BANK OF THAILAND

Banking Sector Quarterly Brief (Q1 2023)

The Thai banking system remains resilient with robust levels of capital, loan loss provision, and liquidity to serve as a key mechanism to support the economic recovery going forward. In the first quarter of 2023, the banking system's loan growth was 0.5% YoY[1/], slowed down from the previous year, primarily due to the loan repayment from government, large corporates, and soft loan facility, as well as banks' portfolio management. The slowdown was partially attributed to large corporates raising funds through the bond market. However, banks' loans continued to expand, particularly in large corporate loans in the financial and trading sectors, mortgage loans, and personal loans. On the loan quality front, banks continued to manage loan portfolios and support borrowers through debt restructuring, resulting in a decrease in gross non-performing loan (NPL or stage 3) balance to 498 billion baht, equivalent to the NPL ratio of 2.68%. The banking system's profitability in the first quarter of 2023 improved from the previous year mainly from higher net interest income and gains from FVTPL of derivatives, despite the increased operational costs and provisioning expenses. The increase in net interest income was from loan expansion and the interest rate hike cycle, offsetting higher costs of funds from rising deposit rate and FIDF fee normalization. However, net profit declined by 4.0% QoQ, mainly due to higher cost of funds and the high base effect last quarter from extraordinary income arising from banks' sale and transfer of consumer loans to subsidiaries, regardless of the lower provisioning expenses and operational costs.

However, there remains a need to closely monitor the debt serviceability of highly leveraged households with slow income recovery, and the recovery of certain businesses. The household debt to GDP ratio remained stable, while the corporate debt to GDP ratio continued to decline. Although corporate profitability softened, the overall financial positions remained favorable. As a result, it is essential to monitor the impact of weak global demand and rising costs on certain businesses. Nevertheless, financial institutions have continued to support their vulnerable debtors, particularly through debt restructuring in accordance with their serviceability prospects.

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[1/] Excluding the impact of a banks' transfer of credit card and personal loans to its subsidiaries, the total loan growth was 1.3% yoy.

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Banking Sector Quarterly Brief

(Q1 2023)

22 May 2023

Banking Sector Quarterly Brief (Q1 2023)

Thai banking system remains resilient to serve as a key mechanism to support the economic recovery going forward. However, there remains a need to monitor the debt serviceability of highly leveraged households with slow income recovery, as well as the recovery of certain businesses.

Commercial Banking system	**Capital, loan loss provisions, and liquidity remained robust.** **Bank loan growth slowed down** due to loan repayment from government, large corporates, and soft loan facility, as well as banks' portfolio management. **Loan quality slightly improved** with a decline in NPL ratio, resulting from continued loan portfolio management and debt restructuring. **Profitability improved** mainly due to the increase in NII and gains from FVTPL of derivatives, which offset higher costs of funds, operating costs, and provisioning expenses.
Household	**Household debt to GDP remained stable,** but there is still a need to monitor the debt serviceability of vulnerable households with highly leveraged and slow income recovery.
Corporate	**Corporate debt to GDP continued to decline. Despite a decline in corporate profitability, the overall financial positions remained favorable.** Monitoring the impact of weak global demand and rising costs on certain businesses remains essential.
Relief measures	**Loans under relief measures declined from last quarter,** but financial institutions continue their debt restructuring for vulnerable borrowers.

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Commercial Banking System

Thai banking system remains resilient to serve as a key mechanism to support the economic recovery and accommodate loan demand going forward.

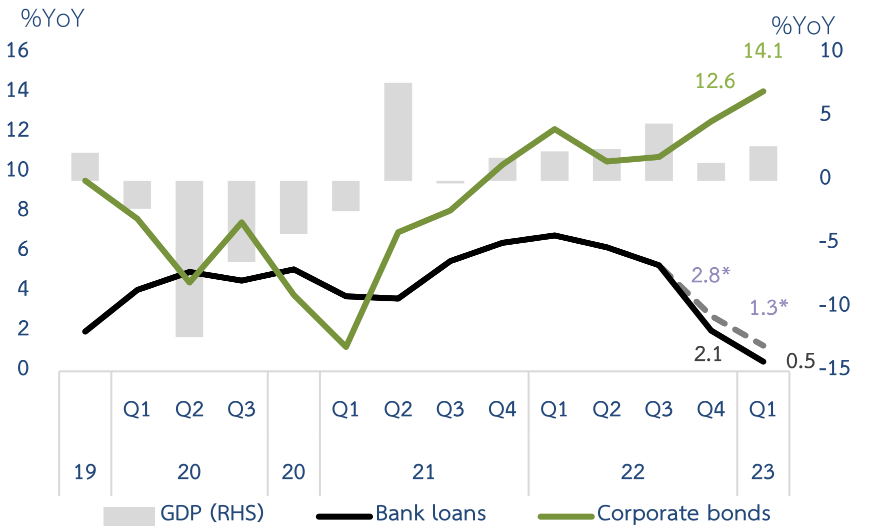
Capital, loan loss provision, and liquidity indicators

