BANK OF THAILAND NEWS
Communications and Relations Office, Management Assistance Department
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No. 15/2011

Performance of the Thai Banking System in the First Quarter of 2011

Ms. Nawaporn Maharagkaga, Senior Director, Financial Institution Policy Group, gave a press conference on the performance of the Thai banking system in the first quarter of 2011. The salient points are the banking sector is strong, profitable, and well capitalized. This is supported by credit growth, improved asset quality with decline in non-performing loans (NPLs), and improved liquidity as fund mobilization via deposit and Bill of Exchange (B/E) accelerated. Details are as follows.

1. Performance of the Thai banking system in the first quarter 2011.

Credit expanded by 13.4% year-on-year, up from 11.3% in the last quarter of 2010, attributable to corporate credit (comprising 71.5% share of total credit) which expanded by 12.2%, up from 9.0% last quarter, in line with demand for working capital and fixed investment for both large corporate and SMEs. Consumer credit grew by 16.3%, a slowdown from 17.7% in the previous quarter, due to the moderation in growth of mortgage loan, though credit for car hire purchase and personal loan accelerated somewhat.

Fund mobilization via deposit and B/E accelerated and grew by 11.7% in response to the rise in deposit rate in line with policy rate, resulting in increased liquidity and the lowering of ratio of deposit plus B/E to loan from 88.3% to 87.0%.

Non-performing loans declined by 12.1 billion baht, and stood at 300.5 billion baht at the end of first quarter 2011. The decline in NPLs is the result of debt repayment, debt restructuring, and debt write-off. The ratio of Gross NPLs to total loan fell to 3.2% from 3.6% at the end of 2010, and the ratio of NPLs net of provision to total loan fell to 1.7% from 1.9% in the same period. NPLs ratio for corporate loan fell to 3.4% while NPLs ratio for consumer loan stayed at 2.3%. Delinquent loan outstanding showed an almost across-the-board decline in all sectors, except for mortgage and public utility which rose slightly, resulting in the decline in ratio of delinquent loan to total loan to 2.2%.

The first quarter of this year saw a rise in operating profits and net profits by 5.6 and 5.1 billion baht, respectively, compared to the previous quarter, attributable to increase in both interest and non-interest income. With improved asset quality, provision expense also declined. Return-on-Asset (ROA) rose slightly to 1.1%. As a result of the adoption of the new reporting standard to be more in line with international practices, Net Interest Margin (NIM) calculated under the new reporting practice stood at 2.4%, lower than under former reporting practice in which NIM would be 2.8% in the first quarter. Capital adequacy ratio (CAR), or the BIS ratio, and Tier-1 capital ratio declining marginally to 15.8% and 12.1% , as a result of the adoption of the new accounting standard in line with International Accounting Standard number 19 (IAS 19) which led to increased recognition of future staff-related expense. Nevertheless, capital in the Thai banking system remains high and adequate to support economic growth.

In the first quarter of this year, the Thai banking system remains robust and stable. Going forward, banks need to remain vigilant in their risk management in light of key developments including: intensification of fund mobilization; reduction of deposit guaranty coverage from full guaranty to maximum 50 million baht per person per bank on 11 August 2011; credit growth acceleration while GDP growth has moderated; external factors such as volatility in energy prices and capital flows, as well as uncertainties related to production which are related to intermediate input from Japan.

2. <u>Note to the press release regarding adoption of International Accounting Standard and the change in financial reporting in line with international practices</u>

A). Federation of Accounting Profession Board has published a new Thai accounting standard, effective 1 January 2011, which is in line with the developments of new standards published by International Accounting Standard (IAS) and the International Financial Reporting Standard (IFRS). The new standard resulted in some changes to the financial ratios of the banking system. Chief among the new standards is the International Accounting Standard Number 19 (IAS 19) which stipulated that staff-related expenses and benefits that corporations, including banks, expect to be paid out in the future should duly be recognized as expense in the present. According to the new accounting standard, staff-related expenses would increase, thus reducing net profits and retained earnings. The adoption of this accounting standard would lead to a relatively higher charge in the first year of adoption as it has to cover such expense from prior periods as well. The decline in retained earnings would cause capital as well as Tier-1 capital to decline slightly, but overall capital adequacy ratio, or the BIS ratio, and tier-1 capital ratio of the Thai banking system remain robust at 15.8% and 12.1%, respectively.

