Performance of the Thai Banking System in the Third Quarter of 2019

Mr. Tharith Panpiemras, Senior Director, Banking Supervision and Risk Assessment Department, Bank of Thailand, reported on the Thai banking system’s performance in the third quarter of 2019 that the Thai banking system remained resilient with higher levels of capital fund and loan loss provision to withstand a potential adverse impact from economic uncertainty. Meanwhile banking system’s performance improved. Details are as follows:

Capital fund of the Thai banking system was at 2,738 billion baht, increased from profit appropriation and issuance of subordinated bonds, resulting in higher capital adequacy ratio (BIS ratio) at 19.2%. Loan loss provision increased by 9.9 billion baht from previous quarter to 690.5 billion baht with higher ratio of actual to regulatory loan loss provision at 196.3% to withstand economic uncertainty. Liquidity coverage ratio (LCR) remained high at 185.0%.

The continued economic slowdown adversely impacted bank loan growth and asset quality, particularly small and medium-sized enterprises. As a consequence, bank loan growth continued to decline from 4.2% last quarter to 3.8% year-on-year. Details of bank loan growth are as follows:

Corporate loan (64.7% of total loans) grew at 1.3% year-on-year. Large corporate loan growth (excluding financial business) slightly increased from 2.2% last quarter to 2.6% year-on-year despite loan repayments by some large corporates that raised funds through the bond market. SME loan (excluding financial business) contracted 1.0% from 0.1% year-on-year growth last quarter, following a decline in bank lending to both small and medium-sized enterprises.

Consumer loan (35.3% of total loans) continued to grow robustly despite a decline in the growth rate from 9.2% last quarter to 8.7%. This was largely due to two consecutive quarters of slower growth in mortgage lending following a period of accelerated growth prior to the implementation of Loan to Value (LTV) measure, as well as a slower growth in auto
loan consistent with a slowdown in domestic car sales. However, personal loan and credit card loan continued to grow at higher pace.

On the loan quality front, the ratio of gross non-performing loans (NPLs) to total loans increased from 2.95% last quarter to 3.01%. Gross NPL outstanding stood at 469.5 billion baht, increasing by 19 billion baht from last quarter, mainly attributed to an increase in NPL of a large corporate in real estate business and the deterioration in asset quality of SMEs. Meanwhile, the NPL amount outstanding of mortgage and auto loans continued to increase. However, the ratio of special mention loans (SMs) to total loans declined from 2.74% last quarter to 2.59% as a result of one large corporate being reclassified as NPL.

In the third quarter of 2019, the banking system recorded net profit of 96.5 billion baht, increasing from the same period last year. This was mainly driven by an extraordinary item from gains on sale of investment by a large Thai bank. As a result, nine-month net profit rose to 214.4 billion baht. Excluding this extraordinary item, a third-quarter net profit still increased compared to the same period last year, which was attributed to an increase in net interest income as a result of retail loan portfolio expansion, higher dividend income and fee income from securities brokerage and bancassurance. Meanwhile, higher provisioning expenses were set aside as a buffer against deteriorating asset quality as well as economic uncertainty. Overall, the return on asset (ROA) increased from 1.26% last quarter to 1.98%\(^1\), while the ratio of net interest income to average interest-earning assets (Net Interest Margin: NIM) remained stable at 2.74%.

Bank of Thailand
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\(^1\) In the third quarter of 2019, ROA after adjusting for an extraordinary item from gains on sale of investment would decline to 1.11%.
Performance of the Thai Banking System in the Third Quarter of 2019
Overall Performance of the Thai Banking System in the Third Quarter of 2019

Loan growth
- Corporate loan grew at a slower pace in line with continued economic slowdown and loan repayments from bond issuance.
- Consumer loan continued to expand robustly, despite slower growth in mortgage lending and auto loan.

Loan quality
- NPL increased from a large corporate in real estate business and SMEs.
- NPL of housing and auto loans increased following high competition in loan expansion in the previous period.

Profitability
- Banking system’s performance improved mainly attributed to an extraordinary item from gains on sale of investment.

Bank resilience
- Capital fund and loan loss provision increased and stood at high level to withstand a potential adverse impact from economic uncertainty.
Fund raising through both commercial bank loan and bond market grew at a slower pace consistent with continued economic slowdown.

Note: growth rate compared to the same period last year
Bank loan expanded at a slower pace mainly attributed to subdued corporate loan growth in line with economic conditions, whereas overall consumer loan continued to grow at a high growth rate.

Bank loan growth was mainly driven by consumer loan growth.

Corporate loan growth declined in line with economic conditions, while consumer loan continued to grow at a high growth rate despite a recent slowdown.

Loans to both small and medium-sized businesses contracted.

Note: Growth rate compared to the same period last year / A number in parentheses indicates share of total loans / * Excluding financial business
Consumer loan continued to expand at a high growth rate despite a slower growth in mortgage lending and auto loan.

- Consumer loan grew at a slower pace due to mortgage and auto loans.
- Personal loan and credit card expanded well, partly reflecting the development of digital credit model.

Note: Growth rate compared to the same period last year / A number in parentheses indicates share of total loans
NPL increased mainly from a large corporate and the deterioration in asset quality of SMEs.

Small-sized businesses are vulnerable due to structural challenges, while weakening economic condition has more apparent impact on medium-sized businesses. In particular, businesses affected by trade tensions exhibited deteriorating asset quality, for example....
NPL of consumer loan increased from mortgage, auto and credit card loans.

