BANK OF THAILAND

Banking Sector Quarterly Brief (Q2 2023)

The Thai banking system remains resilient with robust levels of capital, loan loss provisions, and liquidity. In the second quarter of 2023, the banking system's loans marginally contracted 0.4% YoY[1] due to the gradual repayment of businesses loans, following accommodative growth of liquidity facilities during the COVID-19 period, particularly from SMEs (including soft loan facility) and government, combined with large corporates' fund switching to bond issuance and banks' portfolio management. Nonetheless, bank lending continued to expand mainly in large corporate loans from holding businesses, mortgage loans, and personal loans. Loan quality slightly deteriorated in SMEs and consumer loans. However, banks continued with their loan portfolio management and debtor assistance program through debt restructuring. As a result, the banking system's gross non-performing loans (NPL or stage 3) declined to 492.3 billion baht, equivalent to the NPL ratio of 2.67%. Meanwhile, the ratio of loans with significant increase in credit risk (SICR or stage 2) stood at 6.08%, slightly increasing from 6.00% in the previous quarter.

The banking system's profitability in the second quarter of 2023 improved from the previous year mainly from higher net interest income, despite higher costs of funds from rising deposit rate and FIDF fee normalization together with the increased operational costs and provisioning expenses. Comparing with the previous quarter, net profit increased mainly due to seasonal dividend income and net interest income.

However, there remains a need to monitor the debt serviceability of some vulnerable SMEs and households with higher debt burden and slow income recovery. The household debt to GDP ratio in the first quarter of 2023 slightly declined in line with the economic recovery. The corporate debt to GDP ratio continued to decrease, along with slightly improved corporate profitability from manufacturing sector. Still, risks that could arise from

[1] Excluding the impact of a banks' transfer of credit card and personal loans to its subsidiaries, the total loan growth was 0.4% yoy.

the impacts of global economic slowdown on export, the recovery pace of tourism and the affirmation of government policies on construction sector warrant close monitoring.

Financial institutions would continue to support debtors with sign of repayment difficulties by means of debt restructuring in sync with their serviceability prospects, **regardless of the expiration of the long term debt restructuring measure by the end of this year.** Basically debt restructuring remains as normal practice to assist vulnerable debtors, the expiring part will be just the partial relaxation of regulatory requirements during the COVID-19 to help reduce costs for financial institutions. In addition, **the BOT will expedite new measures to sustainably address household debt problems, which will be tackled throughout their debt journey and in a comprehensive manner** without raising more debt burden in the long run**.** The first set of measures being implemented in 2024 is responsible lending, which also includes solutions for debtors with persistent debts. Moreover, the BOT will implement additional measures going forward by allowing creditors to adopt risk-based pricing (RBP) for retail borrowers through the regulatory sandbox and applying debt service ratio (DSR) limits for new lending. All these 3 measures would enhance behavior of both creditors and debtors throughout their debt journey. Hence, the new household debt measures will reduce household debt in Thailand to a more sustainable level, but the process will take time to bear fruit and will require cooperation from all parties as well as thorough consideration of all possible impacts.

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Banking Sector Quarterly Brief

(Q2 2023)

22 August 2023

Banking Sector Quarterly Brief (Q2 2023)

Thai banking system remains resilient. However, there remains a need to monitor the debt serviceability of some vulnerable SMEs and households with higher debt burden and slow income recovery.

Commercial Banking system

Capital, loan loss provisions, and liquidity remained robust.

Bank loans marginally contracted due to the gradual repayment of businesses loans, following accommodative growth of liquidity facilities during the COVID-19 period, particularly from SMEs (including soft loan facility) and government, combined with large corporates' fund switching to bond issuance and banks' portfolio management.

Loan quality slightly deteriorated in SMEs and consumer loans. The overall NPL amounts declined as banks continued with their loan portfolio management and debt restructuring. Meanwhile, stage 2 ratio slightly increased from the previous quarter.

Profitability improved mainly from higher NII despite higher costs of funds, operational costs, and provisioning expenses.

Household

Household debt to GDP in the first quarter of 2023 slightly declined in line with the economic recovery, but there is still a need to monitor the debt serviceability of vulnerable households with higher debt burden and slow income recovery.

Corporate

Corporate debt to GDP continued to decrease, along with slightly improved corporate profitability from manufacturing sector. Still, risks that could arise from the impacts of global economic slowdown on export, the recovery pace of tourism, and the affirmation of government policies on construction sector warrant close monitoring.

Relief measures

Loans under relief measures slightly declined from last quarter. However, financial institutions would continue to support debtors with sign of repayment difficulties by means of debt restructuring in sync with their serviceability prospects.

Commercial Banking System

Thai banking system remains resilient to serve as a key mechanism to accommodate loan demand going forward.

