

MOODY'S

INVESTORS SERVICE

BANKING SYSTEM OUTLOOK

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Thailand

Our outlook for the Thailand banking system remains stable. This outlook expresses our expectation of how bank creditworthiness will evolve in this system over the next 12-18 months.

Summary Opinion

The outlook for Thailand's banking system remains stable, as it has been since 2010. Economic growth has been slowing moderately, while banks face risks from 1) household indebtedness, which has increased to 79% of GDP as of June from 64% in Q1 2011, and 2) rising property prices. However, Thai banks are well positioned to withstand potential asset-quality challenges due to their strong capitalization and increasing provisioning coverage. A moderation in loan growth will help prevent these imbalances from growing to levels that would present excessive risks for the banks. Furthermore, a more moderate loan growth rate will reverse the recent trend of deterioration in loan-to-deposit ratios (LDRs).

Economic growth has been slowing moderately. In our central scenario, growth slows to 3.5-4.0% in 2013 from 6.4% in 2012, and will pick up only gradually to 4.0-5.0% in 2014. Domestic consumption and investment growth will remain modest and somewhat dependent on disbursements under the government's infrastructure program, which have been repeatedly delayed. However, monetary policy will remain accommodative, and a sustained recovery in Thailand's key export markets could provide some uplift to overall growth.

Rising household debt and property prices have increased vulnerability to adverse shocks. While much of the lending to these sectors has been done by government-owned institutions outside the commercial banking system, exposures to mortgage and other household loans still comprise 35% of banks' lending as of Q2 2013, up from 30% in 2009. Moreover, banks' capitalization levels remain above regulatory minimums under our stress tests and will benefit from less rapid loan growth.

We expect balanced funding and stable liquidity conditions. After four years when loan growth steadily outpaced deposit growth, we expect moderation in the growth of loans, which will help system-wide loan-to-deposit ratios (LDR) to stabilize, especially as banks are increasing efforts to mobilize deposits. As a result, overall LDRs will stay well below 100%. In contrast, however, we expect foreign currency LDRs to remain elevated, but we take comfort in the fact that foreign currency loans represent only a fraction of the banks' loan books and of the central bank's reserves.

Profitability is likely to remain little changed for the overall system. We expect pressure on net interest margins given intense competition among banks. At the same time, fee-based income is growing from rising sales of investment, insurance and other non-lending products to the growing middle class.

Our support assumptions for Thai banks are unlikely to change over the next 12-18 months. The government has a history of providing support to the banks in past crises, notably from the liquidity support the Bank of Thailand (BOT) provided to financial institutions after the Asian financial crisis. Importantly, the government has not allowed any bank in the country to default in at least the past three decades.

Our stable outlook on Thailand's banking system is consistent with the stable rating outlooks on most individual Thai bank ratings. Nine of the ten rated banks have stable outlooks. The tenth, Bank of Ayudhya (BAY), has a positive outlook because of its pending takeover by Bank of Tokyo Mitsubishi UFJ (BTMU, Aa3 stable; C/a3 stable). The system's asset-weighted standalone credit profile of baa3 is two notches below the asset-weighted average long-term bank deposit rating of Baa1, meaning we have on average 2 notches of uplift based on systemic support considerations. Our stable outlook is also consistent with the stable outlook on the Thai government's bond rating of Baa1.

EXHIBIT 1

Overview of Key Drivers for Thailand's Stable Banking System Outlook

Operating Environment	Stable	+ Moderating but still robust economic growth
Asset Quality and Capital	Stable	- Increasing household indebtedness; household debt as a percentage of GDP rose to 79% at Q2 2013 from 64% at Q1 2011 - Non-performing loans (NPLs) are at a record low and are likely to increase slightly, particularly in the consumer segment + Higher loss provisioning of loan portfolios and strong capitalization
Funding and Liquidity	Stable	= LDR to stabilize as credit growth moderates - Rising competition for deposits + Banks continue to diversify and extend maturities of their funding profiles
Profitability and Efficiency	Stable	- Net interest margin to face downward pressure due to increasing market competition. + Improving earnings from fee-based income
Systemic Support	Stable	= Track record by Thai government in providing timely support financially as well as through regulatory forbearance expected to continue

EXHIBIT 2

Key Indicators for Moody's-Rated Commercial Banks in Thailand

	H1 2013	2012	2011	2010
Pre-Provision Income/Average Risk Weighted Assets (RWA)	3.56%	3.25%	3.21%	2.85%
Net Income/Average RWAs	2.19%	1.96%	1.76%	1.62%
(Market Funds - Liquid Assets)/Total Assets	-15.29%	-15.86%	-9.34%	-13.30%
Liquid Assets/Total Assets	30.44%	30.38%	27.55%	28.40%
Cost-to-Income Ratio	41.78%	45.81%	47.56%	50.84%
Tier 1 Ratio	10.94%	10.14%	10.13%	10.54%
Tangible Common Equity/RWAs	11.07%	10.82%	10.73%	11.10%

EXHIBIT 2

Key Indicators for Moody's-Rated Commercial Banks in Thailand

	H1 2013	2012	2011	2010
Problem Loans/Gross Loans	2.90%	2.97%	3.66%	4.64%
Problems Loans/(Shareholders' Equity + Loan Loss Reserves)	15.95%	16.59%	21.65%	26.11%

Note: data is asset-weighted for the 8 Moody's-rated commercial banks, excludes EXIM (Thai) and Government Housing Bank

Source: Moody's, Banking Financial Metrics - Publicly adjusted data

Rating Universe

- » We rate a total of 10 banks in Thailand: eight commercial banks and two policy banks. The eight commercial banks represented 89% of total commercial banking system assets at end-2012. The two policy banks – EXIMT and GHB – are classified as specialized financial institutions (SFIs) and are wholly owned by the government.

