



BANK OF THAILAND NEWS

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Thailand's Banking System Performance in the Year 2008 and Key Developments

Key Developments

Ms. Nawaporn Maharagkaga, Senior Director, Financial Institutions Policy Group, reported that economic uncertainty due to the global economic crisis and political uncertainty in Thailand led to a more pronounced downside risk to the economy in the fourth quarter of 2008, with the decline in exports, corporate profitability, and increased uncertainty on household income and employment conditions. These factors contributed to increased pressure on the asset quality of the banking system. Nevertheless, the Thai banking system remains strong and stable, attributable to the continued progress in strengthening risk management, as well as the caution in business strategy in light of unfolding global uncertainty.

The banking system continued to record a profit in 2008, which together with the capital increase undertaken, resulted in further strengthening in capital base that will help to cushion against future uncertainty. However, with continued heightened volatility in the global financial market, it is important that the banking system remains focused on risk management and liquidity management. The banking system and the Bank of Thailand hold regular close dialogues to exchange views on market developments, to help ensure detection of emerging challenges in the economic and financial system.

Thailand's Banking System Performance in the Year 2008

The banking system recorded a net profit of 99 billion bahts in 2008, up from the previous year when the strengthened NPL provisioning rule, in line with International Accounting Standard No.39, was completed. The strengthened provision help to ensure that banks have adequate cushion against future risk. Return on asset (ROA) stood at 1% in 2008, while the ratio of capital to risk asset (or the BIS ratio) stood at 14.2% as of December 2008, when the strengthened capital requirement under Basel II became effective. (The ratio as of September was 15.7%, when under the Basel I standards).

Loan growth accelerated in the first nine months but decelerated in the fourth quarter in line with the economic conditions. Overall, loan expanded by 11.4% for the year, up from the 4.7% growth recorded in 2007. Corporate loan (constituting 75.3% of total loan) and consumer loan rose at 10.5% and 14%, respectively. In contrast, deposit growth which fell in the first nine months of the year, accelerated in the fourth quarter, growing by 8.6% for the year, due to increased emphasis on mobilisation of deposit which constitutes core funding for liquidity enhancement, aided by low rate of return of risky assets in line with the downturn in the global stock market. Commercial banks also increased their fund mobilization via borrowing in the form of Bill of Exchange (B/E) which grew by 9.2%. With the convergence of deposit and loan growths, liquidity of the banking system improved, with the ratio of loan to deposit plus B/E easing to 88.3%

Gross non-performing loans (gross NPLs) amounted to 397 billion bahts – a 56 billion bahts decrease from the end of 2007. The NPL per total loan ratio decreased with gross NPL and net NPL ratios standing at 5.3% and 2.9%, respectively. The decline in NPL resulted from loan repayment, debt restructuring, writing-off, and close monitoring of asset quality to prevent new NPL. The NPL ratio for both consumer and corporate loans decreased. However, there remains pressure on asset quality as indicated by the increase in special mentioned loan (i.e. loans which are past due by over 1 month but not exceeding 3 months), resulting from current global financial crisis which caused the slowdown in domestic and global economy, weighted down on loan repayment ability, thus commercial banks should remain vigilant and closely monitor their asset quality.

Bank of Thailand

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