Asset quality of consumer loan deteriorated in almost all portfolios, partly attributed to high loan expansion in the previous period.
Banking system’s performance improved, mainly driven by an extraordinary item from gains on sale of investment.

- **Net profit**
  
<table>
<thead>
<tr>
<th>19Q1</th>
<th>19Q2</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>$57.1B</td>
<td>$60.8B</td>
<td>$96.5B</td>
</tr>
</tbody>
</table>

- **Profitability ratios**
  
<table>
<thead>
<tr>
<th>19Q2</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.74%</td>
<td>1.11%</td>
</tr>
<tr>
<td>1.98%</td>
<td>7.84%</td>
</tr>
</tbody>
</table>

- **Income (billion baht / %yoy)**
  
<table>
<thead>
<tr>
<th>19Q1</th>
<th>19Q2</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance (1.8%)</td>
<td>5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Brokerage (1.2%)</td>
<td>3.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Fund transfer (1.6%)</td>
<td>5.0</td>
<td>5.2</td>
</tr>
</tbody>
</table>

- **Interest income**
  
  - Stabilized from previous quarter but improved from the same period last year.

- **Fee income**
  
  - From securities brokerage, bancassurance and fund transfer increased.

- **Provisioning expenses**
  
  - Increased as a buffer against deteriorating asset quality and economic uncertainty.

*With extraordinary item on gains from sale of investment from a large commercial bank / A number in parentheses indicates share of revenue
The Thai banking system has increased capital fund and loan loss provision with sufficient liquidity.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital fund (BIS ratio)</td>
<td>19.2%</td>
</tr>
<tr>
<td>Loan loss provision to NPL (NPL coverage ratio)</td>
<td>146.2%</td>
</tr>
<tr>
<td>Liquidity Coverage Ratio (LCR)</td>
<td>185%</td>
</tr>
<tr>
<td>Loan to deposit ratio (L/D ratio)</td>
<td>97.1%</td>
</tr>
</tbody>
</table>

- Capital fund increased from profit appropriation and issuance of subordinated bonds by some Thai banks.
- Some banks set aside more provisioning expenses as a buffer against deteriorating asset quality and economic uncertainty.
- Banks’ liquid asset increased.
- L/D ratio slightly decreased with higher deposit.
New bank loans to real estate developers and new mortgage lending

- New loans to residential developers declined both for low-rise and high-rise residences, consistent with new mortgage lending following the implementation of LTV measure.

Note: Bar graph represents new loan amount (new flows), while loan growth illustrates growth of loan outstanding (%yoy).
Effectiveness of LTV measure following its implementation in April 2019

- Banks’ underwriting standards improved, while residential property price became more affordable.
- Overall, banks’ first mortgage loan contract grew 8.8% yoy in the first nine months of 2019, whereas the second and subsequent loan contracts declined, particularly high-rise residence.

### House price index (2009 = 100)

<table>
<thead>
<tr>
<th>Type</th>
<th>18Q4</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-detached house</td>
<td>139</td>
<td>145</td>
</tr>
<tr>
<td>Town house</td>
<td>151</td>
<td>155</td>
</tr>
<tr>
<td>Condo</td>
<td>186</td>
<td>179</td>
</tr>
</tbody>
</table>

### Banking system’s average LTV (%)

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>18Q4</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st mortgage contract*</td>
<td>88.5</td>
<td>88.7</td>
</tr>
<tr>
<td>2nd and subsequent mortgage contract*</td>
<td>88.9</td>
<td>81.7</td>
</tr>
</tbody>
</table>

### Growth rate of new mortgage contracts during the first nine months of 2019 compared with the same period last year (% yoy)

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>18Q4</th>
<th>19Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st mortgage contract*</td>
<td>13.5%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>2nd mortgage contracts*</td>
<td>-1.0%</td>
<td>-26.2%</td>
</tr>
<tr>
<td>3rd and subsequent mortgage contracts*</td>
<td>-8.0%</td>
<td>-40.5%</td>
</tr>
</tbody>
</table>

Note: *Calculation based on mortgage loan data of commercial banks
Policy rate cuts help reduce interest debt burden for debtors, while the resulting impact on bank profitability is at a manageable level.

- **MLR / MRR / MOR (M rate)** interest cuts following two recent policy rate cuts could help reduce financial costs for more than 1.8 million businesses and retail debtors combined.

- Lending rate cut has a manageable impact on bank profitability consistent with banks’ asset and liability structure.

**An estimate of interest payments saved per year**

- **Business**: 387,591 headcounts
- **Mortgage**: 1,444,561 headcounts

**New loan rate : NLR**

- **Business**: 6,180 million baht
- **Mortgage**: 6,890 million baht

**Asset and liability structure of Thai commercial banks (as of Sep-19)**

- **Fixed deposit**: 28%
- **Saving deposit**: 41%

Weighted-average interest rate calculated from new loan to businesses of 14 Thai commercial banks weighted by loan contract amount. Data coverage includes Thai baht loan with value over 20 million baht including all loan types, purposes and tenors, both secured and unsecured loans. Calculation is based on median of highest and lowest interest rate of each contract.
4 key takeaways from the Thai banking system’s performance in the third quarter of 2019

1. The continued economic slowdown started to impact medium-sized businesses.

2. NPL of housing, auto and credit card loans continued to increase.

3. LTV measure had an impact on 2nd and subsequent mortgage contracts, yet making residential property prices more affordable.

4. Two recent lending rate cuts had benefited more than 1.8 million debtors, but had a manageable impact on bank profitability.