

## Fitch Affirms 5 Thai State Policy Banks

Fitch Ratings-Bangkok/Singapore-24 November 2015: Fitch Ratings has affirmed the ratings on the following policy banks in Thailand: Bank for Agriculture and Agricultural Cooperatives (BAAC), Export-Import Bank of Thailand (EXIM), Government Housing Bank (GH BANK), Islamic Bank of Thailand (IBANK) and SME Development Bank of Thailand (SME BANK).

A full list of rating actions is included at the end of this commentary.

### KEY RATING DRIVERS

All ratings are based on Fitch's expectation of a high probability the Thai government would extend these important policy banks extraordinary support, if required. This is because the banks have strong state linkages, and were set up under specific legislation to fulfil key public policy initiatives.

Apart from that, the government has full or near-full ownership in these banks. There are also clear precedents of state support for these banks, such as financial compensation for government policy initiatives, liquidity support, and capital injections.

EXIM's Long-Term Issuer Default Ratings (IDRs) are at the same level as the sovereign. The National Ratings of BAAC, EXIM, GH BANK, and SME BANK are at the highest possible level.

IBANK's Long-Term IDR and National Ratings are two notches below the sovereign due to a relatively lower level of explicit legal and financial support from the government. The relatively wider-notching compared to other state-owned policy banks also reflects the Ministry of Finance's lower direct shareholding. The ministry's direct shareholding in IBANK is capped at 49%, but the government controls 98% of IBANK through its shareholdings in other state-owned banks that own stakes in the Islamic bank.

Although Fitch expects timely support to be provided to the banks, if needed, the performances and financial profiles of BAAC, EXIM and GH BANK are such that support has not been required.

SME BANK has made progress in its rehabilitation plan, which is evident in the improvement in its overall financial profile, but it remains substantially weaker than BAAC, EXIM and GH BANK. IBANK's profitability, asset quality and capitalisation have been weakened further and it is subject to further significant rehabilitation and restructuring.

The capital of SME BANK and IBANK as of end-June 2015 has fallen short of minimum requirements, but they benefit from regulatory forbearance. However, SME BANK estimates that its capital ratio has exceeded the minimum requirement in 3Q15 due to a capital injection from the Ministry of Finance. The three banks' NPLs are also significantly higher than at other state-owned policy banks, which reflects stresses in certain parts of the economy and is a function of the policy roles they perform. Fitch does not see the weakness in their financial profiles as an indication of the government will have reduced propensity to support them.

Fitch expects any improvement in NPL ratios and capital positions to be gradual, and regulatory forbearance to continue even as their supervision shifts to the Bank of Thailand from the Ministry of Finance.

### RATING SENSITIVITIES

The IDRs and Support Rating Floor (assigned to EXIM and IBANK) would be changed to the same extent as any changes in Thailand's sovereign rating. The National ratings assigned to these banks would, however, not be impacted by any changes to the sovereign rating, as the sovereign would still have the lowest default risk in the country.

Any reduction in the sovereign's propensity to support any of the banks could be negative for their Support Ratings and lead to a downgrade on both international and national scales. For example, a material reduction in the state's shareholding, or a change in legal status, could be indicative of reduced state support and lead to a downgrade. Any indication that the state is not prepared to contribute to the recapitalisation and/or restructuring of SME BANK and IBANK could also be negative. However, Fitch views this as unlikely in the short to medium term.

IBANK's restructuring plans could lead to changes in its shareholding structure, although no clear indications are available. Fitch does not at the moment expect any changes in its legal status as a state policy bank. After the restructuring is complete, IBANK's ratings would depend on the influence (and strength) of any new shareholders, its continued policy role, and the importance of state linkages.

The rating actions are as follows:

BAAC:

National Long-Term Rating affirmed at 'AAA(tha)'; Outlook Stable

National Short-Term Rating affirmed at 'F1+(tha)'

EXIM:

Long-Term IDR affirmed at 'BBB+'; Outlook Stable

Short-Term IDR affirmed at 'F2'

Support Rating affirmed at 2

Support Rating Floor affirmed at 'BBB+'

National Long-Term Rating affirmed at 'AAA(tha)'; Outlook Stable

National Short-Term Rating affirmed at 'F1+(tha)'

GH BANK

National Long-Term Rating affirmed at 'AAA(tha)'; Outlook Stable

National Short-Term Rating affirmed at 'F1+(tha)'

IBANK:

Long-Term IDR affirmed at 'BBB-'; Outlook Stable

Short-Term IDR affirmed at 'F3'

Support Rating affirmed at 2

Support Rating Floor affirmed at 'BBB-'

National Long-Term Rating affirmed at 'AA(tha)'; Outlook Stable

National Short-Term Rating affirmed at 'F1+(tha)'

SME BANK:

National Long-Term Rating affirmed at 'AAA(tha)'; Outlook Stable

National Short-Term Rating affirmed at 'F1+(tha)'

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **Applicable Criteria**

Global Bank Rating Criteria (pub. 20 Mar 2015)  
([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=863501](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501))  
National Scale Ratings Criteria (pub. 30 Oct 2013)  
([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=720082](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082))

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