B) The Bank of Thailand (BOT) also adjusted financial reporting format for banks, to facilitate standard reporting format of new types of transactions which the BOT has permitted banks to undertake. Moreover, some adjustment were also made in categorization and reporting format to be in line with good practices encouraged by major global auditing firms, which would facilitate greater ease of cross-country comparison. These adjustments led to some changes in key ratios below.

(1) Net Interest Margin (NIM) which is define as interest income (Under the **former** practice, the interest income included *dividend income* from investment in equity, but under **current** practice, dividend income is not included) minus interest expense and *deposit protection premium* paid to Deposit Protection Agency (Under the **former** practice, the *deposit protection premium* is not included in interest-related expense) divided by average asset. Under the **current** practice, NIM should be better focused on reflecting return and expense that are related to core business of banks, which are fund mobilization activity via deposit, in which the related cost includes the deposit protection premium, and lending activity, while income from investment activity is not included in current NIM coverage.

(2) Cost-to-income ratio which is defined as operating expense (Under **former** practice, the *deposit protection premium* and *fee expense* is included, but under **current** practice, the *deposit protection premium* is transferred to interest expense as mentioned above and *fee expense* is transferred to deduct from fee income) divided by total income

(The detail of the calculation is illustrated in the presentation page 12 in the attachment to the press release)

The adjustments of the financial ratios have no material impact on strength and performance of the Thai banking system. The banking sector remains strong, profitable, and well capitalized. To enhance transparency and facilitate ease of comparison, the financial ratios under former and current practices are illustrated.

Bank of Thailand

6 May 2011

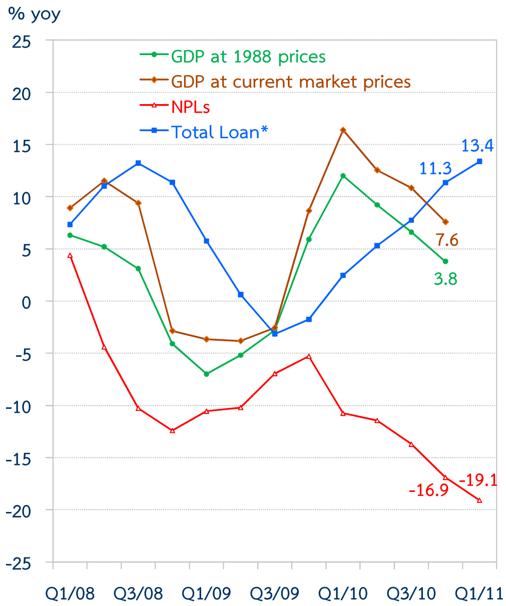
Performance of the Banking System in the First Quarter of 2011

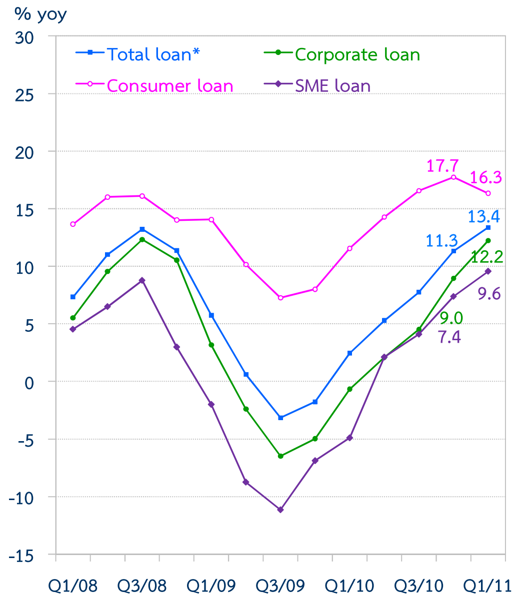
Overall Performance of the Banking System

In the first quarter of 2011, the banking system remained resilient, supporting the economic expansion.