Banks' capital, loan loss provisions, and liquidity remained at high levels.

	Q1/2023	Q4/2022	Q1/2022
Capital (BIS ratio)	19.4%	19.4%	19.8%
Liquidity (Liquidity coverage ratio: LCR)	193.7%	197.0%	191.7%
Loan loss provision (NPL coverage ratio)	173.4%	171.2%	165.6%

Bank loan and corporate bond growth

Bank loans grew at a slower pace owing to the debt repayment, while corporate sector continued to raise funds through bond issuance.



Note: * Excluding the impact of a bank's transfer of credit card and personal loans to its subsidiaries.

Source: BOT, NESDC, SEC and ThaiBMA

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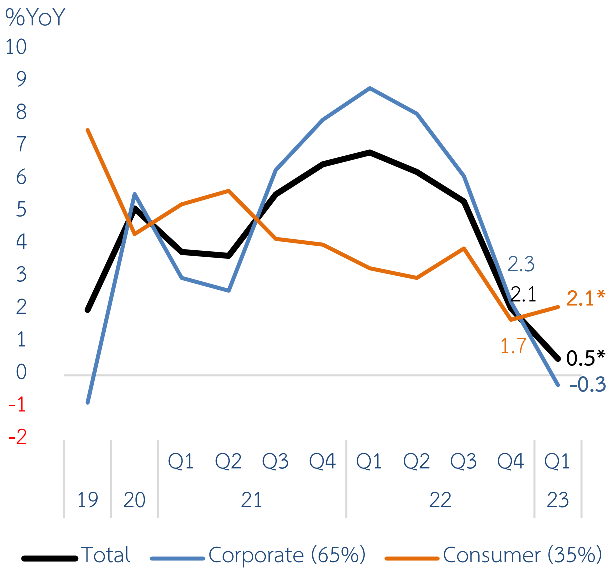
Commercial Banking System

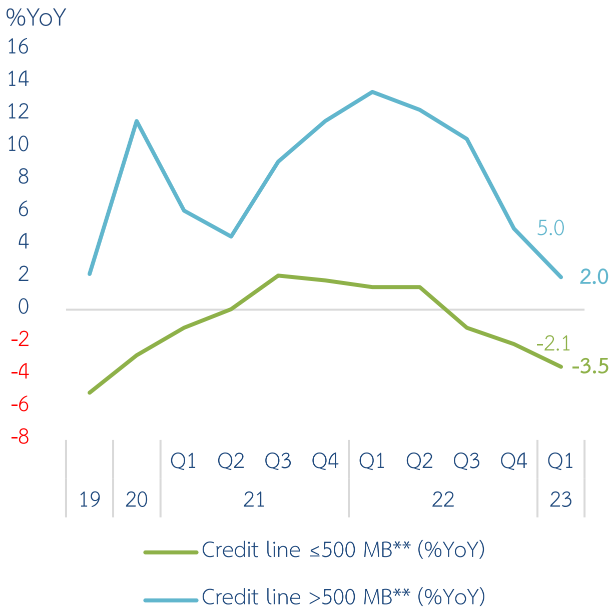
Bank loan growth slowed down due to loan repayment from government, large corporates, and soft loan facility, as well as banks' portfolio management.

