



BANK OF THAILAND

BOT Press Release

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Performance of the Thai Banking System in the Second Quarter of 2016

Mr. Don Nakornthab, Senior Director, Financial Institutions Policy Group, reported that the Thai banking system's performance in the second quarter of 2016 remained sound with high level of loan loss provision and capital fund to facilitate credit expansion and economic recovery going forward. This was despite the fact that gradual economic growth had affected loan growth and credit quality, thereby affecting bank profitability. Details are as follows.

Weak loan demand amid gradual economic recovery led to subdued loan growth at 3.3% year-on-year. Corporate loan growth increased slightly mainly due to loans for acquisition of large retailers, while consumer loan growth continued to decline.

Corporate loans (67.9% of total loans) expanded at 2.0% year-on-year, contributed mainly by growth in the financial business (due to loans for acquisition of large retailers), services and construction. Loans contracted in the manufacturing and real estate sector, while loan growth of the commerce sector turned to positive after contracting for two consecutive quarters.

Consumer loans (32.1% of total loans) continued to decelerate to 6.0% as household confidence in spending still softened and banks remained vigilant on their credit standards for personal loans, particularly unsecured loans. Housing loans expanded well despite some slowdown after the government's property stimulus measures ended in April. Car loans exhibited a positive growth for the third consecutive quarter in line with increased car sales. Credit card loans increased from last quarter, attributable to the government's stimulus measures to encourage spending in April.

Loan quality continued to decline in both corporate, especially in SMEs, and consumer loans. **Non-Performing Loans** (NPLs) recorded at 373.7 billion baht, increased by 16.3 billion baht from last quarter, resulting in gross NPL-to-total loan ratio of 2.72%, up from

2.64%. **Special mention loans** (SMs : loan overdue above 1 month but not more than 3 months) amounted to 297.9 billion baht, declined by 8 billion baht from last quarter, thereby reducing SM-to-total loan ratio to 2.17% from 2.26%. Banks continued to accumulate high level of loan loss provision to cushion for loan quality deterioration. As a result, total provision increased to 492.8 billion baht, with nearly the same incremental amount as last quarter of 24.2 billion baht, and the ratio of actual to regulatory loan loss provision increased to 161.3% from 160% in the last quarter.

In the second quarter of 2016, the banking system recorded operating profits of 97.6 billion baht or 3.1% year-on-year growth. Even though banks cut their loan rates in this quarter and income on investments and treasury business declined as a result of low bond yield, the operating profits increased from funding cost management and dividend income. Net profits amounted to 50.9 billion baht or 4.6% decline year-on-year, due to increased provisioning expenses to cushion for potential loan quality deterioration from economic slowdown. Net interest margin (NIM) and return on assets (ROA) stabled at 2.6% and 1.2%, respectively.

Overall financial performance of the Thai banking system remained sound, with capital fund totaling at 2,273.7 billion baht and capital adequacy ratio (BIS ratio) stood at 17.5%.

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