- Loan expanded by 13.4% yoy, in line with the continuous economic expansion.
  - Corporate loan expanded by 12.2% yoy (SME Loan expanded by 9.6% yoy)
  - Consumer loan expanded by 16.3% yoy
- Fund mobilization via deposit and B/E expanded faster than loan growth, therefore, eased liquidity condition
  - L / (D + B/E) ratio declined to 87.0%
- Gross NPLs declined to 300 billion baht from corporate loan.
  - Ratios of gross NPLs and net NPLs declined to 3.2% and 1.7%, respectively.
- Operating profit and net profit rose from higher net interest income, non interest income as well as the decline in provisioning expenses. ROA rose to 1.1%.
- Capital declined due to the first time adoption of new accounting standard “Employee benefits”. BIS ratio remained robust at 15.8%.

Loan Growth

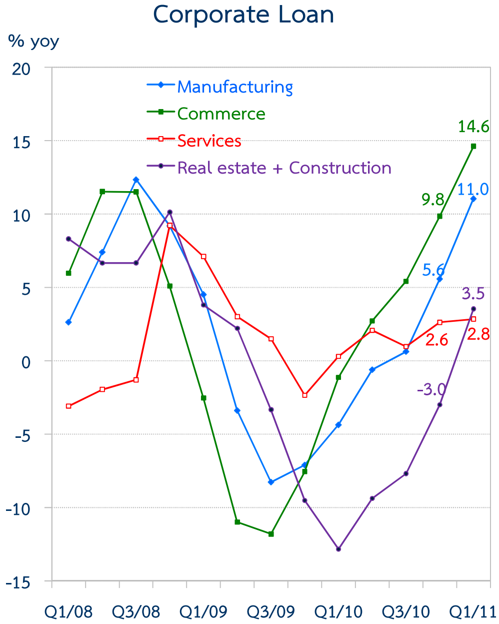




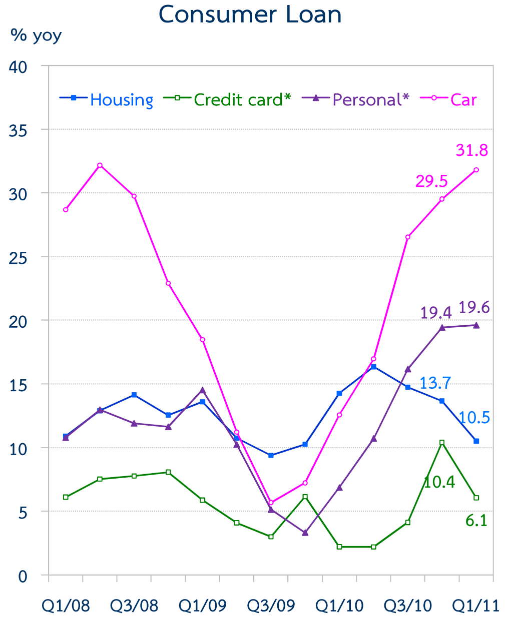
* Excluding interbank, but including KTC and AYC

