

# KIATNAKIN BANK PLC

No. 53/2019  
24 July 2019

## FINANCIAL INSTITUTIONS

|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | A      |
| <b>Issue Ratings:</b>  |        |
| Senior unsecured       | A      |
| Basel III Subordinated | BBB+   |
| <b>Outlook:</b>        | Stable |

Last Review Date: 26/04/19

### Company Rating History:

| Date     | Rating | Outlook/Alert  |
|----------|--------|----------------|
| 26/04/19 | A      | Stable         |
| 25/04/18 | A-     | Positive       |
| 31/03/15 | A-     | Stable         |
| 31/03/11 | A-     | Positive       |
| 30/11/04 | A-     | Stable         |
| 12/07/04 | BBB+   | Positive       |
| 21/05/02 | BBB+   | -              |
| 21/06/00 | BBB    | -              |
| 06/03/00 | BBB    | Alert Negative |
| 25/11/99 | BBB    | -              |

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## RATIONALE

TRIS Rating affirms the company rating on Kiatnakin Bank PLC ("KK") at "A" and affirms the existing ratings on KK's senior unsecured debentures and hybrid Tier-2 capital securities at "A" and "BBB+", respectively. At the same time, TRIS Rating assigns the rating of "A" on KK's proposed issue of up to Bt12,000 million in senior unsecured debentures.

The ratings reflect KK's improved asset quality and strengthened business platform following its action in more tightly integrating its capital market and commercial banking operations. The ratings take into account KK's adequate capital and diverse sources of revenue, particularly from its non-credit businesses. The ratings are, however, constrained by KK's modest commercial bank franchise, and a heavy reliance on wholesale funding.

We expect KK's lending business to remain the largest contributor to revenue and earnings over the next three years, despite its modest franchise. We also expect the contributions from non-lending segments will increase over time. These include investment bank and securities brokerage, and private banking businesses. We expect KK will realise and capitalise on greater synergies from integrated product offerings, service channels, and operating platforms. However, exposure to volatility in the capital markets will potentially bring greater volatility to its earnings.

As of the end of March 2019, KK ranked 9th among 11 listed Thai commercial banks based on consolidated asset size. KK's market share in loans was 1.9% and market share in deposits was 1.5%. Based on figures from the first half of 2019 (H1/2019)<sup>1</sup> net interest income and non-interest income contributed 65% and 35% of its total revenue, respectively. This split is roughly in line with the break down at other Thai commercial banks. Fees and service income made up 23% of total revenue, a healthy figure.

We forecast KK's Basel-III compliant core equity tier-1 (CET-1) ratio in a range of 13%-14% over the next three years. The CET-1 ratio at the end of the first quarter of 2019 (Q1/2019) was 13.46%, slightly below 13.56% at the end of 2018. CET-1 made up 78% of total capital as of Q1/2019 indicates an average quality of capital. Strong profitability and diverse sources of earnings support KKP's capital accretion. In H1/2019, KK's return on average asset (ROAA) was 1.8% and risk-adjusted net interest margin (NIM) was 3.4%, both on an annualised basis. These figures are near our forecasts.

We expect KKP to continue addressing the poor asset quality of its past legacy loans. Non-performing loans (NPLs) as a percentage of total loans, including the Special Asset Management (SAM) unit and interbank lending, rose to 4.2% at the end of H1/2019, from 4.1% at the end of 2018. Annualised overall credit cost was 0.95% in H1/2019, compared with our full-year forecast of 1.10%.

A narrow base of retail deposits and a high reliance on wholesale funding reflect KK's funding. Borrowings made up 28% of total funding at the end of H1/2019, well above Thai commercial banks' average of around 13%. Current account and savings account (CASA) funding as a percentage of deposits, an

<sup>1</sup> Based on unaudited financial statements as of Q2/2019

indicator of sticky funding remains at 34% at the end of H1/2019, below Thai banks' average of about 60%. The loan-to-deposit ratio was also a high 131%, relative to peers' average of around 100%.

KK's liquidity is adequate but below average for Thai commercial banks. KK's liquidity coverage ratio (LCR) was 115% at the end of 2018, above the regulatory requirement. However, KK's figure was lower than the 158% average for smaller banks and 184% average for Thai commercial banks, as reported by the Bank of Thailand (BOT). The ratio of liquid assets to total deposits was a moderate 33% as of H1/2019.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that KK will continue strengthening its capital, improving its asset quality, and further cultivating synergies with its capital market and wealth management units to further improve its financial performance and credit profile.

## RATING SENSITIVITIES

A rating upgrade will depend on KK's ability to expand its commercial bank franchise and/or improve its funding. We could revise a rating downward if over the next few years KK's capital weakens steadily and/or earnings capacity weakens materially due to deterioration in asset quality or unexpected large losses from capital market-related business.

## RELATED CRITERIA

- Commercial Banks, 30 March 2017

### Kiatnakin Bank PLC (KK)

|   |        |
|---|--------|
| <b>Company Rating:</b>  | A      |
| <b>Issue Ratings:</b>   |        |
| KK202A: Bt3,000 million senior unsecured debentures due 2020          | A      |
| KK203A: Bt3,000 million senior unsecured debentures due 2020          | A      |
| KK25DA: Bt3,000 million Basel III Tier 2 capital securities due 2025  | BBB+   |
| Up to Bt12,000 million senior unsecured debentures due within 2 years | A      |
| <b>Rating Outlook:</b>  | Stable |

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