

Islamic Bank of Thailand

Key Rating Drivers

Government Support Likely: The ratings on Islamic Bank of Thailand (ibank) reflect Fitch Ratings' 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.

National Scale Relativities: 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 the bank faced 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 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 time 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.

Ratings

National Rating

National Long-Term Rating	AA(tha)
National Short-Term Rating	F1+(tha)

Outlook

National Long-Term Rating	Stable
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Applicable Criteria

- [Bank Rating Criteria \(March 2024\)](#)
- [National Scale Rating Criteria \(December 2020\)](#)

Related Research

- [Thai Banks' Asset Quality Risks Persist \(June 2024\)](#)
- [EM Banks Tracker – End-2023 \(June 2024\)](#)
- [Thailand \(November 2023\)](#)

Analysts

Rating Sensitivities

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

There could be negative rating action from Fitch's perception of 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, or 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 that there is 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 re-assesses 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 could also be positive for the ratings.

Financials

Summary Financials

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end			
	(USDm)	(THBm)			
	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	74	2,570.9	2,611.2	2,092.6	1,688.0
Net fees and commissions	5	180.9	214.9	219.3	192.6
Other operating income	7	226.7	171.3	173.8	346.0
Total operating income	86	2,978.5	2,997.4	2,485.7	2,226.6
Operating costs	53	1,851.4	2,121.5	1,939.9	1,890.4
Pre-impairment operating profit	32	1,127.1	875.9	545.8	336.2
Loan and other impairment charges	19	664.2	561.9	117.9	2,808.8
Operating profit	13	462.9	314.0	427.9	-2,472.6
Other non-operating items (net)	-2	-66.0	-10.0	-49.8	-33.7
Tax	1	36.1	59.6	45.8	25.3
Net income	10	360.8	244.4	332.3	-2,531.6
Other comprehensive income	0	-2.1	66.7	-4.0	151.4
Fitch comprehensive income	10	358.7	311.1	328.3	-2,380.2
Summary balance sheet					
Assets					
Gross loans	2,095	72,651.0	64,710.8	59,098.9	58,666.6
- Of which impaired	376	13,053.0	13,606.0	13,041.4	13,652.2
Loan loss allowances	317	10,987.4	10,419.5	9,902.4	9,956.4
Net loans	1,778	61,663.6	54,291.3	49,196.5	48,710.2
Interbank	79	2,754.6	4,385.7	5,419.4	5,618.7
Derivatives	0	0.1	n.a.	0.1	0.0
Other securities and earning assets	124	4,290.0	3,791.0	4,086.4	4,827.0
Total earning assets	1,981	68,708.3	62,468.0	58,702.4	59,155.9
Cash and due from banks	38	1,310.0	1,243.0	1,336.9	1,352.5
Other assets	342	11,854.1	14,168.8	14,377.9	17,038.1
Total assets	2,361	81,872.4	77,879.8	74,417.2	77,546.5
Liabilities					
Customer deposits	2,245	77,847.3	74,701.0	70,950.2	75,124.3
Interbank and other short-term funding	116	4,019.2	3,609.3	4,074.8	3,266.2
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and derivatives	0	0.1	0.0	0.0	0.0
Total funding and derivatives	2,360	81,866.6	78,310.3	75,025.0	78,390.5
Other liabilities	51	1,775.7	1,590.9	1,638.9	1,660.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	-51	-1,769.9	-2,021.4	-2,246.7	-2,504.0
Total liabilities and equity	2,361	81,872.4	77,879.8	74,417.2	77,546.5
Exchange rate	USD1 = THB34.683		USD1 = THB34.801	USD1 = THB33.593	USD1 = THB30.014

Source: Fitch Ratings, Fitch Solutions, ibank

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	3.9	4.5	3.6	2.8
Non-interest expense/gross revenue	62.2	70.8	78.0	84.9
Net income/average equity	n.a.	n.a.	n.a.	n.a.
Asset quality				
Impaired loans ratio	18.0	21.0	22.1	23.3
Growth in gross loans	12.3	9.5	0.7	5.2
Loan loss allowances/impaired loans	84.2	76.6	75.9	72.9
Loan impairment charges/average gross loans	0.7	0.7	-0.2	4.4
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	-2.4	-2.8	-3.3	-3.5
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	93.3	86.6	83.3	78.1
Customer deposits/total non-equity funding	95.1	95.4	94.6	95.8
Source: Fitch Ratings, Fitch Solutions, ibank				

Support Assessment

Ibank was set up under specific legislation in 2002 as a state policy bank, to fulfil a unique policy role of providing financial services to Thailand's Muslim population. The bank has a clear niche and specific expertise in Islamic financing, and we expect it would be difficult to transfer its policy role to other financial institutions in Thailand. We also view that there has been a consistent level of close government control and oversight over ibank, and that this will continue over the near to medium term.

The government's ability to support ibank is reflected in the sovereign credit profile. We believe that the Thai sovereign continues to have sufficient financial flexibility, relative to its rating level, to support systemically-important and state-owned banks.

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