

LAND AND HOUSES BANK PLC

No. 36/2023
21 March 2023

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Basel III Tier 2 Subordinated	BBB+
Outlook:	Stable

Last Review Date: 15/03/22

Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating on Land and Houses Bank PLC (LHBANK) to “A” from “A-”. At the same time, we upgrade the rating on LHBANK’s outstanding Basel III Tier 2 capital securities to “BBB+” from “BBB”. We also revise the rating outlook to “stable” from “negative”.

The upgrade of ratings on LHBANK follows the upward revision of the group credit profile (GCP) of LHFG Group assessed at ‘a’, which reflects our view of the strengthened integration between LH Financial Group PLC (LHFG) and its parent bank, CTBC Bank Co., Ltd.

The company rating on LHBANK is on par with the GCP, given its status as a core subsidiary of LHFG Group. The “BBB+” rating of LH BANK’s Basel III Tier 2 capital securities is notched down by two notches below the company rating on LHBANK, reflecting the subordination and the non-viability loss absorption provision in the bond indenture.

KEY RATING CONSIDERATIONS

Core subsidiary of LHFG Group

We consider LHBANK a “core entity” within the LHFG Group. The bank is a wholly-owned subsidiary of LHFG, conducting commercial banking business with an asset size of THB296 billion at the end of 2022, an increase of 17% from the end of 2021.

LHBANK is the largest profit contributor among entities within the LHFG Group. The bank’s net profit accounted for around 70% of the group’s in 2022 while total revenue represented around 85%. In terms of asset size, LHBANK’s total assets contributed more than 95% of LHFG’s total assets during the past few years.

Increased integration

LHBANK’s business is highly integrated with that of LHFG and CTBC Bank. Its business strategy and risk management policy are influenced and monitored by the board of directors of LHFG and CTBC Bank. We view business collaborations between LHBANK, LHFG, and CTBC Bank in 2022 have intensified. For example, LHBANK adopted a matrix reporting system with senior executives required to report to their respective counterparts at CTBC Bank, in addition to reporting to the Chief Executive Officer (CEO) of LHFG, who is a representative from CTBC Bank. LHBANK also aligns its risk management framework with that of CTBC Bank.

Small commercial bank in Thailand

LHBANK’s market position in the commercial bank business in Thailand remained modest. Despite strong loan growth in recent years, LHBANK’s market share remained at 1.3% in terms of both loans and deposits among Thai commercial banks at the end of 2022. As LHBANK is the core operating entity of LHFG, its market position underpins our assessment of the group SACP. Material improvement in LHBANK’s market position therefore may positively impact the GCP of the LHFG Group.

Diversifying loan portfolio

LHBANK’s business diversification remains moderate, in our view. In recent years, LHBANK has diversified more into small and medium enterprises (SMEs) and retail lending. As of the end of 2022, its loan portfolio comprised 44%

corporates, 40% SMEs, and 17% retail. The bank intends to expand further into the SME and retail segments by leveraging the expertise and network of CTBC Bank, including supply chain financing and new retail products. Despite the diversification, concentration risk in terms of exposure to the 20 largest borrowers has moderately improved but remains a key constraint on the bank’s risk position.

Asset quality weakening, reserves remain strong

LHBANK’s overall asset quality has deteriorated since 2020 and could become a concern given the strong growth in the high-risk, high-yielding SME segment. Although its non-performing loan (NPL) ratio (excluding interbank assets) of 2.4% at the end of 2022 remains below the industry average of 3.4%, stage-2 loans to total loans have doubled to 5.0% at the end of 2022 from 2.75% at the end of 2021, driven by the SME segment. Nevertheless, LHBANK has been building its loan loss reserves over the past few years to cushion against any potential slippages of loans under relief programs which will gradually exit by the end of 2023. NPL coverage ratio stood at healthy level of 221% at end-2022, above the industry average of 172%.

Weakened capital and earnings

LHBANK’s capital position and earnings capacity have been declining over the past two years. The bank’s capital, measured by common equity Tier 1 (CET-1) ratio, dropped to 13.5% at end-2022 from 17.1% at end-2020 due to its strong credit expansion and the revaluation deficit on investments. This was the main cause of the downward revision of its group SACP. Meanwhile, its profitability is constrained by the elevated level of credit costs and low net interest margin (NIM) owing to high exposure to large corporate loans. Its risk adjusted NIM was 1.4% in 2022 compared with the industry average of 1.9%. LHBANK’s return on average assets (ROAA) remains low at 0.4% in 2022 against the industry average of about 1%.

BASE-CASE ASSUMPTIONS

Our base-case assumption is based on our expectation that LHBANK will remain a core subsidiary of the LHFG Group.

RATING OUTLOOK

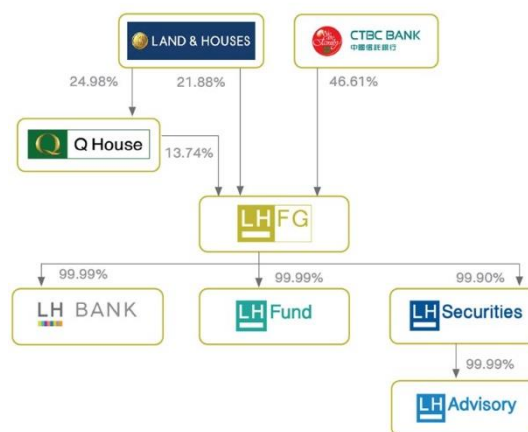
The “stable” outlook reflects our expectation that LHBANK will maintain its status as the core subsidiary of the LHFG Group and will continue to contribute significant revenues and profit to the group.

