

Fitch Affirms Five Thai State Policy Banks

Fitch Ratings-Bangkok/Singapore-20 November 2017: Fitch Ratings has affirmed the ratings of 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
- Small and Medium Enterprise Development Bank of Thailand (SME BANK).

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

KEY RATING DRIVERS

All the affirmed ratings reflect Fitch's view of a high probability of the state extending extraordinary support to these banks in times of need.

EXIM's Issuer Default Ratings (IDRs) are the same as those of the sovereign (BBB+/Stable/F2). The National Long-Term Ratings of BAAC, EXIM, GH BANK and SME BANK are at 'AAA(tha)', the highest rating on the national scale. Fitch believes the four banks have well-established policy roles that are defined by specific legislation for each of them. The ratings also reflect the entities' legal status as state banks, their full or almost full direct ownership by the Ministry of Finance (MOF), and evidence of consistent financial support extended to these banks.

IBANK's Long-Term IDR is two notches below the sovereign, while its National Long-Term Rating is at 'AA(tha)'. This wider notching is driven by the bank's narrower policy role, a relatively low level of explicit legal and financial support from the government, and lower direct government ownership compared to other state-owned policy banks. The MOF is considering removing the 49% cap on the ministry's direct shareholding in IBANK, but the long-term shareholding structure of IBANK and the ultimate level of the government's shareholding remain unclear.

Fitch expects timely support to be extended to the banks in times of need, but the recent performance and financial profiles of BAAC, EXIM and GH BANK have not necessitated such support.

SME BANK and IBANK have been undergoing reorganisation as part of their rehabilitation plans. SME BANK's asset quality and performance have improved during the rehabilitation, but its financials have continued to underperform those of BAAC, EXIM and GH BANK. IBANK has made some progress on asset quality after the bank transferred part of its impairments to a government-owned asset-management company in 2Q17. Nevertheless, its overall financial profile remains weak.

Fitch believes that the weak performance of SME BANK and IBANK relative to that of other state policy banks is unlikely to affect the government's propensity to support the banks. The two banks still benefit from regulatory forbearance until they exit from the government rehabilitation programme. For SME BANK, this exit is likely to occur in the near term.

RATING SENSITIVITIES

The IDRs and Support Rating Floors of EXIM and IBANK could be sensitive to any changes in Thailand's sovereign rating. There is no upside to the national ratings of BAAC, EXIM, GH BANK and SME BANK as these ratings are already at the highest level.

Fitch may downgrade the international ratings and national ratings of these policy banks if the sovereign's propensity to support these banks weakens. This may happen if the state materially reduces its shareholding or if the banks change their legal status. However, Fitch deems such events as unlikely in the medium term.

IBANK's restructuring plans are likely to lead to changes in its shareholding structure, although the precise implementation plans and timelines remain unclear. Fitch does not at the moment expect changes to the bank's legal status as a state policy bank. However, the agency may take negative rating action if IBANK's policy role is reduced or if the state exhibits signs of withholding its commitments to IBANK's recapitalisation and restructuring.

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)'

Contact:

Primary Analysts

Ambreesh Srivastava (EXIM's and IBANK's International Ratings)
Senior Director
+65 6796 7218
Fitch Ratings Singapore Pte Ltd
One Raffles Quay, South Tower #22-11
Singapore 048583

Parson Singha, CFA (IBANK's National Ratings)

Senior Director
+662 108 0151
Fitch Ratings (Thailand) Limited
Park Ventures, Level 17
57 Wireless Road, Lumpini
Patumwan, Bangkok 10330

Patchara Sarayudh (BAAC)

Director
+662 108 0152

Jackerin Jeeradit (GH BANK)

Associate Director
+662 108 0163

Jindarat Laotaveerungsawat (SME BANK)

Associate Director
+662 108 0153

Thanasit Utamaphethai (EXIM's National Ratings)

Associate Director
+66 2108 0154

Secondary Analysts:

Parson Singha, CFA (IBANK's International Ratings)
Senior Director
+662 108 0151

Patchara Sarayudh (SME BANK)

Director
+662 108 0152

Jindarat Laotaveerungsawat (EXIM's National Ratings; GH BANK)
+662 108 0153

Jackerin Jeeradit (IBANK's National Ratings)
Associate Director
+662 108 0163

Thanasit Utamaphethai (EXIM's International Ratings; BAAC)
Associate Director
+66 2108 0154

Committee Chairperson
Jonathan Cornish
Managing Director
+852 2263 9901

Media Relations: Leslie Tan, Singapore, Tel: +65 67 96 7234, Email: leslie.tan@fitchratings.com.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Bank for Agriculture and Agricultural Cooperatives	-	Support Rating	Unsolicited
Export-Import Bank of Thailand	-	Long Term Issuer Default Rating	Unsolicited
Export-Import Bank of Thailand	-	Short Term Issuer Default Rating	Unsolicited
Export-Import Bank of Thailand	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Export-Import Bank of Thailand	-	National Long Term Rating	Unsolicited
Export-Import Bank of Thailand	-	National Short Term Rating	Unsolicited
Export-Import Bank of Thailand	-	Support Rating	Unsolicited
Export-Import Bank of Thailand	-	Support Rating Floor	Unsolicited
Islamic Bank of Thailand	-	Long Term Issuer Default Rating	Unsolicited
Islamic Bank of Thailand	-	Short Term Issuer Default Rating	Unsolicited
Islamic Bank of Thailand	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Islamic Bank of Thailand	-	Support Rating	Unsolicited
Islamic Bank of Thailand	-	Support Rating Floor	Unsolicited
Small and Medium Enterprise Development Bank of Thailand	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Small and Medium Enterprise Development Bank of Thailand	-	Support Rating	Unsolicited
Small and Medium Enterprise Development Bank of Thailand	-	Support Rating Floor	Unsolicited