

19 OCT 2021

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

Fitch Ratings - Bangkok - 19 Oct 2021: Fitch Ratings (Thailand) has affirmed Islamic Bank of Thailand's (IBANK) National Long-Term Rating at 'AA(tha)' with a Stable Outlook. Its National Short-Term Rating has been affirmed at 'F1+(tha)'.

Key Rating Drivers

IBANK's ratings are driven by Fitch's expectations of a high probability of support from the Thai sovereign, if required. IBANK was set up by the government to be a specialised financial institution under specific legislation (the Islamic Bank of Thailand Act, B.E. 2545), with the key mandate to provide shariah-compliant financial services.

IBANK is the only Islamic bank in the country, and its operations would be difficult for other institutions to replace. There is also a record of state financial support, including through equity injections and bad asset transfers.

IBANK's National Long-Term Rating is two notches lower than that of other Thai state policy banks rated by Fitch. This reflects that the state's shareholding in IBANK is not as long-term and strategic compared to its holdings in other state policy banks. After its latest capital increase in 2018, the Ministry of Finance's shareholding in IBANK rose to 99.6%, but Fitch believes that this shareholding will decline over the longer term. Furthermore, Fitch views that IBANK's weak financial position and small franchise limits its ability to implement government policy objectives relative to other state policy banks in Thailand.

IBANK's financial performance has been hurt by the economic downturn caused by the coronavirus pandemic - in particular, large impairments in 2020 hurt its balance sheet and led to high provisioning requirements. The outlook for earnings will remain weak in the near term due to the difficult operating environment, but Fitch does not expect this to affect the government's propensity to support the bank. IBANK's measures to support its clients affected by the pandemic - including debt restructurings and moratoriums - are also in line with the state's expectations for policy banks to perform a counter-cyclical role.

Rating Sensitivities

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

There may be negative action on IBANK's ratings if the sovereign's propensity to support the bank

declines, while also assessing the credit profile of IBANK compared to other entities rated on the Thai national scale. For example, this may be evident from a large reduction in the state's ownership of the IBANK, combined with a loss of control or a change in its legal status as a policy bank. Indications that state financial support to IBANK would not be forthcoming could also lead to negative rating action.

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

An increased propensity to support from the government could lead to ratings upside, while also taking into account relativities on Thailand's national rating scale. For example, this may be indicated by a significant increase in IBANK's ability to play a policy role and support state policy initiatives, or indications that the government has a long-term shareholding commitment to the bank.

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 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(tha) ●	Affirmed	AA(tha) ●
	Natl ST	F1+(tha)	Affirmed	F1+(tha)

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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

Additional Disclosures

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