



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department

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No. 31/2010

Thailand's Banking System Performance in the Second Quarter of 2010

Ms. Nawaporn Maharagkaga, Senior Director, Financial Institutions Policy Group, reported that the overall banking system in the second quarter of 2010 was resilient, contributing to the recovery of domestic economy and SME business. Banking system loan growth accelerated from the last quarter, with expansion of SME loan. Non-performing loan (NPL) continued to decline. The increase in net profit of the banking system coupled with capital injection yielded stronger capital base for ongoing economic expansion and upcoming challenges.

The banking system's loan expanded 5.3 percent from the same period last year, higher than the 2.5 percent growth in the previous quarter. Corporate loan, which constituted 71.5 percent of total loan, grew for the first time at 2.1 percent, after contracting for the past four quarters. SME loan, constituting 52.4 percent of corporate loan, expanded 2.1 percent, compared with the 4.9 percent contraction last quarter, in line with the economic expansion. It should be noted that comparing to the previous quarter, SME loan expanded in every sector except manufacturing. Consumer loan edged up by 14.3 percent, mainly from housing loan due to the property stimulus measure which ended on 30 June 2010, and car loan which continued to grow at an accelerated rate.

Deposit plus Bill of Exchange (B/E) increased from the previous year by 2.0 percent, slower than loan growth, resulting in slight tightened liquidity condition. The ratio of loan to deposit plus B/E climbed up to 88.2 percent. However, in the second quarter of 2010, commercial banks did not raise deposit rate across the board but chose to offer special saving campaigns with lucrative yield in order to retain liquidity and customer base. After the Monetary Policy Committee raised policy interest rate from 1.25 to 1.50 percent per annum on 14 July 2010, most commercial banks adjusted their interest rate accordingly. For example by 2 August 2010, the average 3-month deposit rate and 1-year deposit rate of four largest commercial banks increased by 17 basis points and 50 basis points, respectively, while lending rate increased by 14 basis points.

Gross NPL of the banking system amounted to 356 billion baht, decreased from the previous quarter by 15 billion baht, mainly from loan repayment, debt restructuring and NPL sell-off.

The ratio of gross NPL and net NPL to total loan declined to 4.4 percent and 2.4 percent, respectively. The NPL ratio dropped in both corporate loan, from 5.0 percent to 4.9 percent, and consumer loan, from 3.0 percent to 2.9 percent. The NPL ratio of Thai commercial banks' SME loan declined from 7.4 percent to 6.8 percent, with the decline in NPL ratio observed in all sectors. Delinquent loan (special mentioned loan) also declined, and the ratio of delinquent loan to total loan dropped to 3.0 percent. Delinquency rate of Thai commercial banks' SME loan also declined from 3.4 percent in previous quarter to 3.2 percent.

In the second quarter of 2010, the banking system recorded net profit of 34 billion baht, up from the previous quarter by 6.9 billion baht, primarily from net interest and dividend income and non-interest income. Net interest margin (NIM) slightly increased to 2.9 percent and return on asset (ROA) rose to 1.2 percent. Banking sector's capital base strengthened as a result of profit and capital injection for supporting future business expansion. The ratio of capital-to-risk asset (BIS ratio) improved to 16.9 percent, with the ratio of Tier-1 capital of 13.0 percent.

In all, banking system loan has contributed more to the economic recovery and played greater role in business funding in the second quarter of 2010. However, there are challenges ahead, both from internal and external factors. Key challenges include uncertainty of domestic and global economy, and the volatility of capital flow in the international financial market, which could affect asset quality of the banking system going forward. Banks, therefore, should remain vigilant on risk management.

Bank of Thailand

5 August 2010