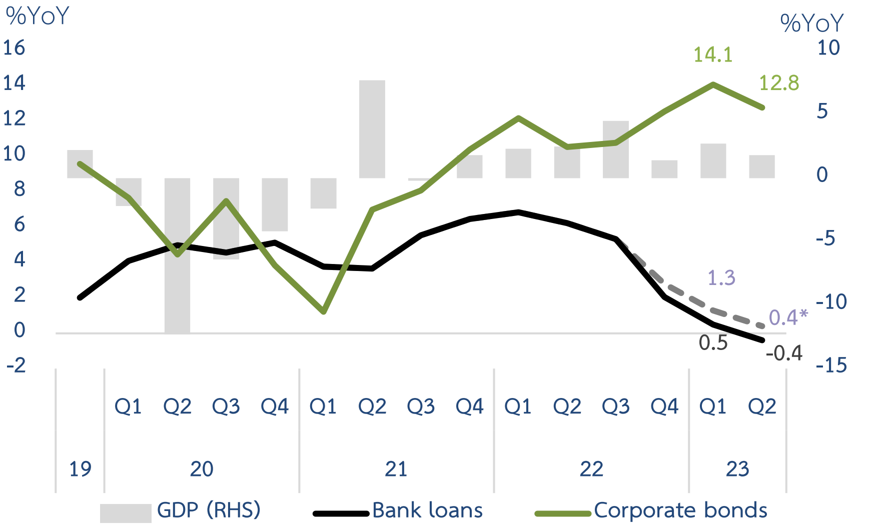
Capital, loan loss provision, and liquidity indicators

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

	Q2/2023	Q1/2023	Q2/2022
Capital (BIS ratio)	19.5%	19.4%	19.5%
Liquidity (Liquidity coverage ratio: LCR)	188.0%	193.6%	186.2%
Loan loss provision (NPL coverage ratio)	175.6%	173.4%	166.6%

Bank loan and corporate bond growth

Bank loans marginally contracted owing to the gradual debt repayment, while corporate sector continued to raise funds through bond issuance.

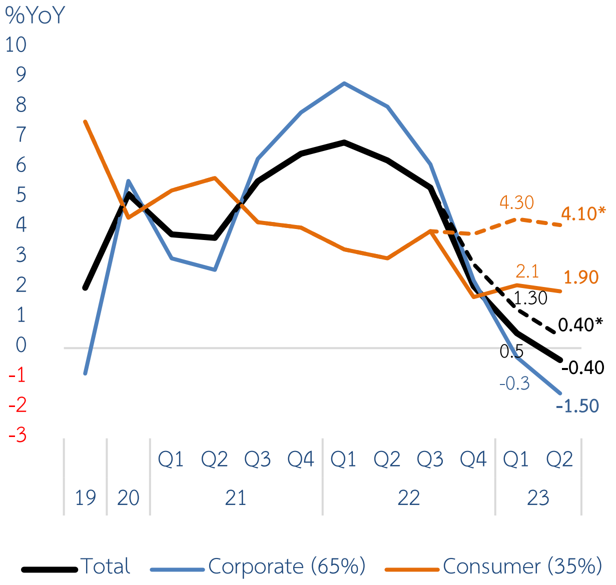


Note: * Excluding the impact of a bank's transfer of credit card and personal loans to its subsidiaries.

Commercial Banking System

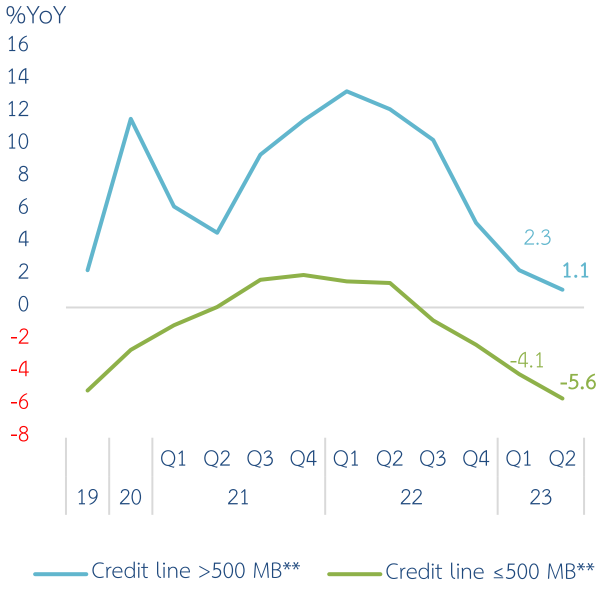
Bank loans marginally contracted due to the gradual repayment of businesses loans, particularly from SMEs (including soft loan facility) and government, combined with large corporates' fund switching to bond issuance and banks' portfolio management.

