Performance of the Thai Banking System in the Third Quarter of 2020

Ms. Suwannee Jatsadasak, Senior Director, Bank of Thailand, reported on the Thai banking system’s performance in the third quarter of 2020 that the Thai banking system remained resilient with high levels of capital fund, loan loss provision and liquidity to support economic recovery from the COVID-19 pandemic. Debt relief measures, coupled with revisions to rules on loan classification and provisioning facilitated bank loan expansion and alleviated the deterioration of bank loan quality. Meanwhile, banking system’s profitability declined as banks continued to set aside loan loss provision at a high level as a cushion against a potential adverse impact of COVID-19 on loan quality. Details are as follows:

Capital Fund of the Thai banking system was at 2,959 billion baht, equivalent to capital adequacy ratio (BIS ratio) of 19.8%. Loan loss provision remained high at 782.5 billion baht with NPL coverage ratio of 149.7%. Liquidity coverage ratio (LCR) registered at 184.9%.

In the third quarter of 2020, banks’ overall loan growth stood at 4.6% year-on-year, a slight decline from last quarter at 5.0%. Details on bank loan are as follows:

Corporate loan (64.6% of total loan) expanded at 4.5% year-on-year, but contracted quarter-on-quarter as some large corporates switched their funding source from bank loan to bond and equity issuance. SME loan\(^1\) contracted at a lower rate, attributed to the soft loan scheme and a gradual economic recovery.

Consumer loan (35.4% of total loan) grew at 4.8% year-on-year, and increased quarter-on-quarter following the relaxation of lockdown measures. In particular, mortgage lending expanded, consistent with an increase in demand for low-rise residential properties from last quarter.

Debt relief measures, together with revisions to rules on loan classification and provisioning, have continued to alleviate banks’ loan quality deterioration in the third quarter of 2020. The gross non-performing loan (NPL or stage 3) outstanding was at 513.9 billion baht, equivalent to 3.14% of total loan, slightly edging up from 3.09% in the previous quarter.

\(^1\) Corporates with a maximum credit line of 500 million baht with a bank.
Meanwhile, the ratio of loans with significant increase in credit risk (SICR or stage 2) to total loans was at 7.03%, down from 7.49% in the last quarter.

The banking system recorded net profit of 28.0 billion baht in the third quarter and 130.4 billion baht for the first 9 months of 2020, a decline from last year due to continued high level of provisioning expenses to cushion against potential loan quality deterioration going forward. As a result, the ratio of return on asset (ROA) declined to 0.52% from 0.60% in the last quarter. The ratio of net interest income to average interest-earning assets (Net Interest Margin: NIM) declined from 2.60% to 2.55%, largely due to a decline in interest income on loan.

Bank of Thailand
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The Thai banking system remained resilient with high levels of capital fund, loan loss provision and liquidity.

- **Bank resilience**
  - Gross non-performing loan (NPL or stage 3) slightly increased from last quarter helped by debt relief measures and revisions to rules on loan classification and provisioning.

- **Loan growth**
  - Bank loan grew at a slightly lower pace, mainly from corporate loan as some large corporates switched their funding source from loan to bond and equity issuance. SME loan contracted at a lower rate, attributed to the soft loan scheme and a gradual economic recovery.
  - Consumer loan expanded from last quarter following the relaxation of lockdown measures.

- **Loan quality**
  - Banking system’s profitability declined due to high level of provisioning expenses as a cushion against potential loan quality deterioration.
The Thai banking system’s capital fund, loan loss provision and liquidity remained at high levels.

<table>
<thead>
<tr>
<th>Capital fund (BIS ratio)</th>
<th>Loan loss provision to NPL (NPL coverage ratio)</th>
<th>Liquidity Coverage Ratio (LCR)</th>
<th>Loan to deposit ratio (L/D ratio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.8%</td>
<td>149.7%</td>
<td>184.9%</td>
<td>93.0%</td>
</tr>
</tbody>
</table>

- Capital fund remained high.
- Loan loss provision increased.
- LCR remained high.
- L/D ratio was stable.

- Capital fund increased from profit appropriation and issuance of perpetual Additional Tier 1 capital securities.
- Banks continued to set aside provision at a high level to cushion against potential loan quality deterioration.
- All banks have LCR above the minimum requirement of 100%.
- Overall deposit and loan were relatively stable.

