

KIATNAKIN BANK PLC

No. 11/2018

12 February 2018

FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Hybrid Tier 2	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
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+	

Contacts:

Annop Supachayanont, CFA

annop@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Raithiwa Naruemol

raithiwa@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating of Kiatnakin Bank PLC (“KK”) at “A-” and affirms the ratings of 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-” to KK’s proposed issue of up to Bt4,500 million in senior unsecured debentures.

The ratings reflect KK’s strengthened business position following its successful integration of capital market and commercial banking operations. This integrated operating platform will significantly enhance its niche position in the Thai banking industry with unique strengths in fee-based business. 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 share in loans and deposits and relatively weak funding capability.

KK is a small size commercial bank in the Thai banking industry. It was ranked 10th among 11 Thai commercial banks listed on the Stock Exchange of Thailand (SET) in terms of consolidated asset size, with 1.7% market share in loans and 1.2% share in deposits as of September 2017. KK has diverse sources of revenue, with net interest income and net fees and service income contributing 62.6% and 22.7%, respectively, during the first nine months of 2017 (9M-2017). The bank’s strategic focus for revenue growth is on fee-based business, particularly private banking. It also has a strong market position in investment banking and securities brokerage.

KK has a relatively strong capital position, with a Basel-III compliant total capital ratio of 17.7% as of September 2017, around 82% of which was core equity Tier-1. Profitability of the bank is high by industry standards, with a return-on-average-asset ratio of 1.86% during 9M-2017.

KK’s asset quality is on an improving trend indicated by low credit costs of 0.6% in 9M-2017, down from a peak of 2.8% in 2014. Non-performing loan (NPL) coverage ratio improved from 80.3% in 2014 to 105.5% as of September 2017. NPL as a percentage of total loans lowered slightly to 5.6% as of September 2017 from 5.8% in 2015. Real estate and construction sectors continue to represent a significant portion of the total NPLs.

KK has a relatively high reliance on borrowing, which is viewed as a less stable and relatively expensive funding source. Loan-to-deposit ratio including bills of exchange (B/Es) was 141.4% as of September 2017, on the high side relative to the industry. Current account and savings account (CASA) made up 48.4% of total deposits including B/Es, also below the industry average.

RATING OUTLOOK

The “stable” outlook reflects the expectation that KK will maintain its business position with its strengths in non-credit fee based businesses and its strong capital and earnings position.

RATING SENSITIVITIES

The ratings could be revised downward in case of a sustained period of substantially weakened profitability or a severe deterioration of asset quality. A

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.

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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Bt million

	Jan-Sep 2017 ²	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Total assets	245,724	233,777	236,144	241,153	249,109
Average assets	239,751	234,961	238,648	245,131	241,061
Investment in securities	32,931	28,365	20,290	29,289	26,971
Loans and receivables	184,797	177,277	178,902	185,778	192,054
Allowance for doubtful accounts	10,892	10,966	9,546	8,321	7,275
Deposits	130,734	109,923	104,327	132,297	145,996
Borrowings ³	52,298	64,414	70,294	52,567	49,225
Shareholders' equities	40,207	40,517	38,156	36,911	35,144
Average equities	40,362	39,336	37,534	36,028	34,171
Total revenue ⁴	12,738	17,812	16,364	15,091	15,826
Net interest income	7,971	10,433	9,449	8,913	8,347
Allowance for impairment losses on loans ⁵	1,143	2,957	4,433	5,246	3,375
Net fee and service income	2,886	3,707	3,471	3,452	4,357
Other operating income	1,515	2,628	2,104	1,741	2,198
Non-interest income ⁴	4,767	7,379	6,915	6,178	7,479
Operating expenses ⁶	6,249	8,365	7,903	6,682	7,060
Net income	4,459	5,611	3,426	2,779	4,440

Notes:

- 1 Consolidated financial statements
- 2 Non-annualised
- 3 Including interbank and money market
- 4 Including gains from sales of foreclosed assets
- 5 Including losses from sales of repossessed cars
- 6 Excluding net losses from sales of foreclosed assets

Unit: %

	Jan-Sep 2017 ²	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Earnings					
Return on average assets	1.86	2.39	1.44	1.13	1.84
Return on average equities	11.05	14.26	9.13	7.71	12.99
Net interest income/average assets	3.32	4.44	3.96	3.64	3.46
Non-interest income/average assets	1.99	3.14	2.90	2.52	3.10
Net fee and service income/total revenue	22.66	20.81	21.21	22.88	27.53
Operating expenses/total revenue	49.06	46.96	48.30	44.28	44.61
Cost-to-income	49.84	45.53	46.80	42.72	42.87
Capitalisation					
CET-1 ratio ²	14.61	15.59	14.71	14.82	n.a.
Tier-1 ratio ²	14.61	15.59	14.71	14.82	13.12
BIS ratio ²	17.69	18.96	16.58	15.19	13.43
CET-1/BIS ratio ²	82.59	82.23	88.72	97.56	n.a.
Asset Quality					
Credit costs	0.63	1.66	2.43	2.78	1.86
Non-performing loans/total loans	5.59	5.62	5.82	5.57	3.79
Allowance for loan losses /non-performing loans	105.49	110.00	91.66	80.28	99.58
Funding & Liquidity					
CASA ratio ³	48.44	53.65	50.56	47.60	15.92
Loan-to-deposit ratio ³	141.35	161.14	171.06	140.15	125.67
Deposits/total liabilities ³	63.61	56.93	52.82	64.90	71.42
Liquid assets/total deposits ³ and interbank borrowing	30.53	34.65	27.35	26.41	23.78
Total loans/total assets	75.21	75.83	75.76	77.04	77.10

Notes:

- 1 Consolidated financial statements
- 2 Non-annualised
- 3 Including interbank and money market

Kiatnakin Bank PLC (KK)

Company Rating:	A-
Issue Ratings:	
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
Up to Bt4,500 million senior unsecured debentures due within 2 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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