Loan

Corporate Loan

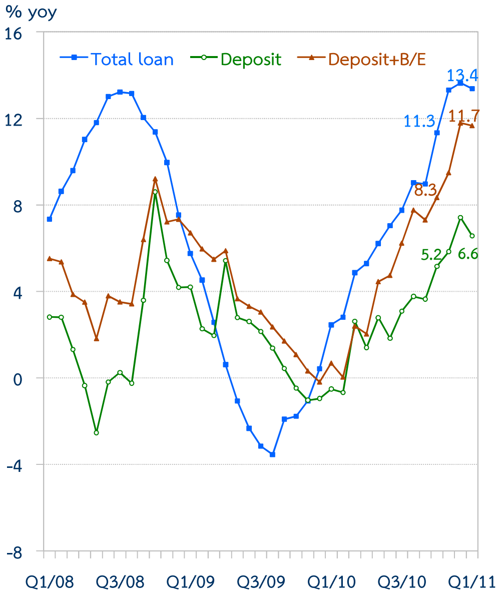


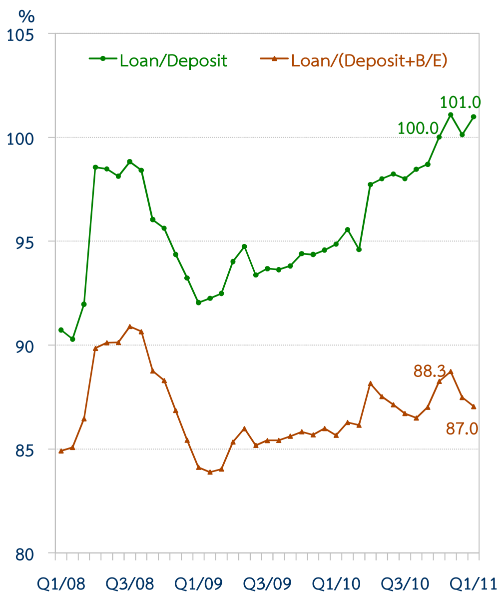
Consumer Loan



* Including KTC and AYC

Loan , Deposit and Liquidity

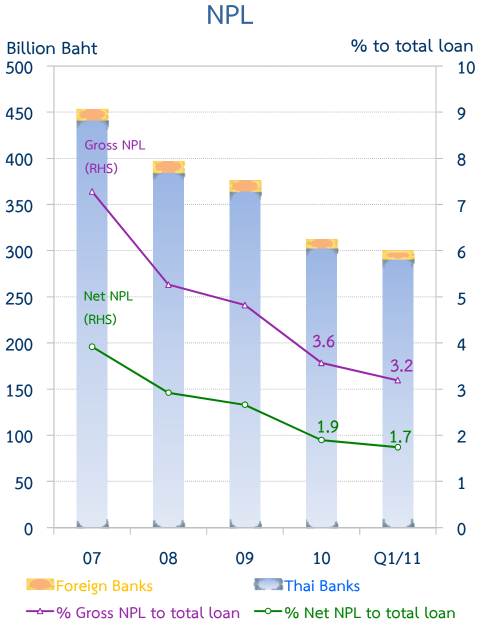


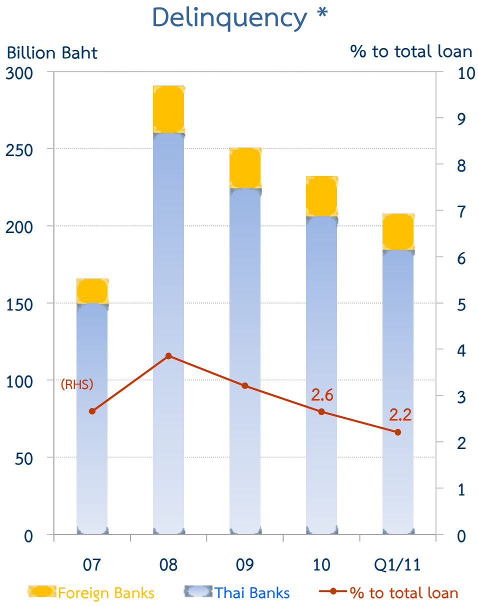