Overall loan growth by portfolio



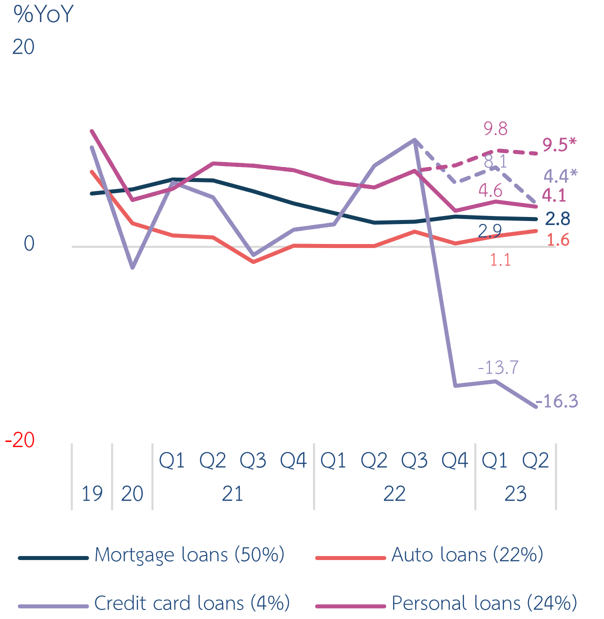
Note: Numbers in the parentheses show the proportion of total loans.
* Excluding the impact of a bank's transfer of credit card and personal loans to its subsidiaries.

Corporate loan growth by size



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

Consumer loan growth by portfolio



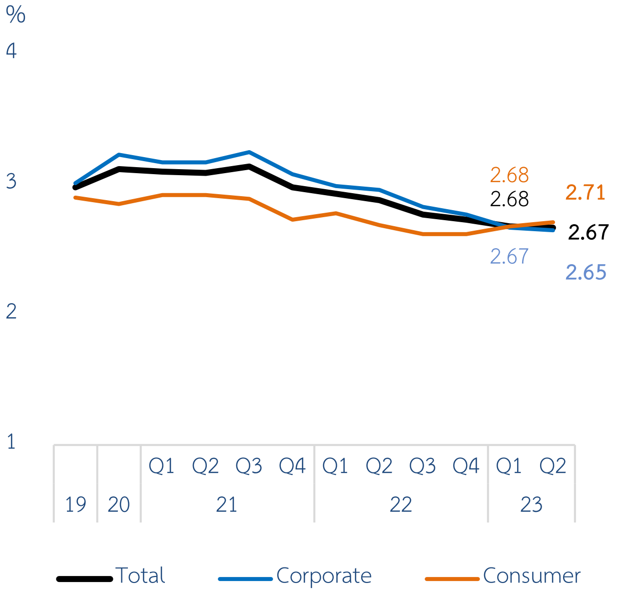
Note: Numbers in the parentheses show the proportion of total retail loans.
* Excluding the impact of a bank's transfer of credit card and personal loans to its subsidiaries.

Source: BOT

Commercial Banking System

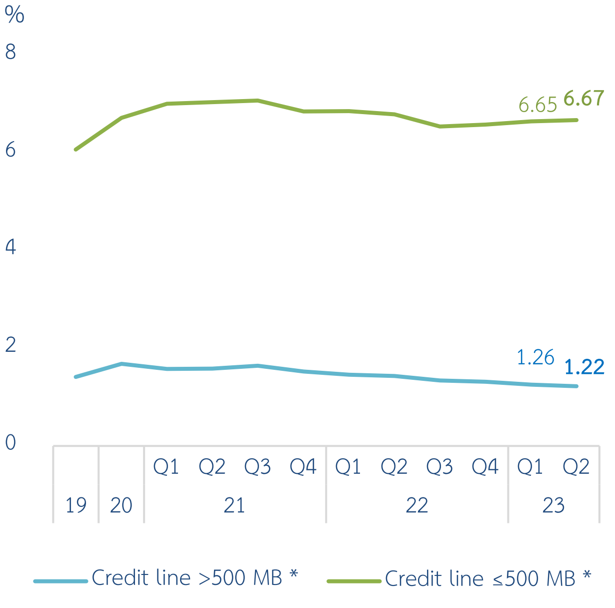
Overall NPL slightly declined as a result of continued loan portfolio management and debtor assistance through debt restructuring, while NPL of consumer loans increased mainly from auto loans.

