

04 APR 2023

Fitch Assigns LHFG and LH Bank First-Time 'AA+(tha)' National Rating; Outlook Stable

Fitch Ratings - Bangkok - 04 Apr 2023: Fitch Ratings has assigned Land and Houses Bank Public Company Limited (LH Bank) and LH Financial Group Public Company Limited (LHFG) a National Long-Term Rating of 'AA+(tha)' and National Short-Term Rating of 'F1+(tha)'. The Outlook on the National Long-Term Rating is Stable.

Key Rating Drivers

Support from Foreign Parent: LHFG's and LH Bank's National Ratings are driven by Fitch's expectation of extraordinary support from the bank's Taiwan-based parent CTBC Bank Co., Ltd. (CTBC; A/Stable/a), if needed. The National Ratings also take into account the bank's support-driven credit profile relative to other issuers on the national scale. The 'AA+(tha)' rating level reflects the very low expectation of default risk compared with other issuers in Thailand.

Significant Strategic Linkages: Fitch uses a support-driven framework for LHFG and LH Bank due to their status as CTBC's subsidiaries, with strategic linkages to the group and growing levels of operational integration. Thailand is an important investment destination for Taiwanese corporates, and LHFG and LH Bank give CTBC a key footprint in the region to serve its clients and provide cross-border services.

The ratings incorporate CTBC's 46.61% stake in LHFG, which makes it the largest, albeit a minority, shareholder. They also reflect CTBC's relatively short history as a shareholder and the lack of brand linkages, limiting reputational risk for the parent from issues at the Thai subsidiaries, unlike other Fitch-rated foreign subsidiaries in Thailand. We also take into account the parent's strong ability to support the Thai subsidiaries, as reflected in CTBC's Viability Rating (VR) of 'a'. Any required support would be immaterial to CTBC due to the Thai subsidiaries' small size relative to the parent.

Significant Growth Plans, Execution Risks: CTBC took over management control of LHFG in September 2021 and has re-oriented its growth strategy since then. LH Bank's business profile will further diversify as it expands into SME and retail client segments. Increasing integration with CTBC will also support the growth of loans to Taiwanese corporates and the expansion of cross-border fee-generating business such as trade finance. Significant execution risks are present, but the expansion could boost LHFG's earnings prospects over the medium to long term if it is well managed.

Growth to Support Profitability: LHFG's profitability declined substantially during the pandemic, with operating profit to risk-weighted assets falling to 0.7% in 2022, from 1.5% in December 2019. Provisioning expenses rose to 45%-54% of pre-impairment operating profit, from 10%-30% before

2020, in line with the weaker asset quality. We expect LHFG's profitability to improve in 2023 on loan portfolio expansion, improving net interest margins, increasing fee income and lower credit costs. Nevertheless, we expect core profitability to remain below pre-pandemic levels over the next few years.

Ordinary Support Bolsters Funding: LHFG's loans-to-deposit ratio of 95% as of end-2022 was broadly in line with the Thai banking sector average of 93%. Fitch views LHFG's liquidity position as acceptable despite LH Bank's modest deposit franchise, including a deposit market share of 1.4%. Nevertheless, we expect LHFG's funding profile to be enhanced by its position in the CTBC group and CTBC's provision of ordinary funding support, including in liquidity management and interbank facilities.

Rating Sensitivities

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

LHFG's and LH Bank's National Ratings are sensitive to any changes in our assessment of shareholder support from CTBC.

A weakening of Fitch's assumptions around shareholder support could lead to negative rating action on LHFG and LH Bank. For example, a downgrade of CTBC's VR could indicate reduced ability to support the Thai operations. 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.

A reduced propensity for support could also lead to a downgrade of the ratings. This may be seen in a large decline in linkages and reduced levels of control, such as a reduction in shareholding, timeliness of support or strategic coordination. A failure of the integration plans with the parent, or significant under-performance at LHFG that heightens the potential for a re-assessment of strategic ties, could also be negative for the ratings.

Such an outcome could lead Fitch to re-assess whether to rate LHFG based on its standalone or intrinsic credit profile rather than the shareholder support-driven rating approach for LHFG and LH Bank, which could lead to multi-notch downgrades. However, Fitch does not expect any changes to support propensity in the near term.

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

We may upgrade LH Bank's and LHFG's ratings in the event of an upgrade of CTBC's VR, which would indicate a strengthening of the parent's credit profile and an increased ability to support the Thai businesses.

Any perceived strengthening in CTBC's propensity to support LH Bank and LHFG could also lead to positive rating action; for instance, if LH Bank and LHFG make significantly larger contributions to CTBC's consolidated franchise, or if CTBC becomes the majority shareholder with close integration and management control. However, we believe this is unlikely in the near term in light of LH Bank's and LHFG's limited profit contribution to CTBC and limited role in supporting CTBC's overseas business.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SUBORDINATED DEBT

LH Bank's Basel III Tier 2 debentures are rated two notches below the bank's National Long-Term Rating to reflect higher loss-severity risk relative to senior unsecured notes. The notes do not incorporate going-concern loss absorption, and hence there is no additional notching for non-performance risk. The rating approach is in line with the baseline notching in Fitch's rating criteria, and with our approach for other similar instruments issued in the local market.

The terms and conditions of the notes include a non-viability trigger, which is defined in line with local standards as emergency capital assistance from the central bank or any other empowered government agency.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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 LH 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.

Date of Relevant Committee

29 March 2023

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

The ratings of LH Bank and LHFG are linked to CTBC Bank's credit profile.

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Rating Actions

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

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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

Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

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