Overall loan growth by portfolio



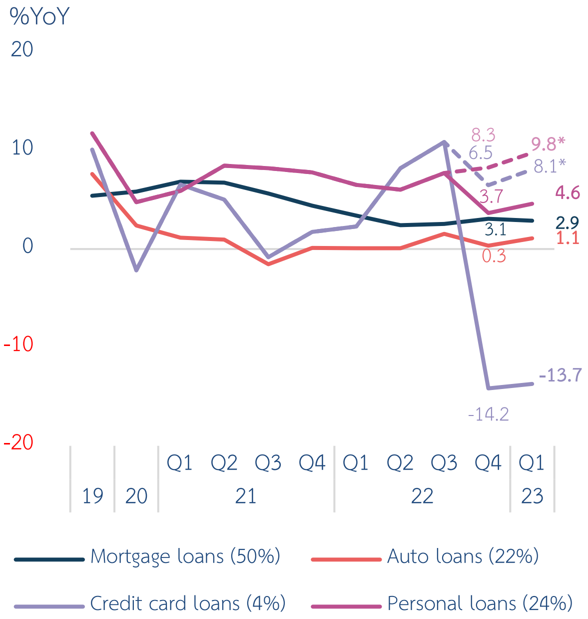
Note: Numbers in the parentheses show the proportion of total loan.
* Excluding the impact of a bank's transfer of credit card and personal loans to its subsidiaries, total loan growth was 1.3%, while consumer loan growth was 4.3%.

Corporate loan growth by size



** Corporates' credit line per bank as of March 2023.

Consumer loan growth by portfolio



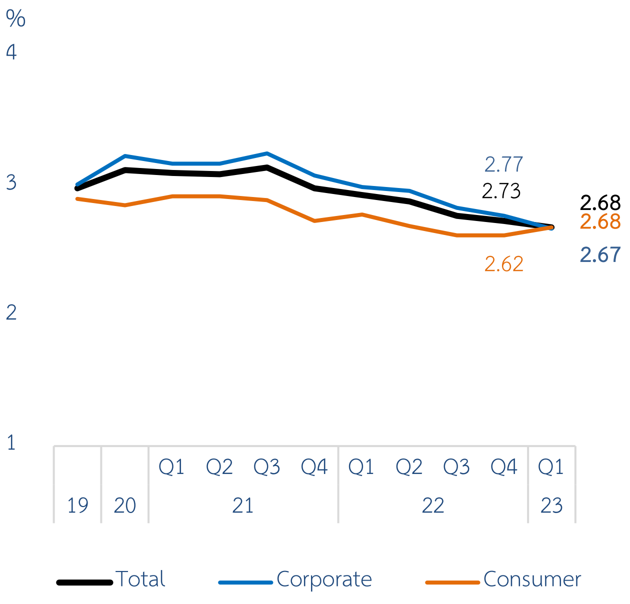
Note: Numbers in the parentheses show the proportion of total retail loan.
* Excluding the impact of a bank's transfer credit card and personal loans to its subsidiaries.

Source: BOT

Commercial Banking System

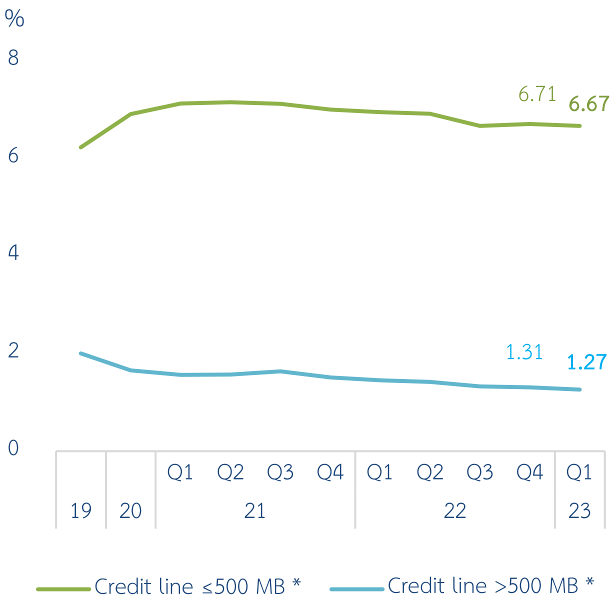
NPL ratio slightly declined, as a result of loan portfolio management through continued debt restructuring, write-off and sales in both corporate and retail loans.