RATING SENSITIVITIES

LHBANK’s credit profile could be revised downward if the LHFG Group’s GCP changes or we see any material change in LHBANK’s importance to the LHFG Group.

COMPANY OVERVIEW

Table 1: LHFG Group Structure



Source: LHFG’s company website

LHBANK is a 99.99%-owned subsidiary of LHFG. LHBANK held market shares of 1.3% in both loans and deposits among Thai commercial banks at the end of 2022.

On 27 July 2017, CTBC Bank made a strategic investment by buying 35.6% of LHFG. CTBC Bank became an equal partner with Land and Houses Group in LHFG. Shareholders from Land and Houses Group include Land and Houses PLC (LH) and Quality Houses PLC (QH). Their combined shareholding in LHFG dropped to 35.6% as a result of CTBC Bank's investment.

On 8 September 2021, CTBC Bank acquired additional shares in LHFG from Ms. Piangjai Harnpanij and Mr. Pairoj Paisarnsrissomsuk, in aggregate of 10.99% of the total issued and voting shares. Consequently, CTBC Bank holds LHFG's shares in aggregate of 46.61% of the total issued and voting shares. LHFG also becomes a subsidiary of CTBC Bank after gaining the majority seats of LHFG's board of directors.

CTBC Bank is a bank subsidiary under CTBC Financial Holding Co., Ltd. (CTBC FHC). CTBC FHC is the fourth-largest financial holding company in Taiwan, with assets of TWD5.23 trillion as of September 2017. Other key subsidiaries under CTBC FHC cover life insurance, securities, venture capital, and asset management. CTBC Bank is well-positioned in wealth management and credit card services, and is well-established in the corporate banking business including trade finance, treasury services, transaction banking, and offshore finances. CTBC Bank is rated "A/stable" by S&P Global Ratings and "A2/stable" by Moody's Investors Service (Moody's).

With CTBC Bank as a partner, LHBANK has strengthened its board and management structure. There are three new board members from CTBC Bank. In addition, managers from CTBC Bank also oversee new business units. These are 1) the Strategic Business Development Unit, in charging of Taiwanese customers, and 2) the Wealth Management Business Planning Unit.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	295,846	251,479	240,085	230,548	238,658
Average assets	273,662	245,782	235,317	234,603	234,527
Interbank and money market items	35,934	35,268	35,926	23,732	21,567
Investments	44,376	41,734	43,983	51,647	55,313
Loans and receivables	210,256	170,144	155,838	151,783	158,342
Loan loss reserves	11,598	9,151	6,004	3,962	3,775
Deposits	231,432	192,513	182,735	165,018	168,171
Borrowings ²	26,013	21,444	17,206	27,225	32,568
Shareholders' equities	35,330	35,099	36,366	36,280	35,604
Average equities	35,214	35,733	36,323	35,942	35,363
Net interest income	6,284	5,565	4,952	4,741	4,904
Net fees and service income	275	317	282	312	283
Non-interest income ³	709	1,294	1,671	1,426	1,154
Total revenue	6,993	6,858	6,623	6,168	6,058
Operating expenses ⁴	3,125	2,759	2,591	2,597	2,362
Pre-provision operating profit (PPOP)	3,868	4,099	4,032	3,571	3,696
Expected credit loss	2,550	3,284	2,298	1,090	570
Net income	1,093	691	1,408	2,038	2,569

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fee and service expenses

4 Excluding fee and service expenses

Unit: %

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Earnings					
Return on average assets	0.40	0.28	0.60	0.87	1.10
Net interest margins	2.27	2.25	2.10	2.02	2.09
Risk-adjusted net interest margins	1.35	0.92	1.12	1.55	1.85
Net interest income/average assets	2.30	2.26	2.10	2.02	2.09
Non-interest income ⁵ /average assets	0.26	0.53	0.71	0.61	0.49
Net fees and service income/total revenue	3.94	4.63	4.26	5.05	4.67
Cost-to-income	44.69	40.23	39.12	42.10	38.99
Capitalization					
CET-1 ratio ⁶	13.50	16.16	17.07	16.48	17.13
Total capital ratio ⁶	15.48	18.36	19.80	19.27	20.05
CET-1/Total capital ⁶	87.18	88.06	86.20	85.55	85.46
Asset Quality					
Credit costs	1.29	1.94	1.45	0.69	0.36
Non-performing loans/total loans ⁷	2.40	2.89	3.33	1.78	2.17
Loan loss reserves/non-performing loans ⁷	220.99	179.10	111.85	142.73	107.24
Funding & Liquidity					
CASA/total deposit ⁸	37.15	50.68	50.18	40.18	48.16
Loan/total deposits ⁸	94.51	91.99	88.09	94.25	96.27
Deposits ⁸ /total liabilities	88.84	88.97	89.70	84.94	82.82
Liquidity coverage ratio	n.a.	131	144	140	124
Liquid assets/total assets	27.38	30.90	33.62	33.40	32.98
Liquid assets/total deposits ⁹	31.76	36.74	41.40	42.88	44.36

5 Net of fee and service expenses

6 Bank-only

7 Based on reported NPL, excluding accrued interests and interbank assets

8 Excluding bills of exchange and interbank borrowing

9 Including bills of exchange and interbank borrowing

n.a. Not available

RELATED CRITERIA

- Bank Rating Methodology, 20 March 2023
- Group Rating Methodology, 7 September 2022
- Bank Hybrid Capital Rating Methodology, 24 December 2021

Land and Houses Bank PLC (LHBANK)

Company Rating:	A
Issue Rating:	
LHBANK315A: THB2,400 million Basel III Tier 2 capital securities due 2031	BBB+
Rating Outlook:	Stable

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