

28 SEP 2023

Fitch Affirms Bank for Agriculture and Agricultural Cooperatives at 'AAA(tha)'/Stable

Fitch Ratings - Bangkok - 28 Sep 2023: Fitch Ratings (Thailand) has affirmed the National Long-Term Rating on the Bank for Agriculture and Agricultural Cooperatives (BAAC) at 'AAA(tha)' with a Stable Outlook. The National Short-Term Rating is affirmed at 'F1+(tha)'.

Key Rating Drivers

Sovereign Support Underpins Ratings: BAAC's are based on Fitch's view of a high probability of the Thai sovereign (BBB+/Stable) extending extraordinary support to the bank on a timely basis, if necessary. This view is based on BAAC's well-established policy role, as well as the bank's strong government linkages. BAAC's National Long-Term Rating is at the highest level on our National Rating scale to reflect the lowest expectation of default risk compared with other issuers in Thailand.

State Control and Linkages: BAAC was established under specific legislation as a Thai state policy bank. The Ministry of Finance (MOF) holds 99.8% of BAAC and directs the bank's strategies and key management initiatives, ensuring that operations are aligned with the government's medium- and long-term strategies. The government controls the bank's board of directors, which includes the Minister of Finance as chairman as well as representatives from other related agencies, such as the Ministry of Agriculture and Cooperatives and the Bank of Thailand.

Supports Key Constituency: BAAC is Thailand's second-largest policy bank by assets and the only one focused on the agricultural sector and rural development. The bank has played an important and unique role in supporting government policies relating to these mandates throughout its operating history of over 50 years. Fitch expects BAAC to continue to play an important role in supporting the government's agricultural and social and rural development policies over the long term. The agricultural sector accounts for about 30% of Thailand's labour force, and is an important constituency for policymakers.

The bank also provides direct support to key government-approved projects under public service accounts, which are eligible for loss-compensation from the government. These accounts made up about 29% of the bank's total assets in the financial year ended March 2023 (FY23).

Profitability Recovering: BAAC's profitability has started to recover from the Covid-19 pandemic, with operating profit/risk-weighted assets rising to 0.7% by FYE23 (FYE22: 0.6%). Fitch expects the bank's performance to gradually recover over the medium term, supported by an expanding economy and stronger loan growth. However, earnings upside could be constrained by high provisioning costs given persistent asset-quality risks.

Support Mitigates Asset-Quality Risks: BAAC's impaired-loan ratio rose to 7.5% by FYE23, from 6.5% at FYE22, but Fitch expects the asset-quality risks to be mitigated by the bank's already high provisioning levels and the government's strong record of support for the agricultural sector, including forbearance via temporary suspension of loans repayment and crop compensation for damages and loss of benefits in the event of natural disaster, pests and diseases.

Government Capital Support: BAAC's Tier 1 capital improved modestly to 11.5% by FYE23 (FYE22: 11.3%). The Thai cabinet approved a THB20 billion registered capital increase in March 2020, of which THB6 billion was injected in 1Q20 (end-June 20). Subsequent capital injections have been delayed due to the slow loan growth in the past few years, but Fitch expects that further injections will be provided, if required.

Rating Sensitivities

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

Any perceived weakening in the sovereign's propensity to support BAAC may result in a downgrade of the bank's National Ratings. This may be indicated, for example, by a change in BAAC's legal status as a state policy bank, a material reduction in the government's ownership and control, or a significant weakening in the importance of BAAC's policy role. However, Fitch deems such events to be unlikely in the medium term.

A decline in the government's ability to support the financial system would be unlikely to affect the bank's ratings, as Fitch expects that core policy banks would remain more likely to receive government support relative to other entities in the country. Hence, the bank's relative position on our National Rating scale would not change.

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

There is no upside to the National Ratings of BAAC, which are already at the highest level on the scale.

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

BAAC's National Ratings are linked to Thailand's sovereign credit profile.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bank for Agriculture and Agricultural Cooperatives	Natl LT	AAA(tha) 	Affirmed	AAA(tha) 
	Natl ST	F1+(tha)	Affirmed	F1+(tha)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Additional Disclosures

[Solicitation Status](#)

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