Stage 3 (NPL) of total loans



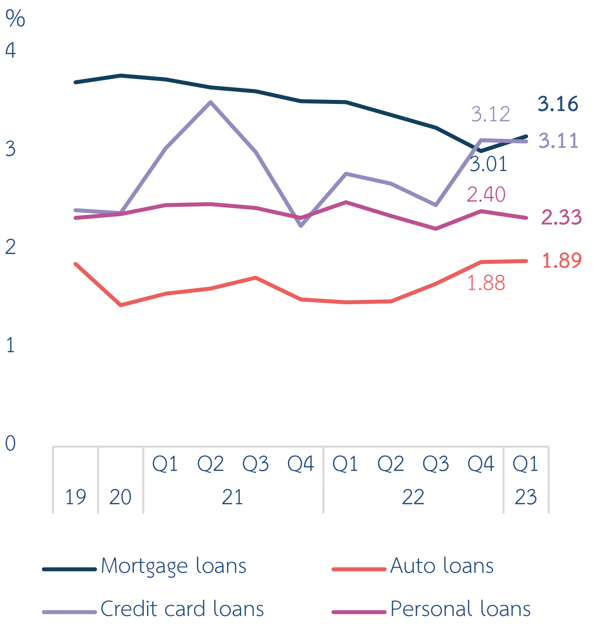
Note: Since Q4 2023, a bank has transferred credit card and personal loans to its subsidiaries.

Stage 3 (NPL) of corporate loans



* Corporates' credit line per bank as of March 2023.

Stage 3 (NPL) of consumer loans

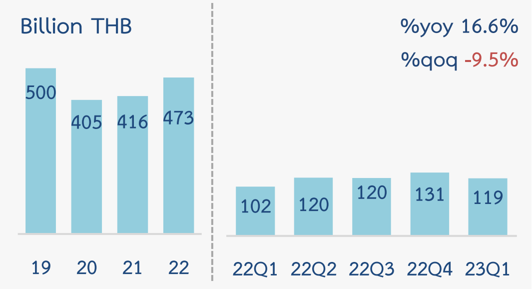


Source: BOT

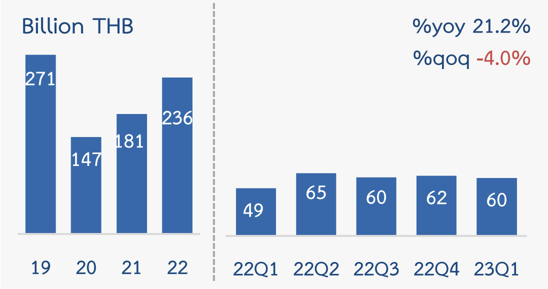
Commercial Banking System

Bank profitability improved from the same quarter last year due to increased NII and gains from FVTPL of derivatives. However, net profit declined from the previous quarter mainly due to extraordinary income* in Q4/22 and rising cost of funds.

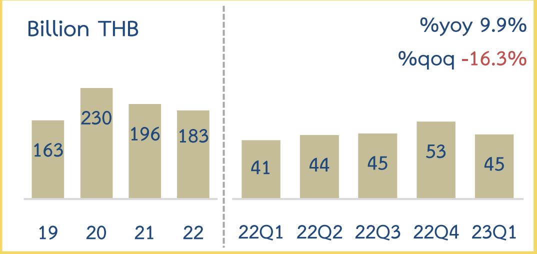
Pre-provision operating profit (PPOP)



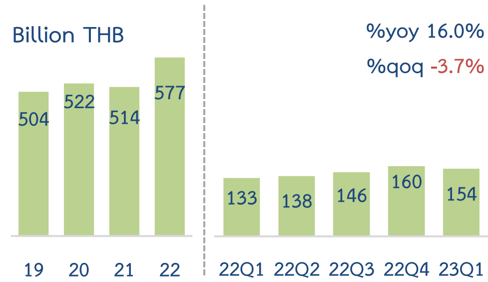
Net profit



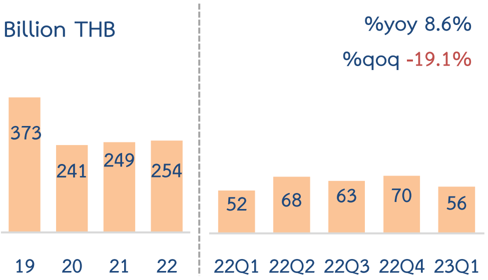
Provisioning expenses



Net interest income [73%]



Non-interest income [27%]



Ratios	19	20	21	22	22Q1	22Q2	22Q3	22Q4	23Q1
NIM (%)	2.73	2.63	2.46	2.62	2.45	2.51	2.64	2.88	2.77
ROA (%)	1.39	0.69	0.81	1.01	0.86	1.11	1.01	1.05	1.01
ROE (%)	9.90	4.84	5.80	7.45	6.25	8.21	7.51	7.84	7.43

Note: Numbers in the parentheses show the proportion of net income.