EXHIBIT 3

Moody's-Rated Banks in Thailand

Name	Total Assets (THB Billion as of 30 Jun 2013)	Market Share (loans, in %, as of 30 Jun 2013)	Market Share (deposits, in , as of 30 Jun 2013)	Standalone Credit Strength and Outlook	Bank Deposit Rating (Foreign Currency) and Outlook	Notches of Uplift Due to Parental Support	Notches of Uplift Due to Systemic Support	Total loans (THB Billion as of 30 Jun 2013)	Total deposits (THB Billion as of 30 Jun 2013)
Bangkok Bank (BBL)	2,475	12.1%	14.1%	baa2;stable	Baa1 / P-2; Stable	0	1	1,667	1,873
Siam Commercial Bank PCL (SCB)	2,441	12.1%	13.1%	baa2;stable	Baa1 / P-2; Stable	0	1	1,676	1,742
Krung Thai Bank OCL (KTB)	2,372	12.0%	12.8%	ba2;stable	Baa1 / P-2; Stable	0	4	1,652	1,699
Kasikornbank PCL (KBank)	2,225	10.1%	11.0%	baa2; stable	Baa1 / P-2; Stable	0	1	1,399	1,467
Bank of Ayudhya (BAY)	1,130	6.6%	5.5%	ba1; stable	Baa2 / P-2; Positive	0	2	909	732
Government Housing Bank of Thailand (GHB)^	736	5.4%	4.3%	b1;stable	Baa1 / P-2; Stable	0	6	706	571
TMB Bank PCL (TMB)	712	3.4%	3.5%	ba3; stable	Baa3 / P-3; Stable	0	3	464	478
United Overseas Bank (Thai) PCL (UOBT)	398	1.6%	1.6%	ba2; stable	Baa1 / P-2; Stable	4	0	224	220
Standard Chartered Bank (Thai) PCL (SCBT)	263	0.8%	0.8%	baa3; stable	Baa1 / P-2; Stable	2	0	104	106
Export-Import Bank of Thailand (EXIMT)^	75	0.5%	0.1%	-	Baa1 ; Stable*	0	0	67	7

^ Based on audited FY2012 financials

* Issuer rating

Notes: Long-term bank deposit ratings reflect a bank's standalone credit strength and support considerations. A bank's standalone credit strength reflects its creditworthiness without considering support. The exhibit shows the banks' standalone credit strength as indicated by the baseline credit assessment (BCA) and the corresponding rating outlook. For more detail, see Moody's banking methodology webpage (follow hyperlink).

Source: Moody's

Operating Environment

We expect the operating environment to be stable over the next 12–18 months, as economic growth has moderated.

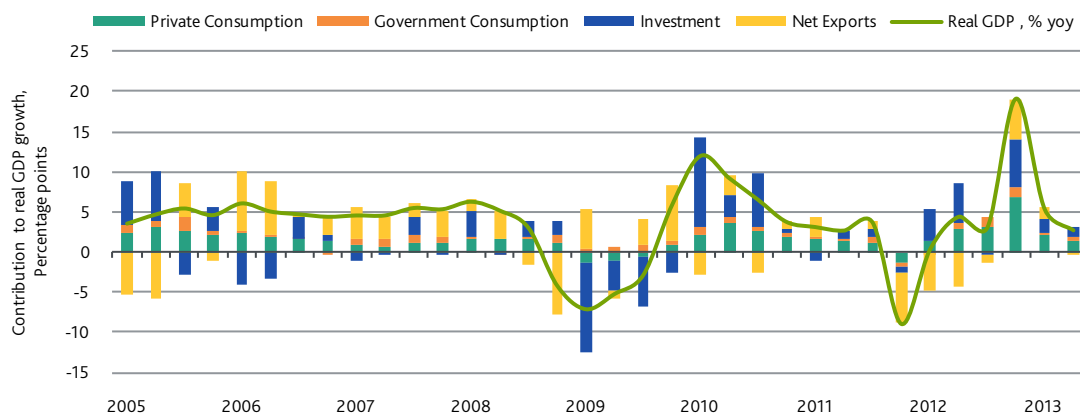
Phased out fiscal stimulus and delayed infrastructure spending weigh on domestic demand

