

LAND AND HOUSES BANK PLC

No. 31/2024
21 March 2024

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Rating:	
Basel III Tier 2 Subordinated	AA
Outlook:	Stable

Last Review Date: 21/03/23

Company Rating History:

Date	Rating	Outlook/Alert
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

Contacts:

Pawin Thachasongtham

pawin@trisrating.com

Jantana Taveeratanasilp

jantana@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Narumol Chamchanavivat

narumol@trisrating.com



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RATIONALE

TRIS Rating upgrades the company rating on Land and Houses Bank PLC (LHBANK) to “AAA” from “A” with a “stable” outlook. At the same time, we upgrade the rating on LHBANK’s outstanding Basel III Tier 2 capital securities to “AA” from “BBB+” with a “stable” outlook.

The rating upgrade follows the upward revision of the group credit profile (GCP) of LHFG Group, assessed at ‘aaa’. This is based on our assessment of LHFG Group’s status as a ‘highly strategic’ entity of the controlling parent, CTBC Bank Co., Ltd. (rated “A/Stable” by S&P Global Ratings). This is higher than the previously assessed level of ‘strategically important’.

The company rating on LHBANK is on par with the GCP, given its status as a ‘core’ entity of LHFG Group. The “AA” rating of LH BANK’s Basel III Tier 2 capital securities is 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” of the LHFG Group. The bank is a wholly owned subsidiary of LHFG, a non-operating holding company (NOHC) under the consolidated supervision of the Bank of Thailand.

The bank is the sole banking entity and the largest profit contributor to the group. Its earnings accounted for 81% of the group in 2023. LHBANK’s total assets accounts for more than 95% of LHFG’s total assets.

Small-sized commercial bank in Thailand

LHBANK has a relatively modest scale of operations in the Thai banking industry, ranking eighth in terms of asset size among Thai commercial banks as of end-2023. The bank’s market share was 1.4% in terms of both loans and deposits.

Risk management policies align with group

LHBANK has completely integrated its risk management framework with that of CTBC Bank. The integration encompasses risk management policies and procedures that cover various risks, including credit risk, market risk, operational risk, and compliance risk. CTBC Bank also establishes a risk oversight structure which includes regular reviews and assessments of risk management practices. The bank’s risk management department has a dotted reporting line to the risk management unit of CTBC Bank.

Manageable asset quality

We see positive development in LHBANK’s asset quality in 2023. Stage-2 loans dropped to 3% of total loans at end-2023 from 5% at end-2022. The improvement mainly came from wholesale and retail trade, manufacturing, and tourism-related segments. However, the bank’s NPL ratio slightly increased to 2.7% from 2.4% in the previous year mainly from the small-and-medium enterprise segment.

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

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.

COMPANY OVERVIEW

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, 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.

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 -----				
	2023	2022	2021	2020	2019
Total assets	316,339	295,846	251,479	240,085	230,548
Average assets	306,093	273,662	245,782	235,317	234,603
Interbank and money market items	33,154	35,934	35,268	35,926	23,732
Investments	42,864	44,376	41,734	43,983	51,647
Loans and receivables	226,668	210,256	170,144	155,838	151,783
Loan loss reserves	13,782	11,598	9,151	6,004	3,962
Deposits	251,453	231,432	192,513	182,735	165,018
Borrowings ²	24,467	26,013	21,444	17,206	27,225
Shareholders' equities	35,617	35,330	35,099	36,366	36,280
Average equities	35,473	35,214	35,733	36,323	35,942
Net interest income	7,105	6,284	5,565	4,952	4,741
Net fees and service income	280	275	317	282	312
Non-interest income ³	709	709	1,294	1,671	1,426
Total revenue	7,814	6,993	6,858	6,623	6,168
Operating expenses ⁴	3,603	3,125	2,759	2,591	2,597
Pre-provision operating profit (PPOP)	4,211	3,868	4,099	4,032	3,571
Expected credit loss	2,130	2,550	3,284	2,298	1,090
Net income	1,693	1,093	691	1,408	2,038

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 -----				
	2023	2022	2021	2020	2019
Earnings					
Return on average assets	0.55	0.40	0.28	0.60	0.87
Net interest margins	2.32	2.27	2.25	2.10	2.02
Risk-adjusted net interest margins	1.63	1.35	0.92	1.12	1.55
Net interest income/average assets	2.32	2.30	2.26	2.10	2.02
Non-interest income ⁵ /average assets	0.23	0.26	0.53	0.71	0.61
Net fees and service income/total revenue	3.58	3.94	4.63	4.26	5.05
Cost-to-income	46.11	44.69	40.23	39.12	42.10
Capitalization					
CET-1 ratio ⁶	12.88	13.50	16.16	17.07	16.48
Total capital ratio ⁶	15.02	15.48	18.36	19.80	19.27
CET-1/Total capital ⁶	85.77	87.18	88.06	86.20	85.55
Asset Quality					
Credit costs	94	1.29	1.94	1.45	0.69
Non-performing loans/total loans ⁷	2.66	2.40	2.89	3.33	1.78
Loan loss reserves/non-performing loans ⁷	218.81	220.99	179.10	111.85	142.73
Funding & Liquidity					
CASA/total deposit ⁸	24.08	37.15	50.68	50.18	40.18
Loan/total deposits ⁸	94.06	94.51	91.99	88.09	94.25
Deposits ⁸ /total liabilities	89.57	88.84	88.97	89.70	84.94
Liquidity coverage ratio	n.a.	177	131	144	140
Liquid assets/total assets	24.25	27.38	30.90	33.62	33.40
Liquid assets/total deposits ⁹	30.51	31.76	36.74	41.40	42.88

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

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Bank Hybrid Capital Rating Methodology, 24 December 2021

Land and Houses Bank PLC (LHBANK)

Company Rating:	AAA
Issue Rating:	
LHBANK315A: THB2,400 million Basel III Tier 2 capital securities due 2031	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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