KIATNAKIN BANK PLC

No. 57/2013 21 August 2013

Company Rating: A-

Outlook: Positive

New Issue Rating: A-

Rating History:

Date	Company	Issue (Unsecured/ Subordinated)
31/03/11	A-/Pos	A-/-
30/11/04	A-/Sta	A-/-
12/07/04	BBB+/Pos	BBB+/-
21/05/02	BBB+	BBB+/-
21/06/00	BBB	BBB/-
06/03/00	BBB/Alert Neg	-
25/11/99	BBB	-

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Rating Rationale

TRIS Rating affirms the company and current senior debenture ratings of Kiatnakin Bank PLC (KK) at "A-". At the same time, TRIS Rating assigns a rating of "A-" to KK's proposed issue of up to Bt10,000 million in senior debentures. The ratings reflect the improvements in KK's business profile and financial position after it merged with Phatra Capital PLC. The ratings also reflect KK's experienced management team and high level of capital funds. However, the ratings are constrained by the bank's small market share and its relatively limited distribution network, increased funding costs, and the transition risk KK faces during the post-merger integration period. Furthermore, KK's future business growth and profitability might be affected by the changing economic and political environments, as well as intense competition in the banking, automobile hire-purchase, and securities industries.

KK is a small-sized bank, ranked 11th among 15 Thai commercial banks in terms of consolidated asset size, with 1.9% market share in loans, and 1.6% share in deposits as of March 2013. KK's core businesses in auto hire-purchase lending, residential project lending, and distressed asset management are well managed, given its experienced management team and its high level of management expertise. As a part of its growth strategy, KK successfully merged with Phatra Capital and its subsidiary, Phatra Securities PLC (PHATRA), effective on 13 September 2012. PHATRA, a wholly-owned subsidiary of Phatra Capital, is a Thai leading securities brokerage firm, ranked 11th among 33 brokers in terms of trading volume in the first quarter of 2013. PHATRA has expertise in the capital markets segment, including securities brokerage and investment banking services. As a consequence of the merger, KK now is able to offer its clients a full range of financial services, with an enhanced competitive edge in the capital markets segment. Furthermore, KK-PHATRA Group's sources of income will be more diversified by the large amounts of non-interest income generated from the capital markets segment. During the post-merger consolidation period, KK will face transition risk as the bank reorganizes. KK's business and financial profiles could further improve in the medium term, should KK achieve the hoped-for benefits from group-wide synergies.

KK's total loan portfolio has continually and rapidly expanded, rising at a compound annual growth rate of 21% during the past five years. As of March 2013, total loans and receivables reached Bt177.4 billion, a 4% rise from the December 2012 level. KK is exposed to loan concentration risk. At the end of March 2013, the bank's two major loan portfolios, hire-purchase lending (75%) and residential project loans (17%), comprised more than 90% of its total loan portfolio. In addition, KK has a latent credit risk exposure from the loans it has made to small- and medium-sized enterprises (SMEs). Loans to SMEs, which are the main corporate customers of KK, are considered as medium to high credit risk loans.

KK is making an effort to enhance the quality of its assets by improving its risk management system. The ratio of non-performing loans (NPLs) to total loans has steadily improved, falling from 6.2% in 2009 to 3.2% at the end of March 2013. However, KK has a greater risk profile than in the past as it takes more higher-risk and higher return loans to offset its higher funding costs. In fact, the amount of outstanding NPLs recently increased, rising from Bt4.7 billion in 2011 to Bt5.7

billion as of March 2013. Nevertheless, TRIS Rating expects that KK can manage the NPLs, as well as keep the loan quality from deteriorating further.

KK's financial position has continued to improve. For the first quarter of 2013, KK reported Bt1,166 million in consolidated net profits, up by 100% year-on-year (y-o-y). Profit increased thanks to an increase in net interest income and non-interest income, as well as efficient control of operating costs. Non-interest income rose substantially, mainly from greater security brokerage fees. The non-annualized return on average assets (ROAA) and return on average equity (ROAE) for the first three months of 2013 were 0.5% and 3.5%, respectively, up from 0.3% and 2.4% for the same period last year. However, although KK has been able to sustain the high yields from its core businesses, its funding costs have been the highest in the banking industry. KK's high funding costs mirror its slimmer competitive edge, compared with industry rivals.

In terms of liquidity and funding, KK is exposed to some level of liquidity risk, as the bank has a maturity mismatch for assets and liabilities with durations less than 12 months. KK's funding structure has shifted so as to rely more on its deposit base. The shift came because the cost of issuing bills of exchange (B/Es) has increased. KK has been reliant on high net worth customers, also known as wholesale funding. This funding source is considered a highly volatile funding source. Nonetheless, KK has a policy to increase the number of its retail accounts, in an effort to diversify and stabilize its sources of funding.