- » Real GDP rebounded by 6.4% in 2012 after growing only 0.1% in 2011 due to the massive floods that disrupted economic activity late in that year.
- » Growth rates slowed during the first half of 2013, averaging 4% year-on-year, due to a broad-based moderation in private consumption, investment and exports (see Exhibit 4). Going forward, our central scenario assumes that the Thai economy will grow 3.5-4.0% in 2013 and pick up gradually to 4.0-5.0% in 2014, in line with the historical average of 4.3% during 2000-2012. Our central scenario is based on the assumptions below:
 - **Accommodative monetary policy likely to continue.** The BOT's last policy rate cut was in May 2013, reducing the policy rate by 25 basis points to 2.5%. Core inflation continues to stay within the target range of 0.5%-3.0%. In September, core inflation was 0.61%, near the bottom of the range, implying the absence of any pressure to tighten monetary policy. And the BOT indicated that there were signs of a stabilizing economy in its latest statement.¹
 - **Delays in public investment projects weigh on overall investment growth.** Multi-year packages totaling more than THB2.5 trillion were approved in 2012 to improve Thailand's infrastructure and water management. However, disbursement of these has been repeatedly delayed. Depending on if and when disbursement starts, the spending will potentially create positive spillovers into private investment and demand for financing.
 - **No new large-scale fiscal stimulus, unlike those implemented in 2012-1H2013.** In 2012, private consumption was supported by government measures like the first-home buyer and first-car buyer tax rebates, which were phased out at year-end 2012. These measures² contributed to the increase in household indebtedness; during the period when the stimulus measures were implemented, residential mortgages rose 13% and loans for cars and motorcycles increased 46%. At the beginning of this year, a new nationwide THB300 per day minimum wage was introduced. Although we do not foresee new large-scale stimulus over the outlook horizon, continued government subsidies targeted at the rural parts of the population will provide some support to private consumption growth.
 - **Improving external sector contribution in 2014.** Growth contribution from net exports was weak during the first half of 2013, owing to a combination of weak demand from key export markets like China, the European Union, and the US, and a strong currency. However, the Thai baht has weakened by around 8% versus the US dollar since April. This should help goods and services exports and improve net exports' growth contribution in 2014.

¹ Bank of Thailand, [Press Release on the Economic and Monetary Conditions for August 2013](#)

² Please refer to Exhibit 5 for details on stimulus measures.

EXHIBIT 4

Broad-based Slowdown in Q2 2013

Source: Moody's, Haver

EXHIBIT 5

Stimulus Measures	Description	Impact on loan growth from 3QFY2011 - FY2012
First-time house buyer	Thailand resident taxpayers purchasing their first property between 21st September 2011 and 31st December 2012 will receive a tax allowance of up to 10% of the value of the property subject to a maximum of THB500,000.	Mortgage loans rose by 13% during this period
First-time car buyer	First-time car buyers purchasing a car during 16 September 2011 to 31 December 2012 are entitled to a refund of excise tax up to THB 100,000.	Loans for the purchase or hire purchase of cars and motorcycles rose by 46% in this period

Source: Moody's, Bank of Thailand (BOT)

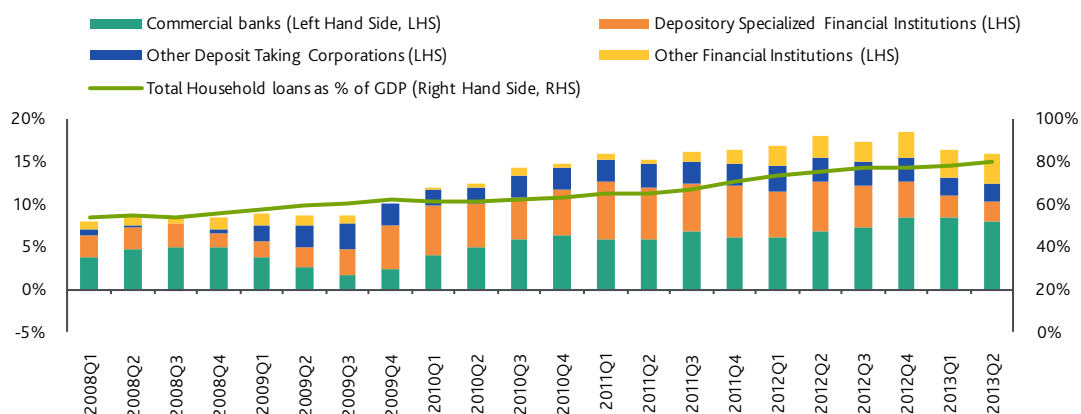
- » We expect bank loans to grow at an average annualized pace of 10% in the coming 12-18 months, down from the average of 13.4% between 2009 and 2012, because of lower nominal GDP growth and the expiry of earlier government measures that provided incentives for household borrowing (Exhibit 5). Key credit growth drivers will likely be from the banks' efforts to expand higher-yielding segments like small- and medium-enterprise (SME) loans, and the continued demand in household borrowing.
- » While our central scenario assumes continued economic growth at a mildly slower pace, our assessment takes into account two key downside risk factors, namely rising household indebtedness and property prices.

Growing household indebtedness

- » We assess the rising household indebtedness in the past two years – encouraged by a number of government policies that increased consumer spending – as a development that could add to the system's latent imbalances. As Exhibit 6 shows, household debt to GDP rose to almost 80% by Q2 2013 from 63% in Q4 2010. However, depository specialized financial institutions and other non-bank financing companies have extended close to half of the credit behind the rising household debt, so the commercial banks' exposure is less than it would be if they were responsible for most of the increase.