NPL (Stage 3) of total loans by portfolio



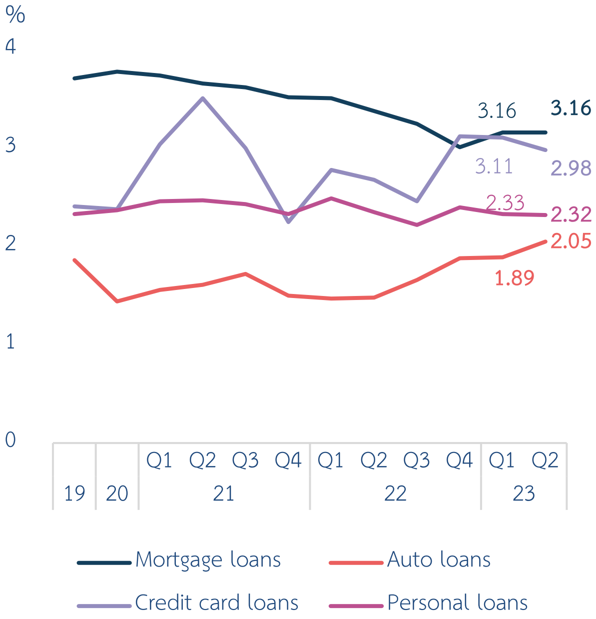
Note: A bank has transferred credit card and personal loans to its subsidiaries since Q4 2023.

NPL (Stage 3) of corporate loans by size



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

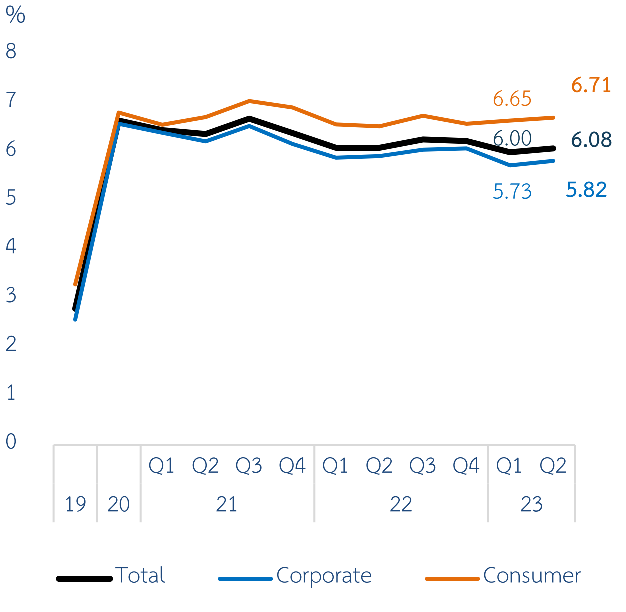
NPL (Stage 3) of consumer loans by portfolio



Commercial Banking System

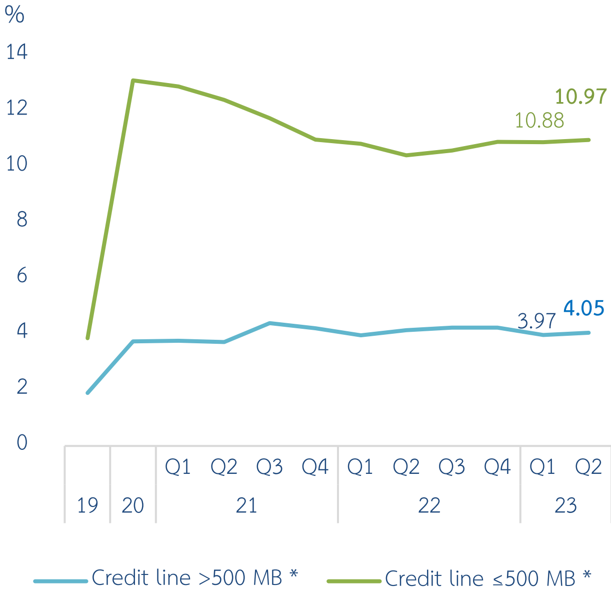
Overall Stage 2 ratio slightly increased from the previous quarter.

Stage 2 of total loans by portfolio



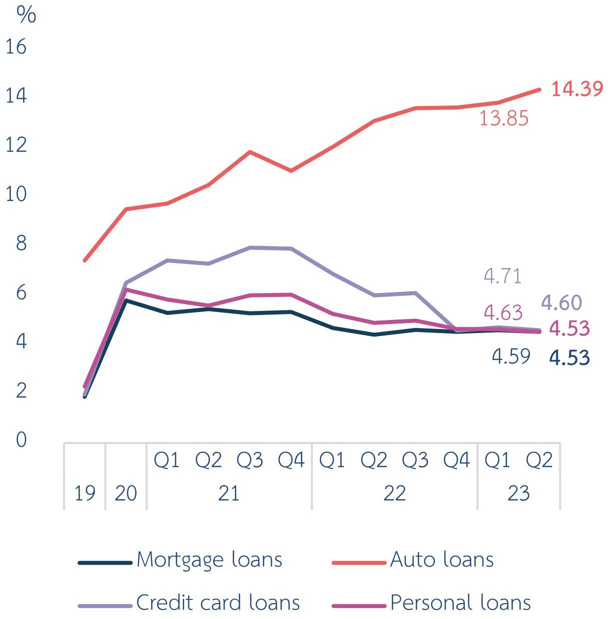
Note: loan classification was adjusted following TFRS9 adoption in 2020, and a bank has transferred credit card and personal loans to its subsidiaries since Q4 2023.

