



## Fitch Affirms 5 Thai State Policy Banks

Fitch Ratings-Bangkok/Singapore-21 November 2016: 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 belief of a high probability of extraordinary state support in case of need. This is based on the banks' strong or moderate policy roles that are clearly defined in legislation establishing each of the banks.

Furthermore, these banks also have strong government linkages, as represented by full or near-full ownership, legal statuses as state banks, and consistent histories of financial support from the state, including financial compensation for government policy initiatives, liquidity support and capital injections.

EXIM's Long-Term Issuer Default Rating (IDR) is at the same level as the sovereign. BAAC, EXIM, GH BANK, and SME BANK are rated at 'AAA(tha)', the highest rating on national scale.

IBANK's Long-Term IDR and National Ratings are two notches below the sovereign due to its narrower policy role and a relatively lower level of explicit legal and financial support from the government. The wider notching compared to other state-owned policy banks also reflects the Ministry of Finance's lower direct shareholding and ongoing restructuring plans, which include the possibility of a lower government stake in IBANK. Currently, the ministry's direct shareholding in IBANK is capped at 49%, but the government controls 98% of IBANK through shareholdings held via other state-owned banks.

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

SME BANK and IBANK are subject to rehabilitation. For SME BANK, there has been some progress in its rehabilitation plan, including a substantial decrease in NPL ratio. However, the delinquency rate remains far above that of BAAC, EXIM and GH BANK. IBANK's overall financial profile has been weakened further by significant impairments and negative equity. Nevertheless, Fitch believes the weaker performance at these two entities compared to other state policy banks is unlikely to affect the government's propensity to provide support and they still benefit from regulatory forbearance.

### RATING SENSITIVITIES

The IDRs and Support Rating Floor (assigned to EXIM and IBANK) would be affected by any changes in Thailand's sovereign rating. There is no upside on the national ratings of BAAC, EXIM, GH BANK and SME BANK as they are already at the highest level.

Any reduction in the sovereign's propensity to support the banks could lead to a downgrade of their international and national ratings. A material reduction in state shareholding or a change in legal status could indicate reduced state support. However, Fitch views this as unlikely in the short to medium term.

IBANK's restructuring plans are likely to lead to changes in its shareholding structure, although precise implementation plans and timelines remain unclear. Fitch does not at the moment expect any changes in its legal status as a state policy bank. However, any indication that the state is not

prepared to contribute to the recapitalisation and restructuring of IBANK, or a reduction in its policy role, could lead to negative rating action.

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. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884135>)  
National Scale Ratings Criteria (pub. 30 Oct 2013) (<https://www.fitchratings.com/site/re/720082>)

### **Additional Disclosures**

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