EXHIBIT 6

Growth in Household Debt by Type of Lender; Much of the Credit Increase in Recent Years Has Been Outside of Commercial Banks



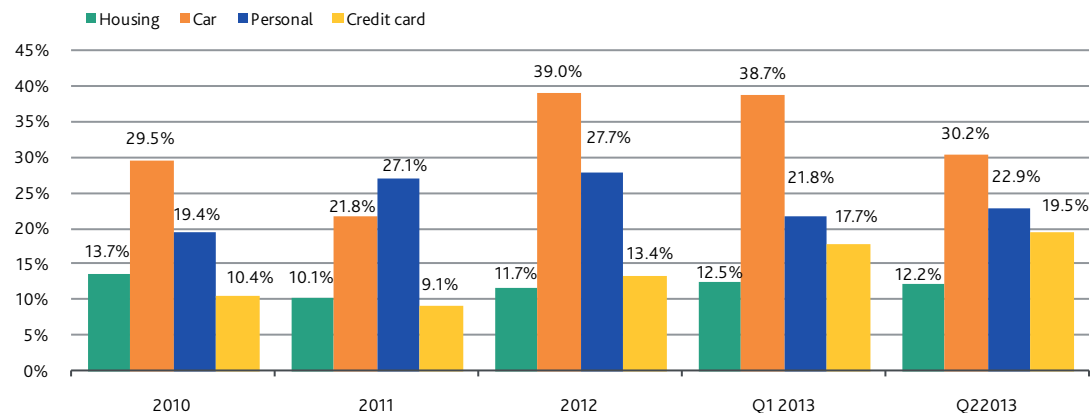
Note: (i) Other Deposit Taking Corporations refer to saving cooperatives, finance and credit foncier companies, (ii) Other Financial Institutions include credit card, leasing and personal loan companies, insurance, securities, AMCs, pawn shops etc.

Source: BOT

- » Exhibit 7 illustrates that consumer loan growth across all segments – housing, auto, personal and credit card -- accelerated in 2012, with credit cards continuing that trend in 2013. Rapid growth in car loans in 2012 and Q1 2013 was driven mainly by the tax incentives available to new car buyers.

EXHIBIT 7

Annual Growth of Banking System Consumer Loans Remains High



Source: BOT

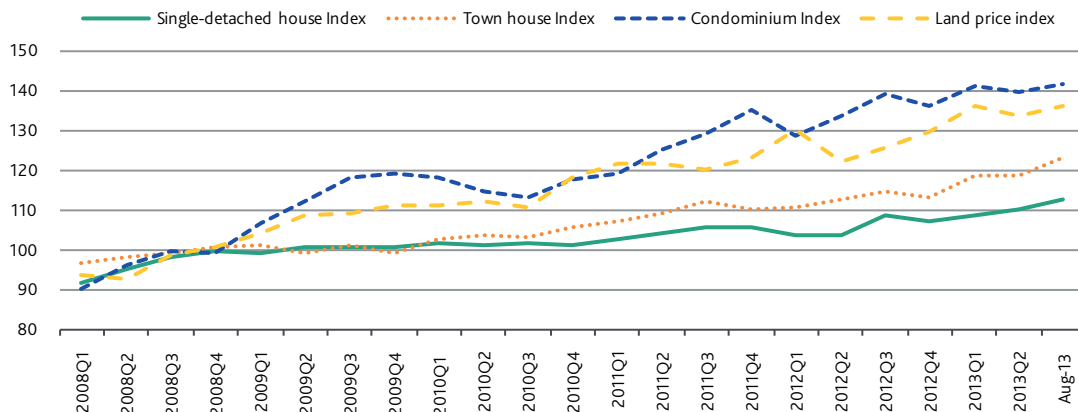
Rising property prices

- » While we do not believe Thailand faces the same acute imbalances in its real estate market as some of its Asian peers such as Hong Kong, the country's residential property prices have increased significantly over the last four years (Exhibit 8). This is partly supported by rising incomes, but has also been fueled by low interest rates and credit expansion. As Exhibit 9 shows, property-related lending by commercial banks has accelerated since 2011.

» The upward price trend has continued despite several macro-prudential measures being introduced in 2011 and 2013 aimed to dampen the housing market.³ Housing transactions remained strong in Q2 2013, with more new project launches and higher take-up rates, especially for condominiums in Bangkok and the city's surrounding metropolitan areas as expansion of the city's mass-transit system has made these properties more attractive.

EXHIBIT 8

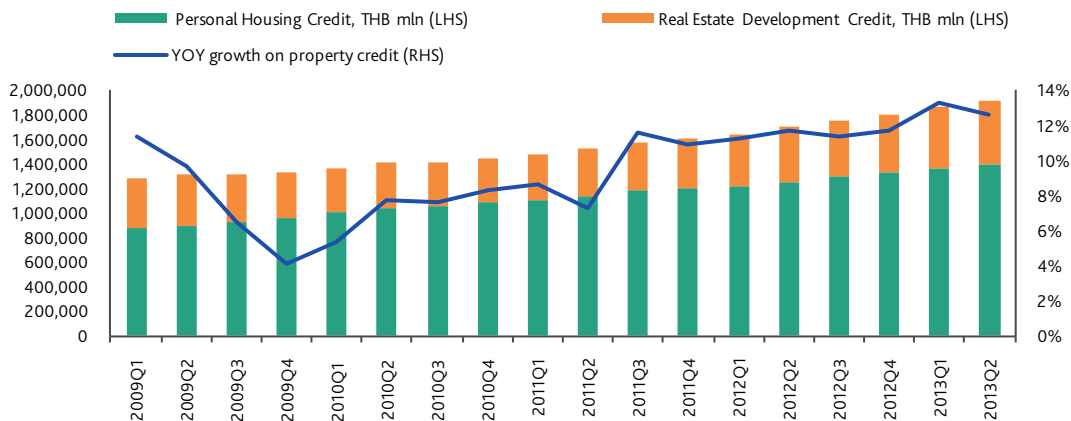
**Residential Property Prices Have Risen in the Past Few Years
(2009 = 100)**



Source: BOT

EXHIBIT 9

Stronger Year-on-Year Growth in Commercial Banks' Property-Related Loans Since 2011



Source: BOT

³ There has been a tightening in risk weights on high loan-to-value mortgages in recent years, with the risk weights on condominium unit loans with LTV ratios higher than 90% raised to 75% from 35% in January 2011, and the risk weights on single detached house loans and duplex and townhouse loans with LTV ratios higher than 95% raised to 75% from 35% in January 2013.