Note : Data available since August 2006

Excluding interbank transactions

NPL and Delinquency

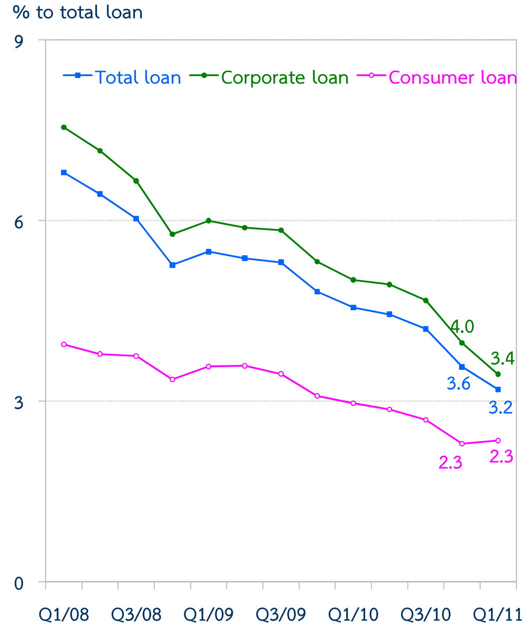




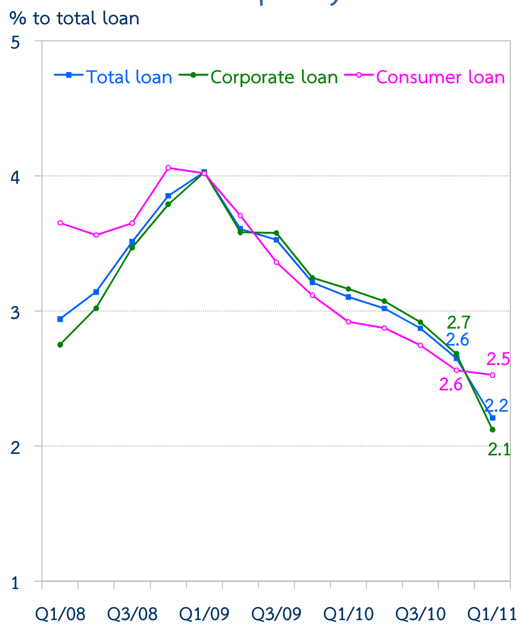
* Special mentioned loans or past due loans over 1 month but not over 3 months

