



Fitch Affirms Five Thai State Policy Banks

Fitch Ratings-Bangkok/Singapore-13 November 2018: 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)
- 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

The affirmations reflect Fitch's view that the banks would benefit from a high probability of state support if needed.

EXIM's Issuer Default Ratings (IDRs) and senior debt rating are at the same level as that 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 Rating scale. This is based on their close state linkages, legal status as state policy banks set up under specific legislation, full or near-full direct ownership by the Ministry of Finance (MoF) and a consistent record of financial support - including deficiency guarantees and potential for state policy-bank debt to be guaranteed by the MoF.

Fitch expects timely support to be granted to the banks if needed, but earning performance of BAAC, EXIM and GH BANK has been sound over the past several years and support has not been required. On the other hand, SME BANK's weak financial position contributed to it undergoing a government-sponsored rehabilitation program, which it exited in January 2018. The bank has seen improving key financial ratios, such as asset quality, liquidity and capitalisation, although its financials have continued to somewhat underperform those of BAAC, EXIM and GH BANK.

IBANK's Long-Term IDR is two notches below that of the sovereign, while its National Long-Term Rating is at 'AA(tha)'. This wider notching relative to the other banks reflects its more limited and, in Fitch's view, less permanent, policy presence and importance. The notching also reflects IBANK's establishment act, whereby the MoF's direct stake was previously capped at 49%; albeit this cap has been temporarily waived as part of IBANK's restructuring. Fitch believes the MoF and the government have little intention to hold a majority stake (direct or indirect) in IBANK in the long-term and, in the previous few years, have been trying to find new equity partners. Prospects may improve once IBANK completes its restructuring exercise.

IBANK's financial position is weaker than other banks; it remains under a government-mandated rehabilitation programme, which over the previous two years included a large part of its non-performing financings being transferred to a government-owned asset-management corporation and a 4Q18 government injection of THB18.1 billion of new capital. These initiatives support our belief that there is still a high propensity for the authorities to support IBANK, albeit not as strong as for the other banks.

RATING SENSITIVITIES

Any change in Thailand's sovereign rating may affect EXIM's and IBANK's IDRs and Support Rating

Floors and EXIM's senior debt rating. A sovereign rating change is unlikely to affect the National Ratings assigned to BAAC, EXIM, GH BANK and SME BANK, as the Thai sovereign's default risk would still be considered the lowest in the country. However, there could be an impact on IBANK's National ratings if the sovereign rating change led to a re-assessment of the relative credit risk of entities on the national scale compared to the sovereign.

There is no upside to the national ratings of BAAC, EXIM, GH BANK and SME BANK, as the ratings are already at the highest level.

Fitch may downgrade the banks' ratings if the sovereign reduces its propensity to support the banks. This may happen if the state significantly cuts its shareholding or if the banks change their legal status. However, Fitch deems such events to be unlikely in the medium-term, particularly for BAAC, EXIM, GH BANK and SME BANK.

The MoF is seeking a new shareholding partner for IBANK. The timeline remains unclear and is likely to be contingent on an improvement in the bank's operating performance. Fitch does not expect a change to the bank's legal status as a state policy bank. However, the agency may take negative rating action if IBANK's legal status is changed or its policy role is diminished. Conversely, a significant and sustained increase in the importance of IBANK's policy activities and Fitch reassessing the sovereign's propensity to provide extraordinary support to IBANK as being higher and more permanent in nature could lead to upside in the ratings. For example, this may be indicated by the sovereign explicitly stating that it intends to maintain a controlling interest in IBANK.

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)'

Senior unsecured USD1.5 billion medium-term note programme affirmed at 'BBB+'

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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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018) (<https://www.fitchratings.com/site/re/10044408>)

National Scale Ratings Criteria (pub. 18 Jul 2018) (<https://www.fitchratings.com/site/re/10038626>)

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Entity/Security	ISIN/CUSIP/CO UPON RATE	Rating Type	Solicitation Status
Bank for Agriculture and Agricultural Cooperatives	-	Support Rating	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
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