Competitive Environment

- » We anticipate that in the coming 12-18 months, the larger banks will further extend their dominance, given the current tightening of bank funding (see the section below on funding and liquidity), which will heighten competition for deposits and benefit larger banks that have stronger deposit franchises. This development will prompt more banks to invest in new or enhanced infrastructure such as mobile banking to maintain and grow customer deposits.
- » We also expect the banks to focus increasingly on growing their higher-yielding segments like SME loans as they try to offset higher funding costs arising from deposit competition. In addition, we believe the banks will also open additional branches in suburban and rural areas to capture untapped markets.

Asset Quality and Capital

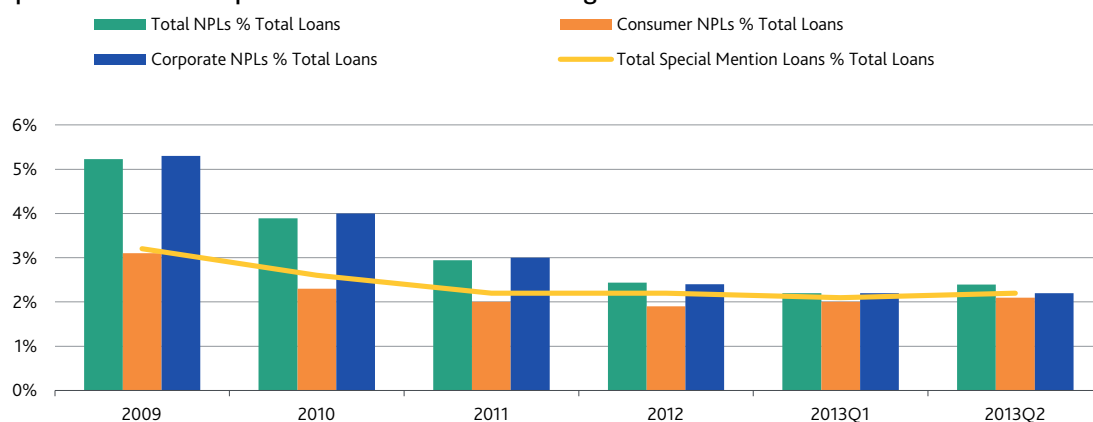
We expect asset quality to worsen slightly in the next 12 to 18 months, but the negative impact will be mitigated by the banks' strong provisioning and capital positions.

Good asset quality metrics but risks are on the rise

- » Loan quality across the system improved substantially since 2009, with NPLs as a percentage of gross loans at historically low levels of about 2.39% as of Q2 2013 versus 2.94% in 2011.
- » However, there is increasing evidence that asset quality risk is building in the consumer loan segment:
 - Special mention loans,⁴ which typically represent a leading indicator of new NPL formations, are rising (Exhibit 10).
 - Personal loan delinquencies in Q2 2013 rose to their highest levels in the past two years across banks and non-banks (Exhibit 11).

EXHIBIT 10

Uptick in Consumer Special Mention Loans - A Leading Indicator of New NPLs



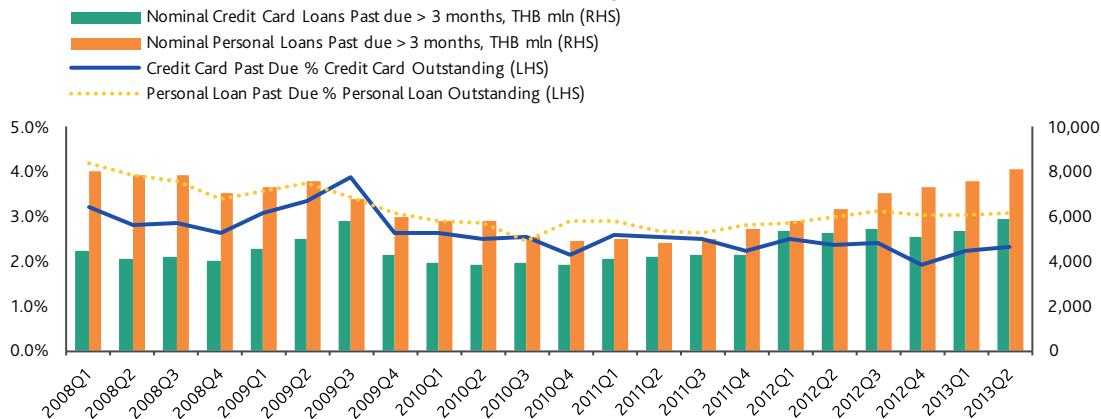
Source: BOT

⁴ Special mention loans are loans that are more than one month past due, but are less than three months in arrears. NPLs are loans that are over three months past due.

The rise in personal loan delinquencies in particular highlights the risk from rising household indebtedness.

