



BANK OF THAILAND NEWS

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Performance of the Banking System in the Third Quarter of 2007

The overall performance of the banking system in the third quarter of 2007 continued to be satisfactory. The banking system adjusted flexibly to the challenges of moderation in loan growth in line with weak domestic demand and the volatility in international financial markets. The banking system recorded operating profit of 46 billion baht. Net profit after provision and tax of 14 billion baht was satisfactory compared to the net loss registered in the previous quarter.

In the third quarter of 2007, total loans of the banking system expanded by 2.6 percent, decreasing from 5.9 percent as compared to end-2006. Corporate loan, which makes up 77 percent of the total loan portfolio, contracted by 0.9 percent in line with the slowdown in private investment due to economic uncertainty, in spite of the decline in interest rate in line with the easing of monetary policy as well as the high capacity utilization in some business sectors. Consumer loan, constituting 23 percent of total loan, continued to grow by 15.9 percent, moderating slightly from the first half of the year due to greater caution in consumer spending.

The banking system achieved a satisfactory rate of return with operating income to assets of 2 percent, while operating cost was well contained which resulted in the continual decline of operating expenses to total income to 53.6 percent. The return on asset (ROA), net of tax and provisioning, however declined to 0.6 percent as the banking system increased its provisioning in line with the strengthened provisioning requirement in accordance with the adoption of International Accounting Standard (IAS 39) for fair valuation of non-performing loans.

Compared to the second quarter, gross non-performing loans (gross NPLs) increased by 13 billion baht with gross NPLs-to-total loans standing at 7.9 percent, rising slightly from 7.8 percent. The ratio of NPLs net of provision (net NPLs)-to-total loans remained at 4.4 percent.

Corporate NPLs increased by 13 billion baht, with ratio of corporate NPLs-to-total loans at 8.8 percent, increasing from 8.6 percent in the second quarter. Consumer NPLs increased by 87 million baht, with consumer NPLs-to-total loans decreasing slightly from 4.8 percent in the previous quarter to 4.6 percent in the third quarter due to the decline NPLs of housing loans.

Although the economic slowdown and softened business performance pose some challenges for asset quality, the banking system has put emphasis on managing risks and monitoring credits which helped to maintain profitability that strengthened its capital base. Additionally, some banks also increased capital, which helped strengthen the banking system's capital adequacy ratio to 15.1 percent, higher than the minimum regulatory requirement of 8.5 percent. The strengthened capital base and risk management will facilitate the banking system to meet further business expansion and challenges.

Bank of Thailand

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