

28 MAR 2024

Fitch Affirms LHFG and LH Bank's National Long-Term Rating at 'AA+(tha)'; Outlook Stable

Fitch Ratings - Bangkok - 28 Mar 2024: Fitch Ratings has affirmed the National Long-Term Ratings on Land and Houses Bank Public Company Limited (LH Bank) and LH Financial Group Public Company Limited (LHFG) at 'AA+(tha)'. The Outlooks are Stable. Fitch has also affirmed the National Short-Term Ratings on LH Bank and LHFG at 'F1+(tha)'. A full list of rating actions is at the end of this commentary.

Key Rating Drivers

Shareholder Support Drives Ratings: The ratings are underpinned by shareholder support from Taiwan-based CTBC Bank Co., Ltd. (CTBC; A/Stable/a). CTBC directly owns 46.6% of LHFG, and has management control of the Thai group. CTBC Bank is the largest privately held bank in Taiwan, with a significant domestic franchise and a diverse business model in terms of geographic presence. The ratings on LHFG and LH Bank also consider that their support-driven profiles are strong compared with those of other entities rated on Fitch's Thai national rating scale.

Important Role in Supporting Parent: Fitch expects CTBC to provide extraordinary support to LHFG and LH Bank in case of need. This is because LHFG has an important role in supporting CTBC's overseas network and cross-border financial services, especially trade finance. Thailand has good potential growth in loan demand, particularly from SMEs, retail clients (mainly home loans) and Taiwanese companies.

Weaker Linkages Than Peers: Fitch views the low level of CTBC's ownership in LHFG, and the absence of name- and brand-sharing, as constraints that lead to a lower level of reputational

linkages, integration and control compared with other foreign bank subsidiaries in Thailand.

Shareholder's Ability to Support: We believe CTBC has strong ability to provide support to LHFG and LH Bank as reflect by its ratings, which are higher than that of the Thai sovereign (BBB+/Stable). In addition, we expect any required support to be immaterial to the parent as the Thai subsidiaries account for only 4% of CTBC's assets. Fitch expects LHFG's and LH Bank's funding profiles to be enhanced by their positions in the CTBC group and CTBC's provision of ordinary funding support, including in liquidity management and interbank facilities.

Gradual Increase in Integration: Fitch expects the degree of operational integration between CTBC and the Thai subsidiaries to improve over time, exercised through significant influence over the board and management of LHFG and LH Bank. CTBC ensures that LH Group adheres to the standards of CTBC's management practices and complies with Taiwan's legal and regulatory frameworks.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A decline in the support assumptions underpinning the ratings could lead to negative ratings action. For example, should Fitch perceive a weakening in CTBC's ability to provide support, which may be evident from a downgrade of CTBC's VR.

A notable reduction in CTBC's stake, delays in support, or a weakening of strategic coordination could signify a declining propensity to support its Thai subsidiaries. Moreover, failure to further integrate the Thai business with CTBC and/or severe financial underperformance, could prompt CTBC to reevaluate its strategic commitment. In such scenarios, Fitch may reassess the rating approach for LHFG and LH Bank, potentially shifting the rating approach from shareholder support-driven to using their standalone credit profiles. This shift could lead to multi-notch downgrades. Nevertheless, Fitch does not expect any changes to support propensity in the near term.

Any rating action would also take into consideration the two entities' support-driven credit profiles relative to that of other entities on the Thai national rating scale.

LHFG's and LH Bank's National Short-Term Ratings would be downgraded to 'F1(tha)' if their National Long-Term Ratings were downgraded to 'A-(tha)', or if there were substantial changes to the assumptions behind CTBC's support of the Thai subsidiaries.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

There could be upside to the Long-Term National Ratings for LH Bank and LHFG should there be an upgrade in CTBC's VR (without any reduction in propensity to support), suggesting an improved

ability to extend support to its Thai subsidiaries.

Moreover, there could be positive rating action if Fitch perceives an increase in CTBC's propensity to support LH Bank and LHFG. This may be evident from a significantly larger contribution of these subsidiaries to CTBC's consolidated franchise, or by CTBC acquiring a majority stake with higher levels of operational integration, management control, and reputational linkages. However, the likelihood of any meaningful change is considered low in the near term, given the modest profit contribution of LH Bank and LHFG to CTBC's earnings and their limited strategic role in supporting CTBC's overseas business.

There is no rating upside for the National Short-Term Ratings on LH Bank and LHFG as they are at the highest point on the scale.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Subordinated Debt

LH Bank's Basel II Tier-2 compliant securities are rated two notches below the anchor rating, which is the bank's National Long-Term Rating. The notching reflects the notes' higher loss-severity risk relative to senior unsecured notes, due to the subordinated nature of the obligations and potential for partial or full writedown in the event of non-viability. The notes do not incorporate going-concern loss absorption, and hence there is no additional notching for non-performance risk. The rating approach is consistent with the baseline notching in Fitch's rating criteria, and is in line with similar instruments rated by Fitch for other Thai-based banks' subordinated notes.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Subordinated Debt Factors that could, individually or collectively, lead to negative rating action/downgrade:

Any negative rating action on LH Bank's National Long-Term Rating would have a similar impact on the rating of the bank's subordinated notes.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Any rating upgrade on LH Bank's National Long-Term Rating would trigger a similar action on the ratings of its subordinated notes.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

LH Bank and LHFG Ratings are linked to CTBC Bank's credit profile.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Land and	Natl LT	AA+(tha) 	Affirmed	AA+(tha) 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Houses Bank Public Company Limited	Natl ST	F1+(tha)	Affirmed	F1+(tha)
• subordinated	Natl LT	AA-(tha)	Affirmed	AA-(tha)
LH Financial Group Public Company Limited	Natl LT	AA+(tha) 	Affirmed	AA+(tha) 
	Natl ST	F1+(tha)	Affirmed	F1+(tha)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.15 Mar 2024\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

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