* Extraordinary income from sales and transfer of consumer loan portfolios to subsidiaries in Q4 2022.

Source: BOT

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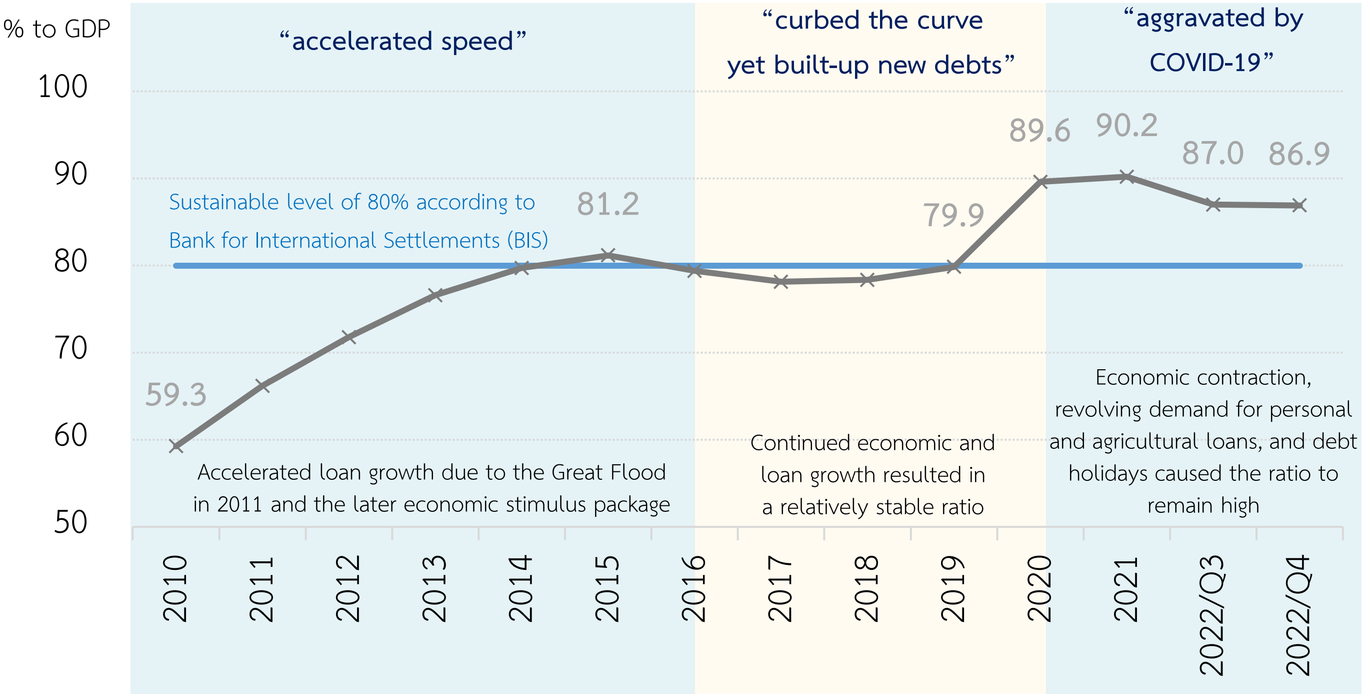
Household debt to GDP remained stable, but there is still a need to monitor the debt serviceability of vulnerable groups with highly leveraged and slow income recovery.

