



## **Fitch Rates Bank for Agriculture and Agricultural Cooperatives 'AAA(tha)'; Outlook Stable**

Ratings Endorsement Policy  
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Fitch Ratings-Bangkok/Hong Kong/Singapore-08 August 2014: Fitch Ratings (Thailand) has assigned Bank for Agriculture and Agricultural Cooperatives (BAAC) National Long- and Short-Term Ratings of 'AAA(tha)' with Stable Outlook and 'F1+(tha)', respectively.

### **KEY RATING DRIVERS**

The National ratings of BAAC reflect Fitch's view of a high probability that the state would provide extraordinary support on a timely basis, if necessary. This is based on the bank's strong linkages to the government given its near full state ownership, legal status as a state policy bank set up under a specific law, proven history of financial support and close state control. The ratings also reflect BAAC's unique role in providing support to government policies relating to the agricultural sector and rural development.

The Stable Outlook reflects Fitch's expectations that the government's propensity to support the bank is unlikely to change in the medium term.

The Ministry of Finance (MOF) has a 99.8% stake in BAAC. The bank is under direct supervision of MOF and the bank's board of directors is appointed by the cabinet. BAAC's operations are also supervised by the Bank of Thailand, which provides advice to the MOF. There is a strong history of past state financial support, such as via capital injections (every year since 1992) and debt guarantees. Fitch expects state support to continue, given BAAC's key policy role and the importance of Thailand's rural constituency.

BAAC's performance has been steady, with a reasonable average return on assets (ROA) of 0.9% over the past five years, partly supported by compensation for supporting various government projects. BAAC's non-performing loan (NPL) ratio was moderate at 4.2% at end-FYE14 (end-March 2014). However, Fitch believes this could be due largely to a more lenient NPL classification compared with Thai commercial banks. BAAC's legal status as a state policy bank mitigates funding and liquidity risks, and there is a public perception of a strong linkage between the BAAC and the state. The bank's Tier 1 capital ratio of 12.4% (based on Basel I) at end-FYE14 (ended-March 2014) may be subject to change given its policy function, but reflects the history of consistent capital support from the MOF.

### **RATING SENSITIVITIES**

The National ratings are unlikely to be affected by any change in Thailand's Issuer Default Ratings (IDR), because the sovereign would still have the lowest default risk within the country. Any perceived weakening in the sovereign's propensity to support BAAC, for example through a legal amendment or an ownership change, may result in a downgrade of its National ratings. However, Fitch believes this would be unlikely in the medium term in light of the bank's policy roles.

BAAC's other rating is not affected by the rating action:  
Support Rating: '2'

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(tha)' for National ratings in Thailand. Specific letter grades are not therefore internationally comparable.

Applicable criteria, 'Global Financial Institutions Criteria', dated 31 January 2014, and 'National Scale Ratings Criteria', dated 30 October 2013, are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria  
National Scale Ratings Criteria

**Additional Disclosure**

Solicitation Status

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