Stage 2 of corporate loans by size



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

Stage 2 of consumer loans by portfolio



Source: BOT

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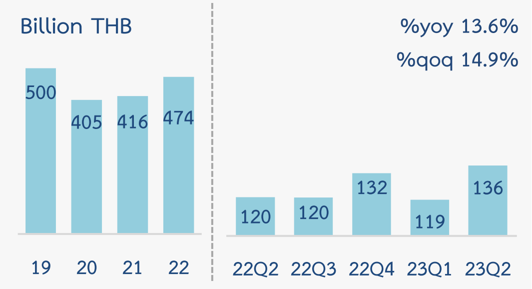
Commercial Banking System

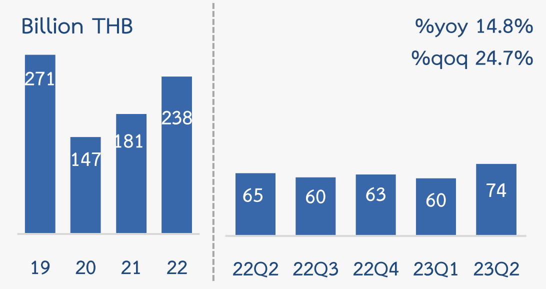
Bank profitability improved from the previous year mainly from higher NII.

Comparing with the previous quarter, net profit increased mainly due to seasonal dividend income and NII.

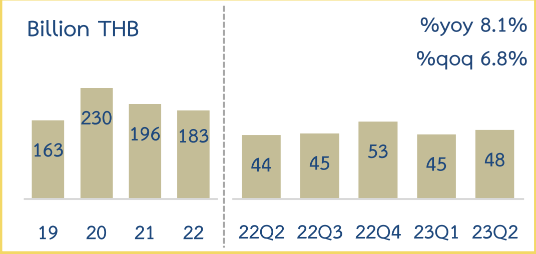
Pre-provision operating profit (PPOP)



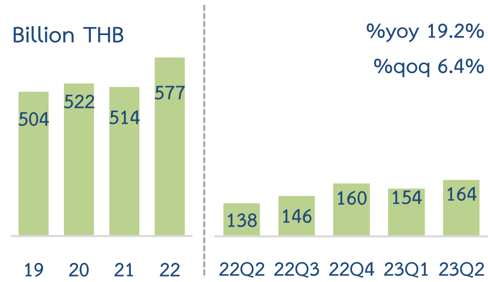
Net profit



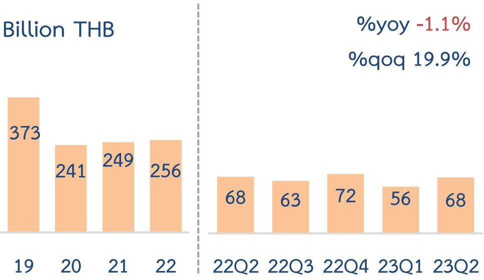
Provisioning expenses



Net interest income [71%]



Non-interest income [29%]



Ratios	19	20	21	22	22Q2	22Q3	22Q4	23Q1	23Q2
NIM (%)	2.73	2.63	2.46	2.62	2.51	2.64	2.88	2.77	2.95
ROA (%)	1.39	0.69	0.81	1.01	1.11	1.01	1.07	1.00	1.26
ROE (%)	9.90	4.84	5.80	7.49	8.21	7.51	7.98	7.41	9.44