Asset Quality

NPL

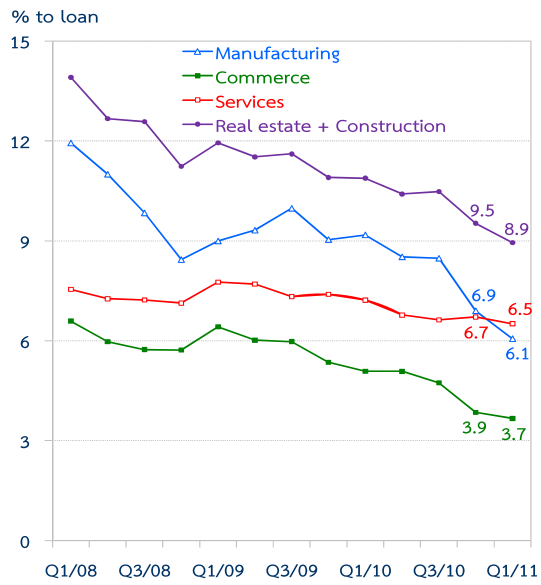


Delinquency

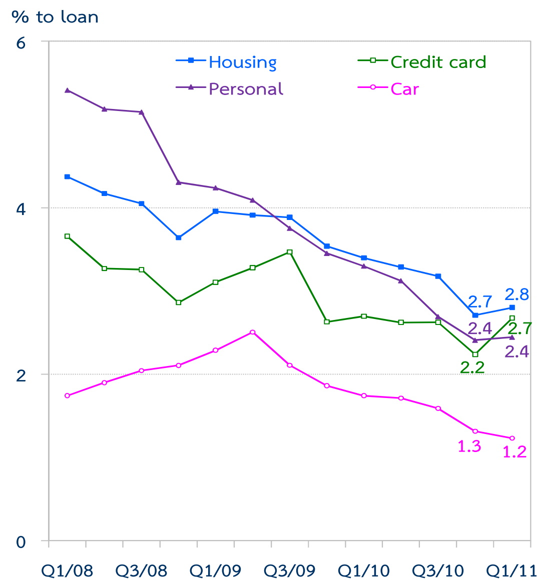


NPL

Corporate Loan

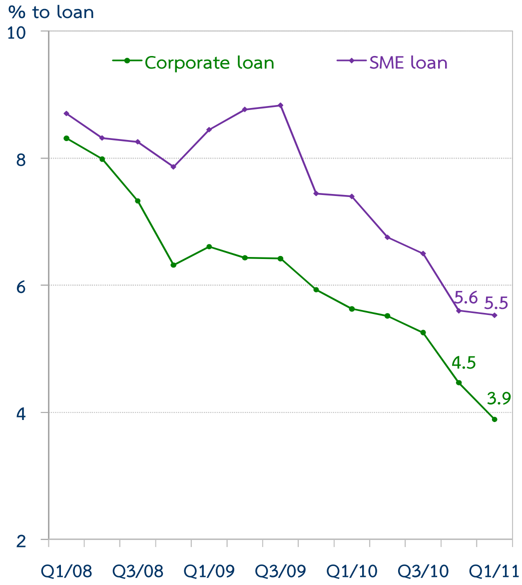


Consumer Loan

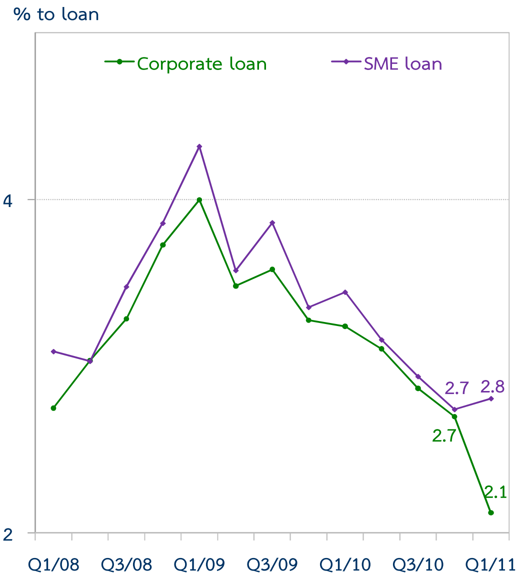


NPL and Delinquency ratio : Thai Banks' Corporate Loan*

NPL

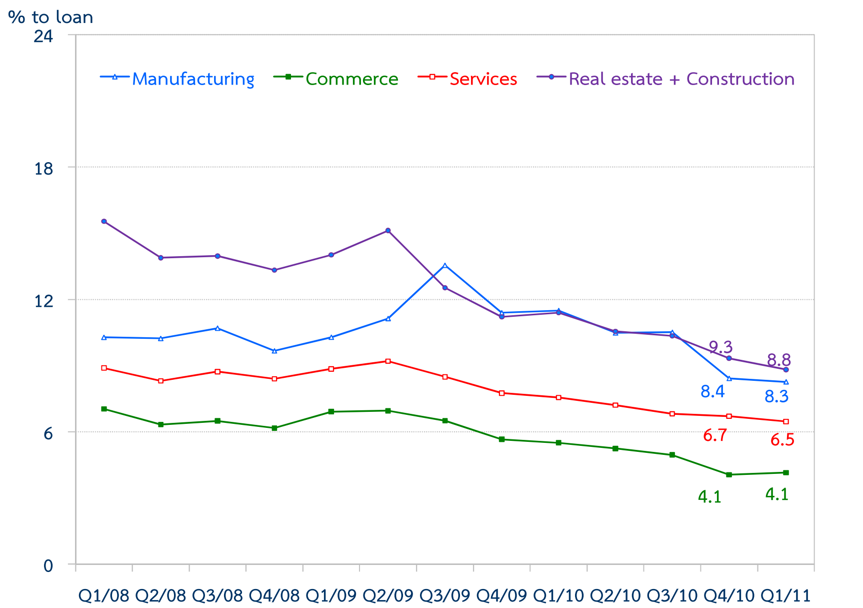


Delinquency



* Note : These are ratios for 16 Thai banks, other figures in this presentation apply to the whole banking system.

NPL ratio : Thai Banks' SME Loan*



* Note : These are ratios for 16 Thai banks, other figures in this presentation apply to the whole banking system.