KK's capital base remains strong, as illustrated by a Tier-1 capital ratio of 13.17% and a total capital adequacy ratio (BIS ratio) of 13.82% as of March 2013. Despite a slight fall from the 2012 levels, the bank's ratios remained above the minimum requirements of 6.00% and 8.50% set by the Bank of Thailand. The bank's equity to assets ratio rose to 14.1% at the end of March 2013, from 12.8% in 2011, partly as a result of the merger with the Phatra Group. As KK engages in high-risk, high-return lending, especially for residential property development project loans, it is crucial for the bank to maintain a strong capital base and stringent allowances for doubtful accounts. The capital base and allowances for doubtful accounts can absorb any downside risks arising from uncertainties in the economic and financial environments.

Rating Outlook

The "positive" outlook reflects the expectation that KK will be able to benefit from the merger so as to continue growing, with sustained profitability, in the medium term. The outlook also reflects the bank's ability to control asset quality, secure stable sources of funds at reasonable prices, and maintain a level of capital funds sufficient to absorb unexpected losses from future downside risks. TRIS Rating will be monitoring the post-merger integration efforts as the bank reorganizes and restructures its business model.

Kiatnakin Bank PLC (KK)

Company Rating:	A-
Issue Ratings:	
KK142A: Bt2,905 million senior debentures due 2014	A-
KK144A: Bt2,485 million senior debentures due 2014	A-
KK14OA: Bt2,000 million senior debentures due 2014	A-
KK165A: Bt3,500 million senior debentures due 2016	A-
KK168A: Bt1,500 million senior debentures due 2016	A-
KK16DA: Bt975 million senior debentures due 2016	A-
KK187A: Bt240 million senior debentures due 2018	A-
KK18DA: Bt625 million senior debentures due 2018	A-
KK18DB: Bt10 million senior debentures due 2018	A-
Up to Bt10,000 million senior debentures due within 2020	A-
Rating Outlook:	Positive

Financial Statistics*

Unit: Bt million

		---------- Year Ended 31 December ----------				
	Jan-Mar 2013	2012	2011	2010	2009	2008
Total assets	244,323	233,013	189,996	143,107	127,414	114,733
Investment in securities	34,296	37,624	26,753	12,293	18,219	2,774
Loans and receivables	177,392	170,005	136,547	107,899	87,638	81,360
Allowance for doubtful accounts	6,567	6,172	5,120	4,235	3,796	3,553
Deposits	155,488	153,027	69,040	75,931	76,109	71,156
Borrowings **	36,651	34,592	91,233	38,510	29,712	23,711
Shareholders' equity	34,456	33,198	24,264	22,118	17,946	17,167
Net interest income	1,904	7,113	6,476	5,826	5,067	4,503
Bad debts and doubtful accounts	596	1,555	1,278	470	684	990
Non-interest income	1,946	4,697	3,208	3,353	1,779	1,538
Operating expenses	1,812	6,222	4,985	4,629	3,063	3,005
Net income	1,166	3,428	2,300	2,866	2,231	1,871

* *Consolidated financial statements*
** *Including interbank and money market*

Key Financial Ratios*

Unit: %

	Jan-Mar 2013	2012	2011	2010	2009	2008
		---------- Year Ended 31 December ----------				
Profitability						
Net interest income/average assets	0.80 **	3.36	3.89	4.31	4.18	4.46
Non-interest income/average assets	0.82 **	2.22	1.93	2.48	1.47	1.52
Fees and service income/total income	19.97	13.44	10.85	10.36	9.44	8.68
Operating expenses/total income	31.69	32.49	34.37	38.19	30.17	32.20
Operating profit/average assets	0.60 **	1.91	2.05	3.02	2.56	2.03
Return on average assets	0.49 **	1.62	1.38	2.12	1.84	1.85
Return on average equity	3.45 **	11.93	9.92	14.31	12.71	10.97
Asset Quality						
Non-performing loans/total loans	3.23	3.31	3.47	4.61	6.22	8.68
Non-performing assets/total assets	5.90	6.28	8.45	13.03	15.40	19.12
Bad debts and doubtful accounts/average loans	0.34 **	1.01	1.05	0.48	0.81	1.34
Allowance for doubtful accounts/total loans	3.70	3.63	3.75	3.93	4.33	4.37
Capitalization						
Shareholders' equity/total assets	14.10	14.25	12.77	15.46	14.08	14.96
Shareholders' equity/total loans	19.42	19.53	17.77	20.50	20.48	21.10
BIS ratio***	13.82	14.69	15.40	15.18	16.29	15.42
Liquidity						
Total loans/deposits****	104.35	102.94	99.89	111.26	90.97	99.57
Deposits****/total liabilities	81.00	82.65	82.48	80.15	88.00	83.75
Total loans/total assets	72.61	72.96	71.87	75.40	68.78	70.91

* *Consolidated financial statements*
** *Non-annualized*
*** *Stand-alone basis*
**** *Including bills of exchange*

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