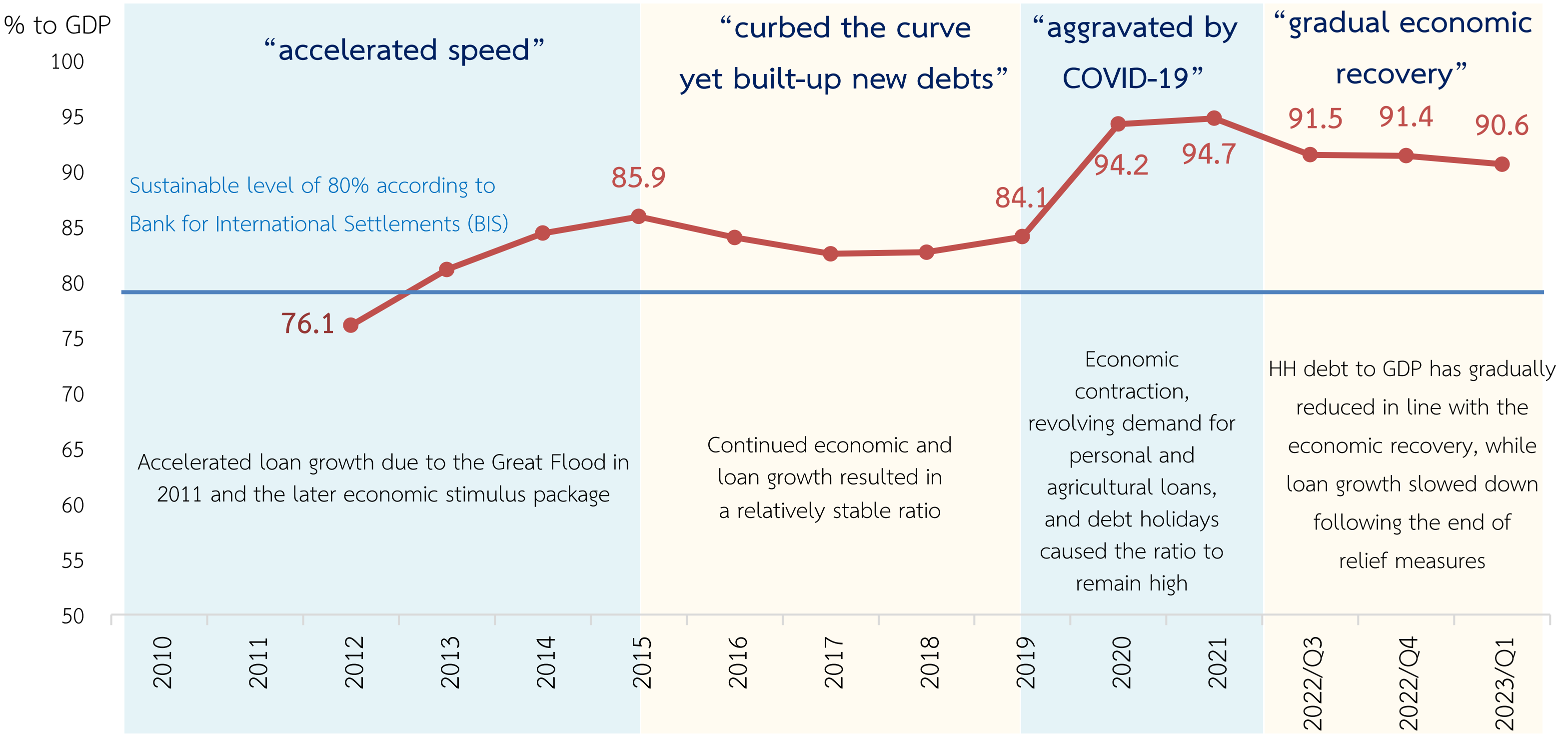
Note: Numbers in the parentheses show the proportion of net income.

Source: BOT

Household

Household debt to GDP ratio in the first quarter of 2023 slightly declined, but there is still a need to monitor the debt serviceability of vulnerable households with higher debt burden and slow income recovery.