EXHIBIT 11

Unsecured Consumer Past Due Loans Have Risen Steadily Since 2011



Source: BOT, excludes foreign bank branches

Note: Personal loans refer to uncollateralized personal loans, hire purchases and leasing loans

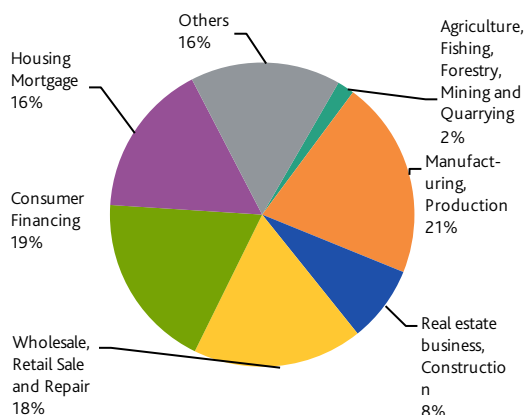
» However, on balance, we assess the overall threat to Thai banks' asset quality as limited, given the following factors:

- The commercial banks' exposures to unsecured personal lending (personal loans and credit cards) account for only 3% of their total loans.
- We estimate that the average loan-to-value of the banks' mortgage portfolios is in the 70%-80% range, and hence should provide adequate buffer even if property prices show a pronounced correction. Moreover, property-related loans are only around 18% of banks' loan portfolios at Q2 2013. In Q2 2013, housing NPLs and special mention loan ratios remained low at 2.4% and 1.4%.

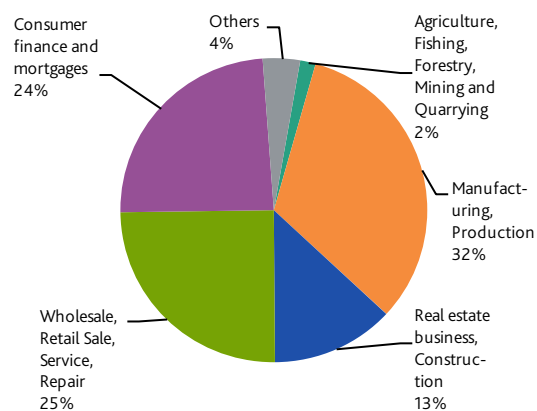
EXHIBIT 12

Breakdown of System Loans and NPLs as of end-June 2013

Gross Outstanding Loans



Gross NPLs Outstanding

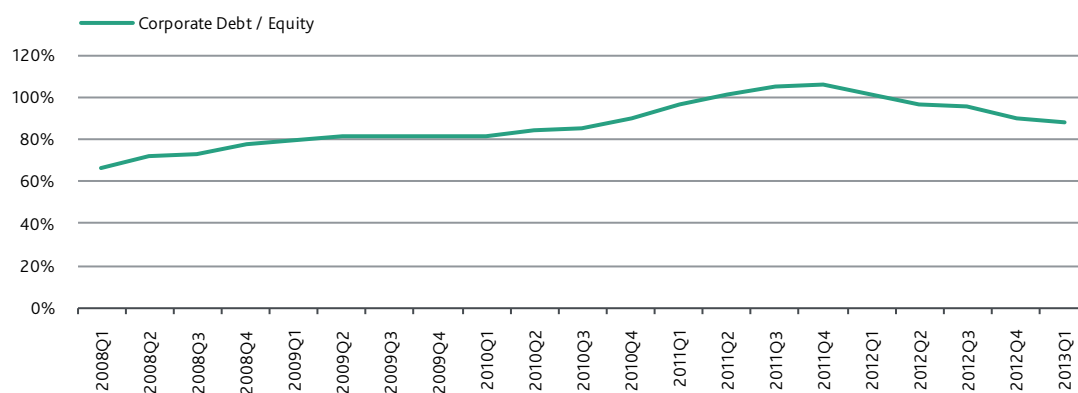


Source: BOT

- » Aside from the above cyclical factors, we are also aware of a potential increase in latent risks from banks' competitive behavior and latest regulatory changes:
 - As mentioned, banks, facing tightening competition, are quickening their expansion into new, untested segments like SME lending and rural-area lending.
 - In March 2013, the central bank, aiming to facilitate bank lending to companies expanding overseas, relaxed its limits on lending to a single borrower. Commercial banks are now allowed to exceed the limit of 25% of risk capital to companies in a single group after receiving special permission and taking a capital charge. This move could exacerbate the system's single-party exposures. As of 2012, our rated banks reported that their 20 largest borrowers accounted for an average of 117% of their aggregate Tier 1 capital. The high credit concentration exhibited by the Thai banks has clearly increased, posing a degree of risk for bank creditors. Partly mitigating the growing concentration risk, the strong balance sheets of Thai corporates have, on average, strengthened, with declining leverage (Exhibit 13).

EXHIBIT 13

Listed Companies on The Stock Exchange of Thailand: Corporate Indebtedness Has Been Declining Since End- 2011



