.3 billion, a year-on-year (y-o-y) decline of 0.9%.

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KK's asset quality is on an improving trend as indicated by the lower credit costs of 1.7% in 2016 compared with the peak of 2.8% in 2014. The bank continues its conservative policy to add excess reserves for credit losses as a cushion to absorb future credit losses. The bank has been implementing a risk management improvement programme to raise risk management standards throughout the organisation. Non-performing loan (NPL) coverage ratio has continually improved from 80.3% in 2014 to 110% in 2016. NPL as a percentage of total loans had also lowered to 5.65% in 2016 from 5.85% in 2015. While the bank's hire-purchase NPL was trending down, its NPL in the real estate and construction sectors was on the rise in 2016. KK's loss experience over the past five years with its credit costs averaging 1.95% per annum was higher than the industry average which was explained by the targeted high yield loan segments of its lending business.

KK has a relatively strong capital position, with its Basel-III compliant total capital ratio of 18.5% at the end of 2016, around 81% of which was core equity tier-1. Its capital position is viewed sufficient to support its business expansion in the next few years. Based on the 2016 performance, its profitability is ranked among the highest in the industry with a return-on-average-asset ratio of 2.39%, and a return-on-average-equity ratio of 14.26%. Its earnings capacity is viewed sufficient to withstand potential volatility across a business cycle.

The bank has a relatively weak funding capability. Although the synergies between its commercial bank and private wealth business have enabled KK to increase its current account and savings account (CASA) funding, the proportion of funding from customer deposits represented only 51.2% of its total funding including shareholders' equity at the end of 2016, well below the industry average of 73.8%. It indicates the bank's high reliance on borrowings, which is viewed as a less stable and relatively expensive funding source, to fund its lending business. Its loan-to-deposit ratio of 161.14% at the end of 2016, the highest in the industry, is another indicator of its dependence on borrowings to fund its lending business. Its liquidity position is assessed to be adequate, with its liquid assets to total deposits (including bills of exchange – B/Es) and interbank borrowing of 35% at the end of 2016 in line with industry norm.

Kiatnakin Bank PLC (KK)	
Company Rating:	A-
Issue Ratings:	
KK174B: Bt900 million senior unsecured debentures due 2017	A-
KK17NA: Bt1,500 million senior unsecured debentures due 2017	A-
KK187A: Bt240 million senior unsecured debentures due 2018	A-
KK18DA: Bt625 million senior unsecured debentures due 2018	A-
KK18DB: Bt10 million senior unsecured debentures due 2018	A-
KK25DA: Bt3,000 million hybrid Tier 2 capital securities due 2025	BBB
Rating Outlook:	Stable

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