Adoption of International Accounting Standard and Changes in Financial Reporting in line with International Practices

- Federation of Accounting Professions Board has published Thai Accounting Standards which is in line with,
  - International Accounting Standard – IAS
  - International Financial Reporting Standard - IFRS
- Bank of Thailand (BOT) made some adjustments on the categorization and financial reporting format for banks;
  - To support those transactions which the BOT has permitted banks to undertake.
  - To comply with good practices encouraged by major global audit firms, which would facilitate the ease of cross-country comparison.
- The new standards, effective on 1 January 2011, resulted in some changes to the financial ratios of the banking system
- The changes have no effect on the overall performance of the banking system, which continue to be strong, profitable and well-capitalized.
- However, in order to be transparent and comparable, the financial ratios under former and current practices are also illustrated.

Adoption of International Accounting Standard and Changes in Financial Reporting in line with International Practices

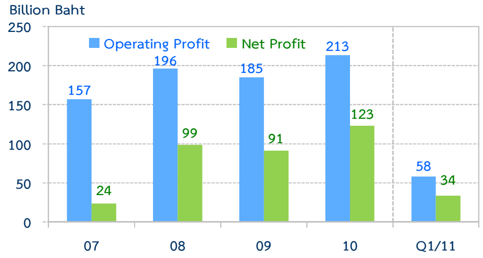
	Former	Current
Changes of financial ratios from International Accounting Standard		
Capital Adequacy Ratio (CAR or BIS ratio)	Total Capital / Risk-Weighted Asset	Total Capital *(Declined in retained earnings from the adoption of Employee Benefits)* / Risk-Weighted Asset
Tier-1 ratio	Tier-1 Capital / Risk-Weighted Asset	Tier-1 Capital *(Declined in retained earnings from the adoption of Employee Benefits)* / Risk-Weighted Asset
Changes of financial ratios from change in Financial Reporting		
Net Interest Margin (NIM)	(Interest Income *Including Dividend* – Interest Expense *(Excluding DPA)*) / Average Asset	(Interest Income *(Excluding Dividend)* – Interest Expense *(Including DPA)*) / Average Asset
Cost to Income Ratio (or Operating Efficiency)	Operating Expense *(Including DPA and Fee expense)* / Net Interest Income + Fee Income + Other Income	Operating Expense *(Excluding DPA and Fee expense)* / Net Interest Income + *Net* Fee Income + Other Income

Note *The changes are presenting in Red.*

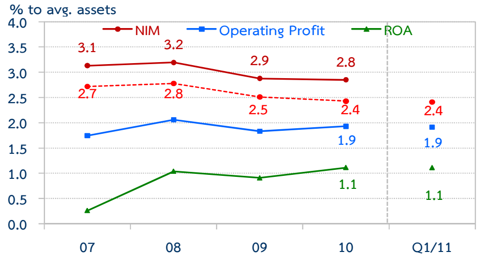
DPA is the deposit protection premium paid to Deposit Protection Agency (DPA)

Overall Performance

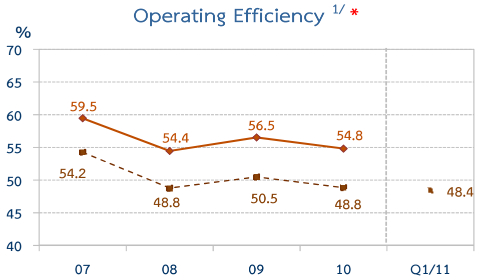
Profit



Profitability*



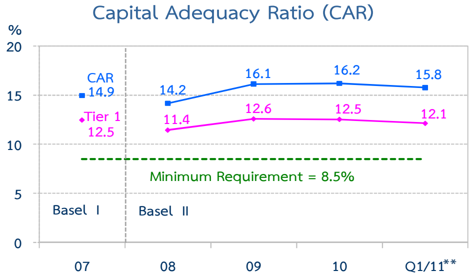
Operating Efficiency [1/] *



1/ Operating expense / Total income

* Dot lines exhibit the adjusted ratios according to new reporting standard which adopted in 2011

Capital Adequacy Ratio (CAR)



** Adopt new accounting standard, employee benefits.