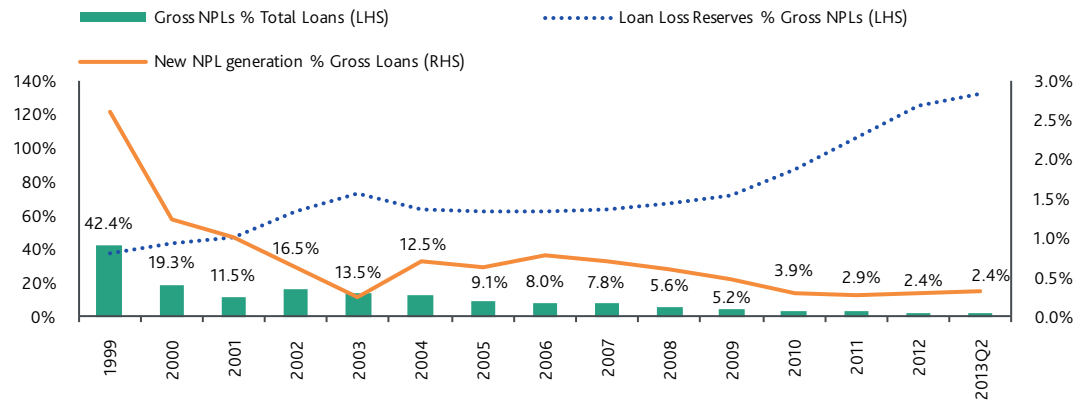
Source: Bloomberg, Moody's

Loss-absorbing buffers have improved

- » The banks have improved their provisioning in recent years. Loan loss coverage improved to 132% of NPLs as at June 2013 from 107% in 2011 (Exhibit 14). We attribute this improvement to strong earnings generation, which has allowed the banks to increase loan loss provisions as a counter-cyclical measure (Exhibit 15).

EXHIBIT 14

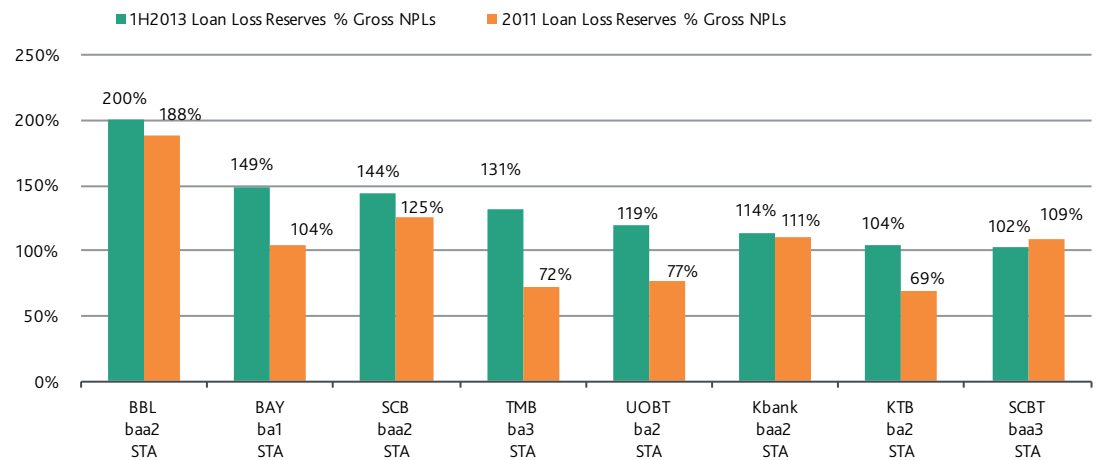
Improved Asset Quality Accompanied by Higher Provisioning Coverage of NPLs



Source : BOT, excludes foreign bank branches

EXHIBIT 15

Loan Loss Reserves as a Percent of NPLs Have Risen At Most Rated Banks



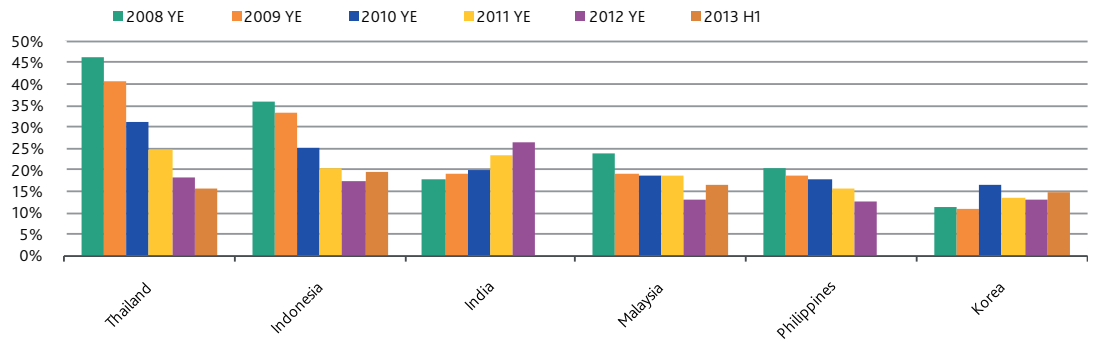
Source : Moody's, banks' audited financial statements

» In addition, the loan loss absorption buffer has been improving significantly compared with regional and developing market peers (see Exhibit 16). We expect this buffer to improve further at end-2013.