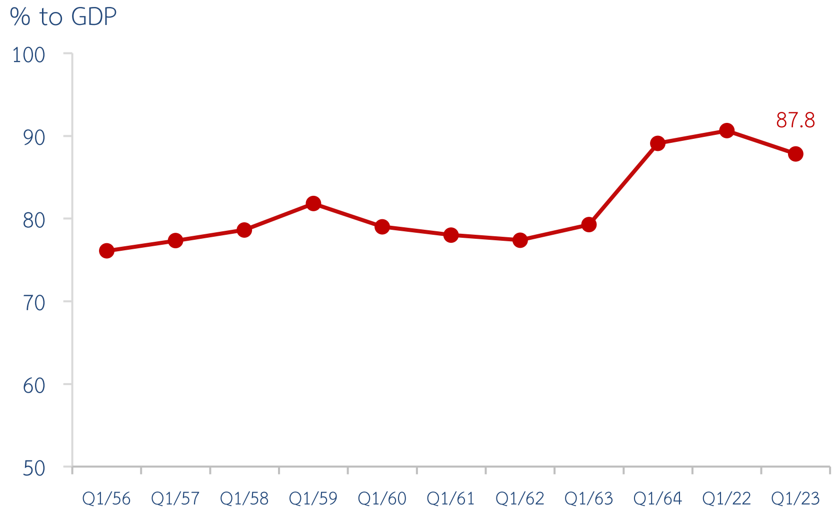
Household debt to GDP



Source: BOT and NESDC

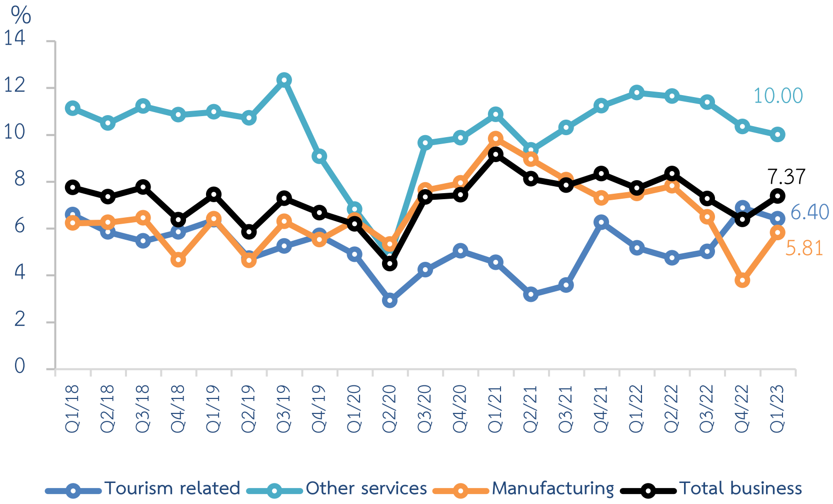
Corporate debt to GDP ratio continued to decrease, along with slightly improved corporate profitability from the manufacturing sector. Still, risks that could arise from the impacts of global economic slowdown on export, the recovery pace of tourism, and the affirmation of government policies on the construction sector warrant close monitoring.

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 loans under relief measures slightly declined.

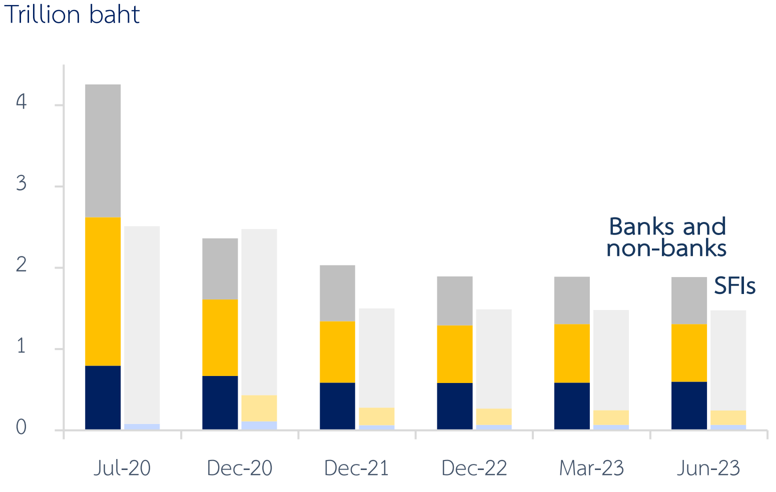
However, non-banks continue to support their debtors through debt restructuring.

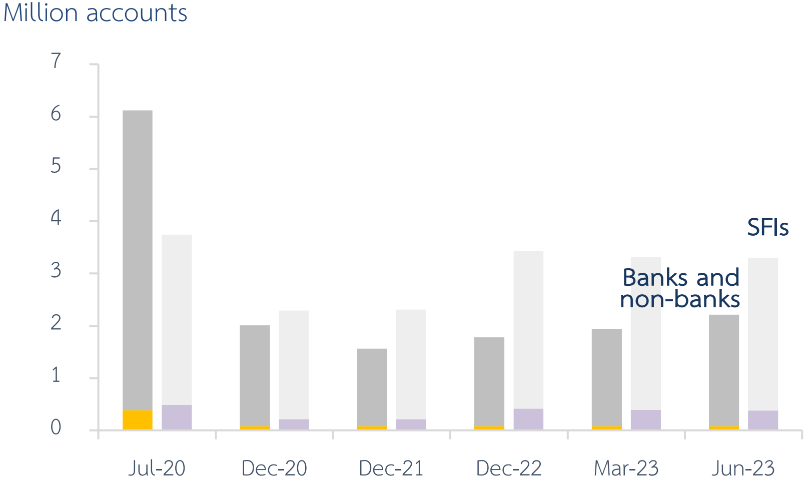
Loan outstanding under assistance **3.36 trillion baht**

Banks + non-banks: 1.88 trillion baht
SFIs: 1.48 trillion baht

Number of accounts under assistance **5.51 million accounts**

Banks + non-banks: 2.21 million accounts
SFIs: 3.30 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 August 7, 2023

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Rehabilitation Loan

Credit line 275,886 MB*

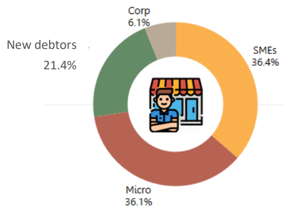
Approved loan
244,519 MB

Number of debtors under loan scheme
64,250 debtors

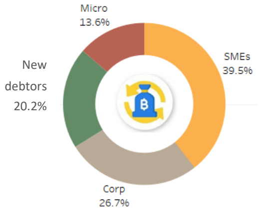
Average approved credit line
3.8 MB / debtor