Household debt to GDP

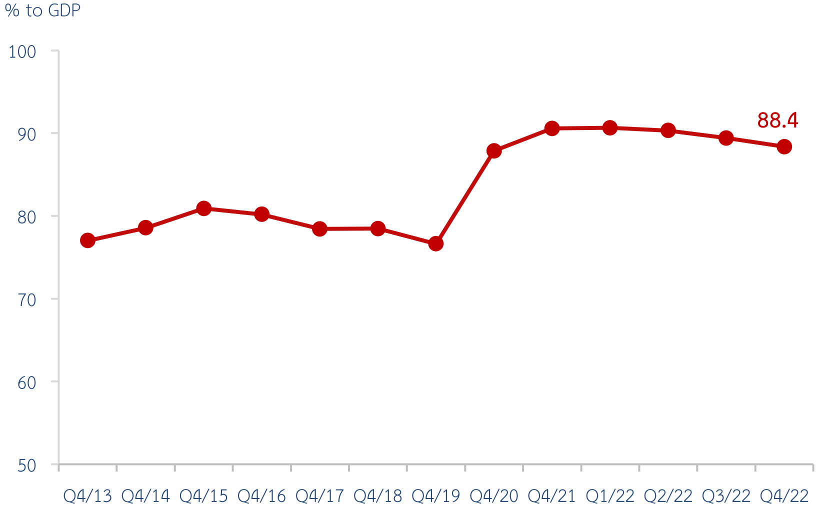


Source: BOT and NESDC

Corporate debt to GDP continued to decline, while corporate profitability softened, especially in the manufacturing sector.

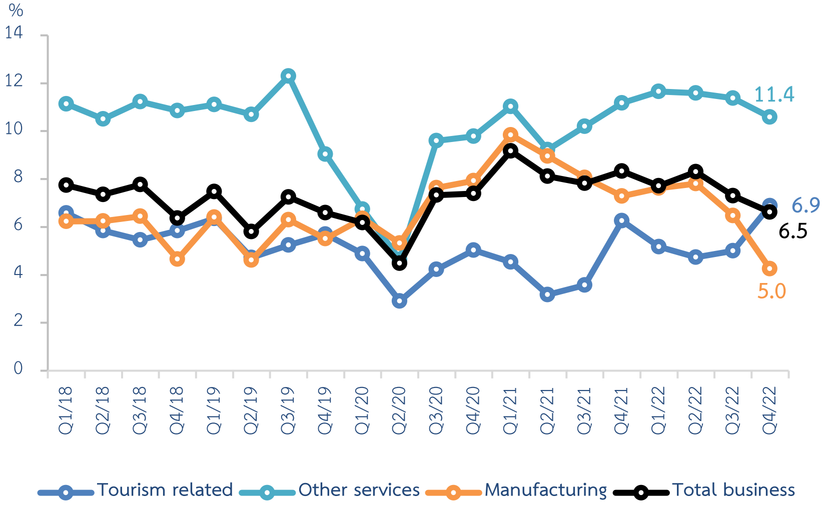
Monitoring the impact of weak global demand on the export-oriented manufacturing sector, and pressures from elevated costs remains essential.

Corporate debt to GDP



Source: BOT and NESDC

Operating profit margin (OPM) by sector



Note: Median values are shown. The manufacturing sector includes manufacturing and petroleum businesses. The tourism-related sector includes hotels, airlines, restaurants and trade.

Source: SEC and computed by BOT

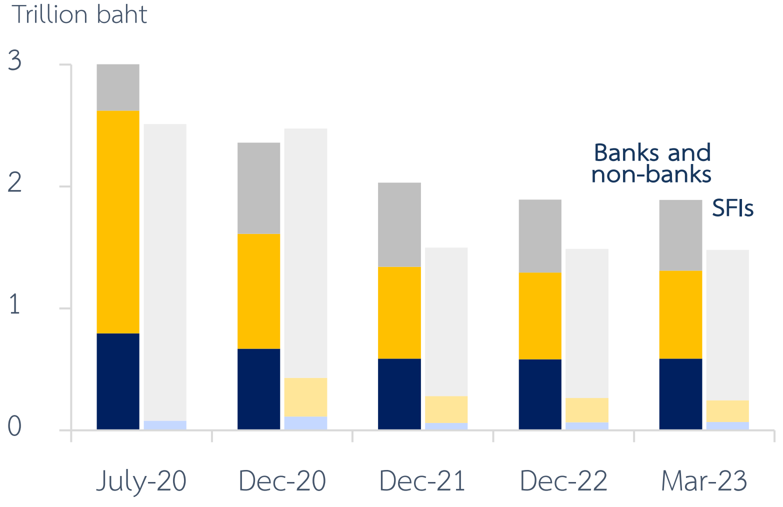
Development in credit assistance from financial institutions