Note: Definition of NPL coverage ratio was revised in accordance to TFRS 9: before Q1/2020: Loan loss provision (principle only) / NPL outstanding (principle only); after Q1/2020: Loan loss provision (loan principle + accrued interest + contingent liability) / NPL outstanding (principle + accrued interest)
Bank loan grew at a slightly lower rate, while corporate bond issuance increased.

Note: Growth rate compared to the same period last year
Bank loan expanded at a lower rate due to a slowdown in corporate loan, especially for large corporates who switched to capital market funding, while consumer loan growth remained stable.

Corporate loan growth declined as some corporates switched to bond and equity financing or built up their liquidity during H1/2020. Meanwhile, consumer loan was stable.

Large corporate loan growth declined, while SME loan growth contracted at a lower rate due to the soft loan scheme and a gradual economic recovery.

Note: Growth rate compared to the same period last year | Corporates with a credit line with a bank (excluding financial business) | A number in parentheses indicates share of total loans
Overall consumer loan growth was stable in line with weak households’ purchasing power, but expanded quarter-on-quarter following the relaxation of lockdown measures.

- Mortgage lending grew in line with improved demand for low-rise residential properties.
- Credit card loan expanded following the relaxation of lockdown measures.
- Auto and personal loans grew at a lower rate y-o-y in line with weak households’ purchasing power, though q-o-q momentum has improved.

Note: Growth rate compared to the same period last year | A number in parentheses indicates share of total loans
Loan under credit assistance measures has declined as some debtors could resume their debt repayment after the debt relief measure gradually expired.

Bank loan outstanding under relief measures as of September 30, 2020 was 3.78 trillion baht, equivalent to 26% of total loan, down from 4.55 trillion baht or 31% of total loan as of June 30, 2020, mainly from consumer loan.
Overall NPL slightly increased as debt relief measures combined with debt restructuring have helped alleviate loan quality deterioration.

*According to the new accounting regulations (TFRS9), stage 2 is defined as loans with significant increase in credit risk (SICR), having a wider coverage than SM.
Consumer loan quality continued to improve as a result of debt relief measures.

- NPL ratio of consumer loan declined across all loan types, both secured and unsecured loans, following debt relief measures and banks’ NPL management.

*According to the new accounting regulations (TFRS9), stage 2 is defined as loans with significant increase in credit risk (SICR), having a wider coverage than SM.
Net profit in the third quarter declined as banks continued to set aside provision at a high level.

### Operating profit

<table>
<thead>
<tr>
<th>Quarter</th>
<th>19Q3</th>
<th>20Q2</th>
<th>20Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>%yoy</td>
<td>61.1%</td>
<td>3.0%</td>
<td>-46.1% (-14.3%)</td>
</tr>
<tr>
<td>Profit</td>
<td>167.0</td>
<td>110.5</td>
<td>90.0</td>
</tr>
</tbody>
</table>

### Net profit

<table>
<thead>
<tr>
<th>Quarter</th>
<th>19Q3</th>
<th>20Q2</th>
<th>20Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>%yoy</td>
<td>88.9%</td>
<td>-46.8%</td>
<td>-71.0% (-48.4%)</td>
</tr>
<tr>
<td>Profit</td>
<td>96.5</td>
<td>32.4</td>
<td>28.0</td>
</tr>
</tbody>
</table>

### Provisioning expenses

<table>
<thead>
<tr>
<th>Quarter</th>
<th>19Q3</th>
<th>20Q2</th>
<th>20Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>%yoy</td>
<td>12.8%</td>
<td>117%</td>
<td>23.8%</td>
</tr>
<tr>
<td>Expense</td>
<td>46.3</td>
<td>71.8</td>
<td>57.3</td>
</tr>
</tbody>
</table>

### Profitability ratios

<table>
<thead>
<tr>
<th></th>
<th>20Q2</th>
<th>20Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIM</td>
<td>2.60%</td>
<td>2.55%</td>
</tr>
<tr>
<td>ROA</td>
<td>0.60%</td>
<td>0.52%</td>
</tr>
<tr>
<td>ROE</td>
<td>4.30%</td>
<td>3.68%</td>
</tr>
</tbody>
</table>

Note: Numbers in parentheses represent year-on-year growth rate after adjusting for an extraordinary item from gains on sale of investment in Q3/2019.
Key takeaways

1. Thai banking system remained resilient with high levels of loan loss provision, capital fund, and liquidity to serve a crucial function in supporting economic recovery from the COVID-19 pandemic.

2. Banks are encouraged to expedite debt restructuring tailored to each individual debtor’s ability to repay, particularly those affected by COVID-19 and yet to recover fully.