

LAND AND HOUSES BANK PLC

No. 99/2024
2 December 2024

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Ratings:	
Tier 2 subordinated	AA
additional Tier 1 subordinated	A+
Outlook:	Stable

Last Review Date: 21/03/24

Company Rating History:

Date	Rating	Outlook/Alert
21/03/24	AAA	Stable
21/03/23	A	Stable
15/03/22	A-	Negative
26/04/19	A-	Stable
04/10/17	A-	Positive
01/04/16	A-	Alert Positive
21/08/13	A-	Stable

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RATIONALE

TRIS Rating assigns a rating of “A+” to proposed issue of additional Tier 1 (AT1) securities of up to THB5 billion of Land and Houses Bank PLC (LHBANK). The bank intends to use the proceeds from the new securities for business expansion.

At the same time, TRIS Rating affirms the company rating on LHBANK at “AAA” and affirms the rating on LHBANK’s outstanding Tier 2 capital securities at “AA”, with a “stable” outlook.

The company rating is equivalent to the group credit profile (GCP) of LHFG Group, assessed at “aaa”, given its status as a “core entity” of the group. The GCP of LHFG Group reflects its group status as a “highly strategic” entity of the controlling parent, CTBC Bank Co., Ltd. (rated “A/Stable” by S&P Global Ratings).

LHBANK is a wholly-owned subsidiary of LHFG, a non-operating holding company (NOHC) under the consolidated supervision of the Bank of Thailand (BOT). The bank is the sole banking entity and the largest profit contributor to the group. Its earnings accounted for 95% of the group in the first nine months of 2024 (9M24). LHBANK’s total assets accounts for more than 95% of LHFG’s total assets.

LHBANK has a relatively modest scale of operations in the Thai banking industry, ranking tenth in terms of asset size among Thai commercial banks as of September 2024. The bank’s market share was 1.4% in terms of both loans and deposits.

LHBANK’s net profit in the first 9M24 was THB1.4 billion, increasing by 2% from the same period in 2023. The growth was driven by lower provisioning expenses, following asset quality improvements in the recent two quarters. The ratio of non-performing loans (NPL) to gross loans (excluding interbank and money market) dropped to 2.4% as of September 2024 from 2.7% as of end-2023.

AT1 securities

The “A+” issue rating on LHBANK’s proposed issue of AT1 capital securities is four-notches below the company rating on the bank. The four-notch deduction reflects the followings:

- One notch for contractual subordination. AT1 instruments are junior to preferred creditors, depositors, general creditors, subordinated debt, and Tier-2 instruments.
- Two notches for the risk of partial or untimely payment of coupons. For AT1 instruments, the issuing bank has the right to cancel coupon payments at any time. Although banks in Thailand are allowed to pay interest without prior approval from the BOT (provided that regulatory capital requirement is not breached), there is a risk of non-payment of interest due to other going-concern conditions, potentially triggered by regulatory intervention in a stress scenario.
- One notch for loss absorption. This considers the risk of loss due to mandatory contingent capital clauses, resulting in equity conversion and/or capital write-downs. The loss absorption is either on a going-concern basis similar to common equity or in a gone-concern or non-viability scenario when the issuing bank cannot sustain operations. Per BOT’s regulations, on a going-concern basis, AT1 instruments will be converted to common equity or face partial or full write-down if the bank’s CET1 ratio drops to or is below 5.125%. If

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

a bank becomes non-viable and authorities offer financial support, AT1 instruments will be converted to common shares or written off.

Events that trigger a non-viability condition as specified by the BOT include: (1) insufficient assets to pay depositors and creditors, (2) weakened capital affecting depositors and creditors, and (3) inability to recapitalize independently.

LHBANK's AT1 securities comply with Basel III guidelines and the securities are qualified as Tier-1 capital under the BOT's criteria. Based on the BOT's guidelines, the issuer has full discretion to cancel interest payments without triggering an event of default.

The securities are perpetual and callable by the bank 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.

BASE-CASE ASSUMPTIONS

Our base-case assumption is based on our expectation that LHBANK will remain a core subsidiary of the LHFG Group, and our assessment of the LHFG Group as a "highly strategic" entity of CTBC Bank will remain unchanged.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LHBANK will maintain its status as the core subsidiary of the LHFG Group with significant contributions of revenues and profit to the group, and that LHFG Group will remain a "highly strategic" entity of CTBC Bank.

RATING SENSITIVITIES

The ratings on LHBANK could be revised downward if the LHFG Group's GCP deteriorates, or LHBANK's group status changes to a lower level.

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022
- Bank Hybrid Capital Rating Methodology, 24 December 2021
- Issue Rating Criteria, 15 June 2021

Land and Houses Bank PLC (LHBANK)

Company Rating:	AAA
Issue Ratings:	
LHBANK315A: THB2,400 million Tier 2 capital securities due 2031	AA
Up to THB5,000 million additional Tier 1 capital securities	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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