

18 SEP 2024

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

Fitch Ratings - Bangkok - 18 Sep 2024: 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 Drives Ratings:** The ratings on BAAC reflects Fitch's view of a high likelihood of extraordinary support from the Thai government (BBB+/Stable), if required. This perspective is anchored in BAAC's important and unique policy role as well as robust government linkages. BAAC's National Long-Term Rating is at the highest level on Fitch's National Rating scale, reflecting the lowest default risk expectation among Thai issuers.

**Strong Ties with Government:** BAAC was established as a state policy bank under specific legislation, with the Ministry of Finance holding a 99.8% stake. There is close control by the state, with the bank's board of directors appointed by the government and including the Deputy 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. We believe that BAAC's strategy and operations are closely aligned with the government's policy goals.

**Unique and Significant Policy Role:** BAAC is Thailand's second-largest policy bank by assets and it is uniquely focused on providing financial support to the agricultural sector and rural development. It has built up significant expertise through a long and successful record of supporting government policies in these areas, and we expect this role to continue over the long

term. The bank's public service accounts (PSA), which require cabinet approval and which are eligible for loss compensation from the government, made up around 38% of total assets in the financial year ended March 2024 (FY24).

**Improved Performance:** BAAC's profitability has gradually recovered from the Covid-19 pandemic, with operating profit/risk-weighted assets rising to 0.8% by FYE24 (FYE23: 0.7%). Asset quality has also improved with the impaired-loan ratio down to 5.3% by FYE24 from 7.5% at FYE23. However, these improvements were partly due to the government's measures to support the agricultural sector, particularly subsidies and the temporary suspension of loan repayments. We expect the bank's performance to remain broadly stable in the near term.

**Government Funding and Capital Support:** BAAC's funding and liquidity risks are mitigated by the bank's well-established deposit franchise, which is underpinned by its government linkages and status of being a state-owned financial institution. We expect that near-term capital pressure is likely to be limited due to the bank's low growth targets and acceptable profitability. Fitch also expects further capital injections to be provided to support the bank's growth, 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 \(pub.15 Mar 2024\) \(including rating assumption sensitivity\)](#)

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

Additional Disclosures

[Solicitation Status](#)

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