

18 SEP 2024

Fitch Affirms Islamic Bank of Thailand at 'AA(tha)'; Outlook Stable

Fitch Ratings - Bangkok - 18 Sep 2024: Fitch Ratings (Thailand) has affirmed Islamic Bank of Thailand's (ibank) National Long-Term Rating at 'AA(tha)' with a Stable Outlook. The National Short-Term Rating has also been affirmed at 'F1+(tha)'.

Key Rating Drivers

Government Support Likely: The ratings on ibank reflect Fitch's assessment of a high probability that the Thai sovereign (BBB+/Stable) would provide extraordinary support if needed. Ibank is a state policy bank set up under specific legislation in 2002 to provide shariah-compliant financial services in Thailand. The ratings also take into account ibank's support-driven credit profile relative to other entities in Thailand. Its 'AA(tha)' rating reflects a very low level of default risk compared with other issuers on the Thai national rating scale.

Key Policy Role: Ibank was set up by the government with the policy objective of supporting financial inclusion among Thailand's Muslim population, particularly in the retail and SME client segments. It is the only bank in Thailand offering shariah-compliant financial services, and we expect this role to remain unchanged over the medium term in line with the government's broad policy objectives.

Substantial and Ongoing Support: The Thai authorities have a record of support. During the financial challenges in 2017-2018, the Ministry of Finance (MoF) raised its stake to 99.6% from below 50%, and transferred a significant portion of ibank's bad assets to a state-owned asset-management corporation. The bank's internal capital generation over the past few years has

remained low due to the Covid-19 pandemic, and ibank's equity remains negative. However, it receives regulatory forbearance on its capital ratio requirements, and business operations have proceeded normally.

Non-Core State Ownership: The bank's rating is two notches lower than that of other Fitch-rated Thai policy banks, reflecting our view of a lower level of the propensity for government support. The MoF's stake in ibank is capped at 49% under the bank's establishing act. This was temporarily waived as part of its restructuring, but we expect the MoF stake will decline over the long term back to previous levels. We also view the bank's weak balance sheet and limited scale as hamstringing its ability to implement state policy objectives compared with other policy banks.

Funding Aided by State Linkages: Ibank is predominantly deposit-funded, with deposits making up 95.5% of non-equity funding. It benefits from its position as a state policy bank, which helps to retain depositor confidence despite prolonged weaknesses in its equity position. The loan-to-deposit ratio rose to 90.8% in 2023 (2022: 83.7%) due to recent balance-sheet growth. We expect the bank would have ongoing access to inter-bank facilities, including access from other policy banks, which mitigates funding risks.

Rating Sensitivities

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

Fitch believes negative rating action could be taken on ibank if there is a decline in the government's propensity to support the bank. For example, this may be reflected in a change in ibank's legal status as a policy bank, a reduction in state linkages and control, or expectations that the government would not provide further financial support.

A decline in the government's ability to support the financial system may also cause Fitch to reassess the likelihood of ibank receiving extraordinary support compared with other banks. The assessment would also take into account ibank's support-driven credit profile relative to other issuers on the Thai national rating scale.

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

There could be ratings upside if Fitch assesses an increased propensity of government support, while also taking into account ibank's credit profile relative to other issuers on Thailand's national scale. This may occur, for example, if Fitch believes that the government's long-term strategic commitment to the bank has increased. A material and sustained increase in ibank's ability to support state policy objectives would support such a view.

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 on ibank are linked to the credit profile of the Thai sovereign.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Islamic Bank of Thailand	Natl LT	AA(thai) 	Affirmed	AA(thai) 
	Natl ST	F1+(thai)	Affirmed	F1+(thai)

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 \(pub.22 Dec 2020\)](#)

Additional Disclosures

[Solicitation Status](#)

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