

## I BANK READY TO TAKE BIGGER STEPS

**Now operating in the black, Islamic Bank is well-positioned in retail finance and also ready to take on larger foreign players.**



On the whole, 2009 stood out as a good year for the Islamic Bank of Thailand, as it earned a modest annual profit of 300 million baht, its first since its founding in 2003.

In March, the bank, which counts the Finance Ministry as its largest shareholder, rebranded to be known as "I Bank", with the goal of expanding abroad, upgrading operations to best international practices and expanding services to serve customers of all nationalities and religions.

The changes are timely, as competition is expected to rise in the specialised market for Islamic finance in Thailand over the next few years, particularly after last year's acquisition of BankThai by Malaysia's CIMB. The new CIMB Thai has already announced plans to open an Islamic window through its 125 branches nationwide, directly challenging I Bank as the sole player in the retail market.

"Certainly we believe that CIMB Thai will be a critical competitor in retail banking for us," acknowledged I Bank president Dheerasak Suwannayos.

Even further competition can be expected as regulators liberalise the system to allow foreign institutions to expand their role. International banks such as HSBC, Standard Chartered and Citi, all well established in the Thai market, also boast a large presence in the global Islamic finance market. And the Bank of Thailand and the Finance Ministry, under current market development plans, have announced intentions to allow the entry of new players in specialised markets such as Islamic finance.

I Bank is expanding rapidly in anticipation of further market growth, with plans this year to open 33 new branches to complement the 61 now in operation. Counter service facilities will be opened at another 29 locations, while staff will expand to 1,500 by year-end from 900 at the end of 2009.

Mr Dheerasak expressed optimism about the bank's prospects and the Islamic finance market.

"Malaysia is the centre for Islamic financing in the region, but has a Muslim population of around 12 million people out of a total population of 22 million," he said. "In contrast, Thailand has a Muslim population of 9.5 million [out of a total of 67 million]. We have quite a large market."

Mr Dheerasak said I Bank aimed to increase its assets to 140 billion baht by the end of the year, compared with 53 billion at the end of 2009 and just 16 billion in 2008.

Outstanding loans are expected to more than double to 88 billion baht from 40 billion at the end of 2009. Non-performing loans, meanwhile, are expected to drop to 7% of total loans compared with 9.8% as a result of portfolio growth and restructuring distressed assets.

Around one-fifth, or 3 billion baht, worth of I Bank's non-performing loans are to clients located in the southern border provinces, where the economy has been sapped by an ongoing insurgency that has claimed more than 4,000 victims over the past decade.

"Even so, we most definitely will continue with our lending to the southern border provinces. These companies have strong potential, even though the broader problems facing the South will not be solved easily," Mr Dheerasak said.

"If an entrepreneur is willing to continue to face the challenges of doing business in the area, we will support them as well."

Tourism is an important sector for the I Bank, which has lent 7 billion baht to date to hotel and tourism operators in the South. But despite the difficulties suffered by operators in Phuket, Samui, Phangnga and Khao Lak, due both to the global economic crisis and Thailand's own political troubles, no NPLs have been seen to date.

Mr Dheerasak said I Bank may need to raise 5-6 billion baht in additional capital by 2012 to support its growth plans. The Finance Ministry last year injected 6 billion baht into the bank to raise its capital to 9.3 billion.

Part of the new capital will come this year from a public offering of new shares, to be followed by a listing on the Stock Exchange of Thailand. Mr Dheerasak said I Bank would also shift strategy to focus more on the retail market.

"Within five years, the bank hopes to have retail clients account for 60% of our total portfolio, from just 15% at the end of 2009. We hope to reach 25% by the end of this year," he said.

The consumer finance market continued to offer strong potential for growth, Mr Dheerasak said, pointing to I Bank's credit card refinancing programme. The programme, launched in mid-2008, now accounts for 4 billion baht of the bank's portfolio, with non-performing loans of just 1.8%.

I Bank aims to refinance at least 3 billion baht in credit card debt this year. Terms include annual interest rates of no more than 18%, with flexible credit lines and repayment schedules.

A customer seeking to refinance 200,000 baht in card debt may receive a five-year loan with annual interest of 15%, with monthly payments of around 4,000 baht, or one-fifth the payment obligations required by card issuers. I Bank will require refinancing customers to cancel their credit cards and hold only a single card, to reinforce the need for personal financial discipline.

Mr Dheerasak said I Bank could accommodate customers who would otherwise be turned down by private banks, including applicants with minor credit bureau infractions or unusual needs in terms of payment schedules or loan conditions.

The bank will also calculate default fees only for the one missed payment, rather than as a percentage of the outstanding debt.

"We are not really a bank that aims to maximise profit. Business must be balanced with other factors as well," Mr Dheerasak said.

While I Bank's financial products are open to customers of all religions, its main focus is on Thailand's Muslim population. Islamic law prohibits the payment of interest, and so financial products are generally structured as a form of investment or profit-sharing.

Mr Dheerasak said the bank aimed to lend 15 billion baht this year alone to companies and clients in the five southern provinces of Songkhla, Satun, Pattani, Yala and Narathiwat to support government policies aimed at improving economic conditions in the troubled border region.

Five billion baht would go to businesses in the region, with interest rates at just 1.5% per year, thanks to subsidies from the Finance Ministry. Another 5 billion baht would be made available for vehicle purchases - taxis, motorcycles or passenger cars - also at only 1.5% per year. The remaining funds would be focused on the poor, community groups and small-scale entrepreneurs.