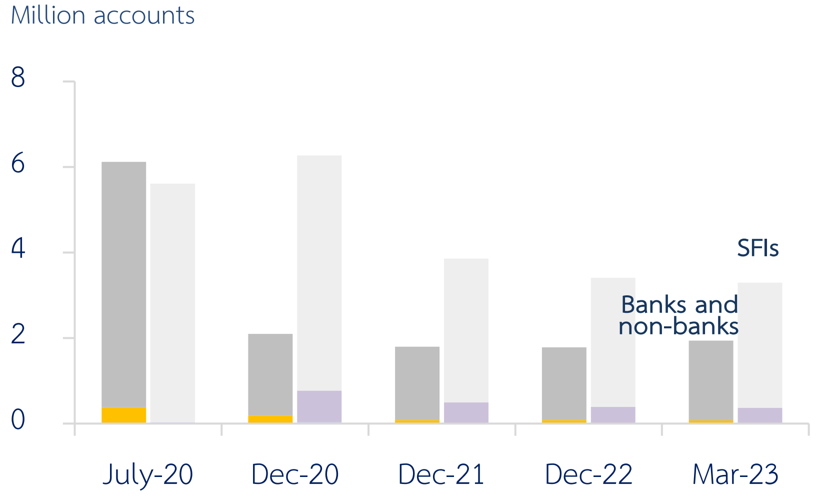
Overall, loan under assistance continued to decline.

However, non-banks continue to support their debtors through debt restructuring.

Loan outstanding under assistance	Banks + non-banks: 1.89 trillion baht
3.37 trillion baht	SFIs: 1.48 trillion baht

Number of accounts under assistance	Banks + non-banks: 1.94 million accounts
5.26 million accounts	SFIs: 3.32 million accounts





Large corporates SMEs Retail consumers

Note: Dark colours represent banks and non-banks, while light colours represent SFIs.

Source: BOT

Progress of the financial rehabilitation measures as of May 15, 2023

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Rehabilitation Loan

Credit line 275,886 MB*

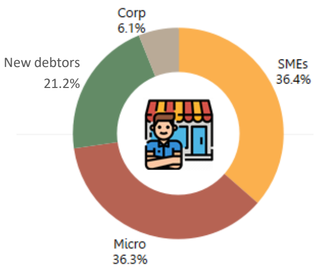
Approved loan
236,218 MB

Number of debtors under loan scheme
63,187 debtors

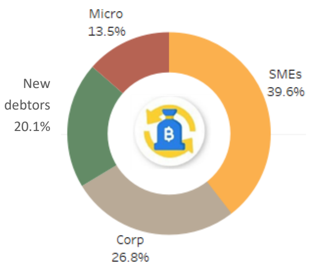
Average approved credit line
3.7 MB / debtor

Well distributed by size, business sector, and region

By existing credit line



by debtors



by credit line

72.7%
of debtors are Micro SMEs and SMEs (existing credit lines < 50 MB)

Debtors (%)

68.1%
of debtors are in commerce and service sectors

Debtors (%)

69.7%
of debtors are from provincial areas

Debtors (%)

Asset Warehousing

Credit line 100,000 MB

Approved loan amount
74,114 MB

Number of debtors under the scheme
500 debtors

The program ended on April 9, 2023

* Note: Credit line for rehabilitation and transformation loans includes the remaining credit line from the asset warehousing program.

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Progress of the Transformation loan program as of May 15, 2023

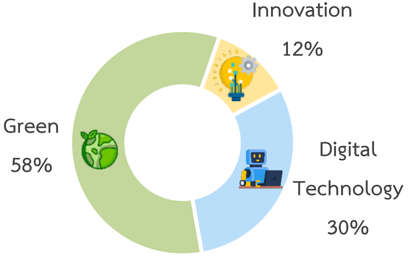
A loan measure under the Rehabilitation Loan Act (ending April 9, 2024, along with the rehabilitation loan program)

To support potential SMEs affected by COVID-19, especially those willing to enhance their business competitiveness and adapt to the new normal through the use of Green / Digital Technology / Innovation