Well distributed by size, business sector, and region

By existing credit line



by debtors



by credit line

72.5%
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 (%)

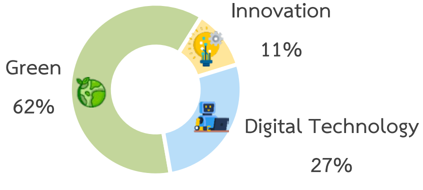
Transformation loan

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

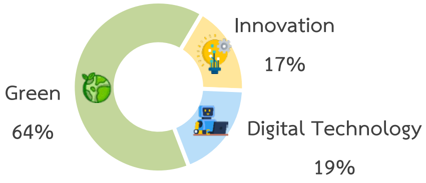
Approved loan
5,137 MB

Number of debtors under loan scheme
437 debtors

Average approved credit line
11.8 MB / debtor



by debtors



by credit line

** Note: Credit line for rehabilitation and transformation loans includes the remaining credit line from the asset warehousing program which ended on April 9, 2023 with approved loan of 74,114 MB for 500 debtors.*

New measures to sustainably address household debt problems

Responsible Lending and Persistent Debt

Responsible lending : To foster good credit culture for new lending and prevent over-indebtedness, while addressing persistent debts and troubled debts.

Risk-Based Pricing : RBP

RBP : To support borrowers having good credit history with better term and condition, while enhancing financial access for new borrowers to obtain credit via formal channels at an appropriate pricing based on their debt serviceability.

Debt Service Ratio : DSR

DSR : To curb new debt at the stage of loan origination, by ensuring that debtors' ability to service total debt obligations and having sufficient disposable income to meet their living needs, thereby reducing the pocket of persistent debts or troubled debts.

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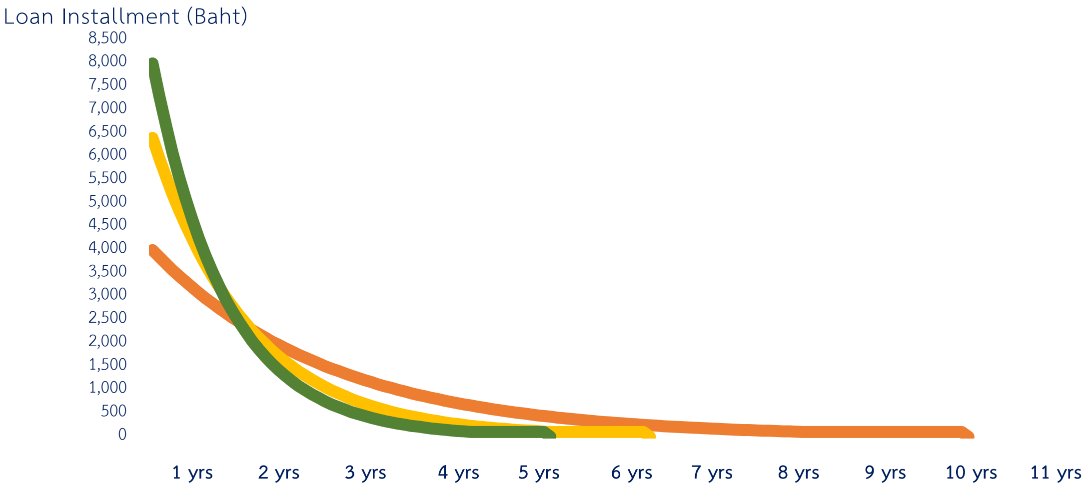
Does an increase in minimum payment of credit card loans cause a burden to customers?

Example : Loan amount of 80,000 baht with interest rate at 16% per annum, and minimum payment no less than 100 baht (without additional credit utilization)



Minimum payment of 5%

Fully repay loan within 10 years 3 months
Total interest paid ~28,000 baht

Minimum payment of 8%

Fully repay loan within 6 years 3 months
Total interest paid ~16,000 baht

Minimum payment of 10%

Fully repay loan within 5 years
Total interest paid ~12,000 baht

Although debtors have to pay higher minimum repayments, the increased amount can be used to repay more principal balances which help **lessen interest burdens and assist debtors to be able to fully repay their loans faster.**

- The BOT encourages financial institutions to communicate said measure to their customers in advance and be ready to assist debtors who are not able to step up their monthly repayments, such as by converting revolving credit card loan to term loan with monthly installments corresponding to debtors' serviceability prospects.
- Debtors with non-performing status (more than 120 days overdue) from credit cards and unsecured personal loans, are eligible to participate in the debt clinic for their debt restructuring in order to adjust monthly debt payment conditions to meet the changing debtors' ability to pay debt.