

# KIATNAKIN PHATRA BANK PLC

No. 72/2020  
23 September 2020

## 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: 17/04/20

### 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 Phatra Bank PLC (KKP) at "A", the ratings on KKP's senior unsecured debentures at "A", and the ratings on KKP's Basel III Tier 2 subordinated debt at "BBB+" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "BBB+" on KKP's proposed issue of up to THB2 billion in Basel III Tier 2 subordinated debentures.

The ratings take into account KKP's diverse sources of revenue, adequate capital supported by healthy profitability, and acceptable asset quality. However, the ratings are constrained by KKP's relatively modest commercial banking franchise and a heavy reliance on wholesale funding. In the medium term, KKP could face asset quality pressure due to the Coronavirus Disease (COVID-19) fallout. Yet concerns over credit cost could partly be alleviated by its prudent credit risk policy and regulatory forbearance measures.

We expect continued improvement in KKP's capital, above-average profitability, and cautious risk management to sustain its current ratings amid the severe economic impact from the COVID-19. Like other Thai banks, KKP's recent performance reflects declining profitability and rising asset quality pressure. Return on average assets (ROA) fell to 1.56% in the first half of 2020, from 1.74% in the first half of 2019.

The bank set aside higher expected credit loss (ECL) from higher management overlay and losses from sale of repossessed vehicles. As a result, annualised credit cost rose to 2.32% in the first half of 2020<sup>1</sup>, from 1.33% in 2019. The non-performing loan (NPL) ratio, however, improved to 3.73% at the end of June 2020, from 4.03% at the end of 2019. This was thanks in part to debt relief measures. The NPL coverage ratio slightly improved to 115% at the end of June 2020, from 111% at the end of 2019.

We expect KKP to continue improving its core equity tier-1 (CET-1) ratio. KKP's core equity tier-1 (CET-1) ratio was at 13.7% at the end of June 2020, inclusive of the first half of 2020 net profit.

KKP plans to replace an existing THB3 billion in Basel-III Tier-2 securities, callable from the end of 2020, with the proposed debentures.

### Basel III-compliant Tier 2 securities rating

The "BBB+" rating for KKP's proposed issue of Basel III Tier 2 capital securities reflects the subordination of the securities and the non-payment risk of the securities, as defined by the non-viability loss absorption clause in the bond indenture. The features of the securities comply with Basel III guidelines and the securities are qualified as Tier 2 capital under the Bank of Thailand's (BOT) criteria. The securities are subordinated, unsecured, non-deferrable, and non-convertible. The securities are also callable by KKP prior to the maturity date, if the call date is at least five years after issuance and as long as the bank gets approval from the BOT. The holders of the securities are subordinated to KKP's depositors and holders of KKP's senior unsecured debentures. The principal of the securities can be written down in the event that the regulator deems the

<sup>1</sup> Inclusive of amortisation of surplus reserves and release as additional provision for the impairment from revaluation of foreclosed assets.

bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that KKP 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.

## RATING SENSITIVITIES

A rating upgrade will depend on KKP’s ability to expand its commercial bank franchise and/or improve its funding. We could revise a rating downward if capital, asset quality, or liquidity weakens materially. If earnings capacity weakens materially, due to deterioration in asset quality or unexpected large losses from capital market-related business, this could also trigger a rating downgrade.

## RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020
- Hybrid Tier 2 Capital Securities, 30 April 2014

## Kiatnakin Phatra Bank PLC (KKP)

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
KK212A: THB4,000 million senior unsecured debentures due 2021	A
KK218A: THB4,000 million senior unsecured debentures due 2021	A
KK25DA: THB3,000 million Basel III Tier 2 capital securities due 2025	BBB+
Up to THB2,000 million Basel III Tier 2 capital securities due within 10 years	BBB+
<b>Rating Outlook:</b>	Stable

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