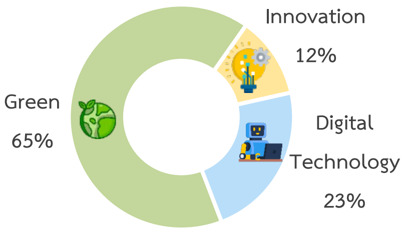
Transformation loan

Approved loan	Number of debtors under loan scheme	Average approved credit line
3,362 MB	330 debtors	10.2 MB / debtor

All 3 types of adaptations were utilized, with the majority usage in Green technologies



by number of debtors



by credit line

Example of adaptations accepted by the program

Green : installation of solar cells and renewable energy equipment / investment in charging stations/ investment in highly effective energy-saving equipments

Digital Technology : enhancement of automation / investment in smart warehousing / expansion of distribution channels through online platforms

Innovation : investment in smart farming and evaporative cooling systems / investment in agricultural products' processing business line for export / transformation into wellness businesses

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Debt Clinic by SAM in collaboration with financial institutions has adjusted its conditions to reach out more debtors with non-performing status and help them resolve debts in a more timely manner, effective from May 1, 2023.

Adjustment & Intended Outcome	Details of Adjustment
The applicants' qualifications to increase debtors' opportunity to participate in the scheme and start their debt restructuring process as soon as possible.	✓ Debtors with non-performing status (more than 120 days overdue) are now eligible to participate in the scheme replacing the previous condition that cut-off dates were set and extended where appropritate (the latest requirement was the debtors with non-performing status (more than 90 days overdue) prior to Feb 1, 2023).
Debt payment conditions for the case that debtors under the scheme fail to pay as agreed to meet the changing debtor's ability to pay debt.	✓ Providing options to adjust the payment conditions* instead of having only one solution of 6-month debt moratorium on both principle and interest payments. *The condition to be obtained will be considered on case-by-case basis and the number of times of condition adjusting will be limited to prevent non-financially disciplined behaviour.
Communication to disseminate the information about the scheme more widely, increasing debtors' awareness and opportunity to be assisted earlier.	✓ The participating financial institutions join in with promoting the scheme to inform the public, targeting at the qualified debtors, about their rights and the scheme through the communication channels of the financial institutions, in addition to the current communication of Debt Clinic by SAM and the BOT.

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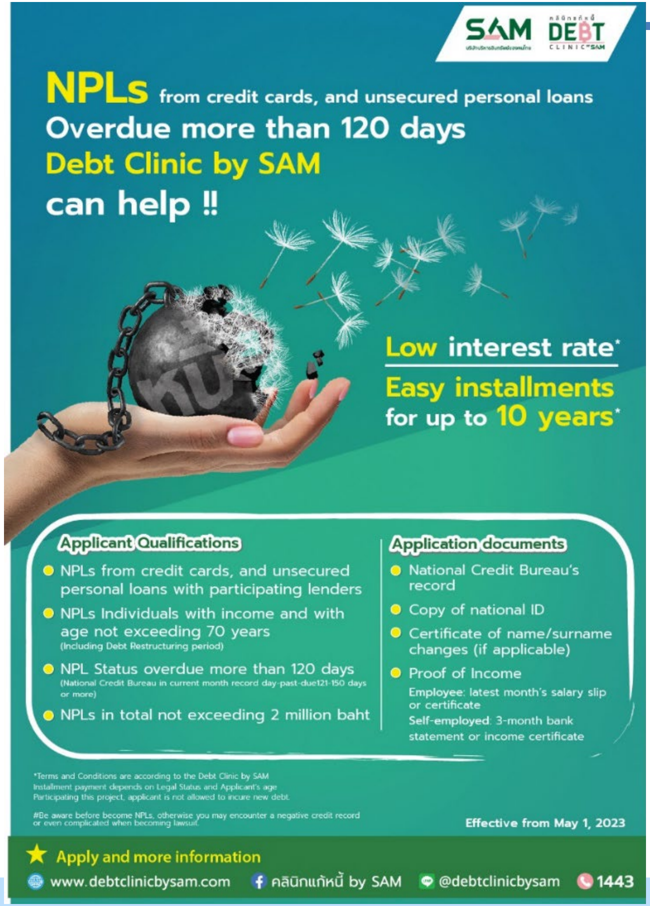

Debt Clinic by SAM