EXHIBIT 16

Thai Banks' Loss Absorption Buffers Have Narrowed the Gap with Regional Peers

Gross NPL as a percentage of Shareholder's Equity and Loan Loss Reserves



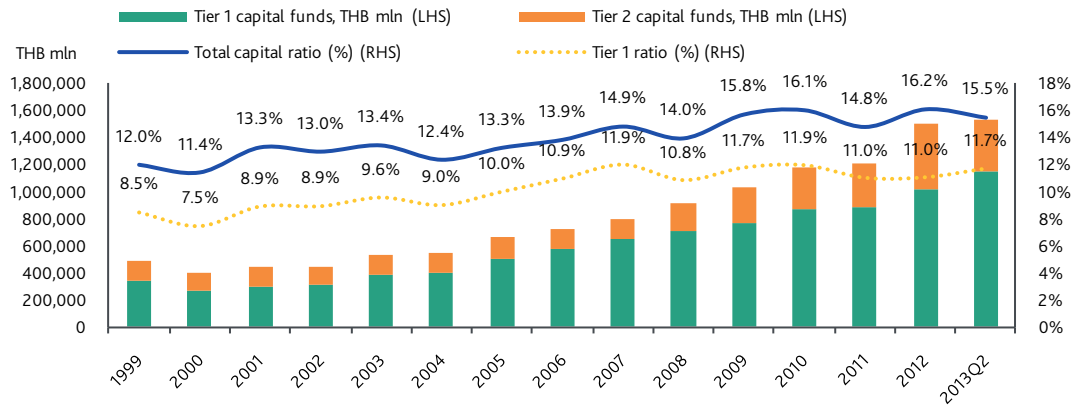
Note: System aggregate data average for Moody's rated banks.

Source: Moody's, Banking Financial Metrics

Strong capitalization mitigates asset quality risk

- » We believe the banks have sufficient capital and reserves to absorb losses under stress conditions. System capitalization has increased over the past two years, driven by improving earnings (Exhibit 17).
- » We view the commercial banks as well positioned to meet the Basel III capital requirements of a 6% Tier 1 ratio that were implemented on 1 January 2013. Currently, our rated banks reported average Tier 1 capital ratios of 12.97% at H1 2013 under Basel III. Assuming the banks maintain their year-to-date growth rates for credit and retained profits for the rest of the year, they will maintain an average Tier 1 capital ratio of 11% at the end of 2013.
- » Our stress tests show the system's resilience in terms of capitalization.
 - Under our adverse stress test scenario, which assumes NPL ratios of 6%-17%, all ten of our rated Thai banks have sufficient capital to absorb assumed losses, given their Tier 1 ratios of more than 8%.
 - However, under our highly adverse scenario, which assumes NPL ratios of 12%-35%, three of the ten banks will face capital shortfalls.

EXHIBIT 17

Thai banking system's capitalization remains robust

Note: From Jan 1, 2013, under Basel III framework

Source: BOT

Funding and Liquidity

The system's funding and liquidity levels will stabilize as credit growth moderates and banks continue to diversify their funding mix.

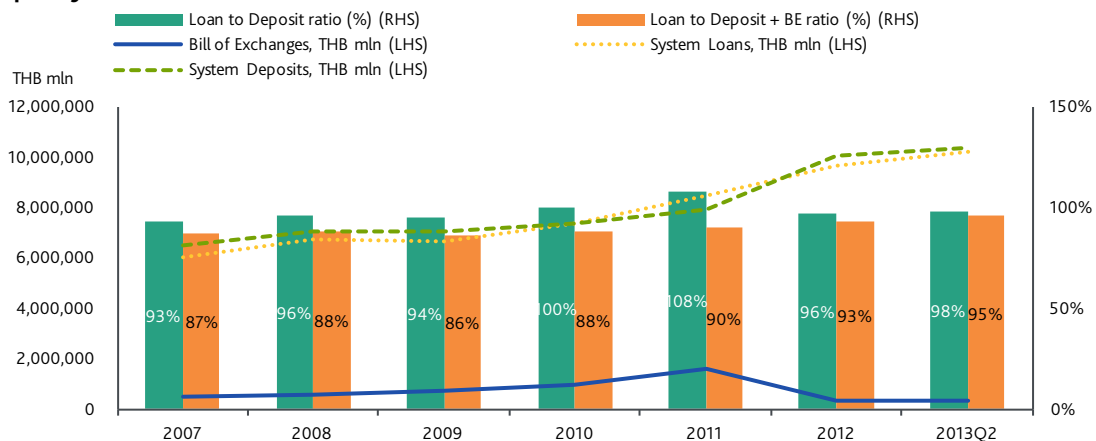
Funding and deposits under less pressure

- » We anticipate that the banks' funding profiles will stabilize over the next 12 to 18 months, primarily due to slower credit growth. The system-wide LDR improved to 98% at Q2 2013 from 108% at end-2011 (Exhibit 18), mainly due to a sharp increase in deposits that reflected the move away from bills of exchange (BE) to traditional customer deposits⁵. However, if we were to treat bills of exchange as quasi-deposits, then the adjusted LDR actually deteriorated over this timeframe to 95% from 90%.
- » Going forward, we anticipate the slowdown in loan growth will contribute to aligning growth in both loans and deposits, especially as banks have explicitly indicated they would prioritize deposit gathering.
- » To gather new deposits, banks are expanding their branch networks outside of Bangkok in underserved suburban and rural areas with rising incomes. This will offset the loss of some deposit money to increasingly popular wealth management and insurance products. In addition to redoubled efforts to attract deposits, banks have been active in supplementing their core deposit funding with longer-term wholesale funding, obtained from debt issuances in both domestic and foreign currency.

⁵ Bills of exchange (BE) are term debt instruments that pay higher returns than deposits but are unprotected by deposit insurance, thereby not qualifying as deposits for LDR calculation purposes. From July 2012, a surcharge of 0.46% payable to the Deposit Protection Agency was levied on the issuance of BEs. Banks were also required to 1) include a disclosure that investments in BEs are not entitled to Deposit Protection Agency protection 2) specify that BEs may not be transferred unless they include a warning limiting the transferor's liability 3) BEs as securities must be offered for sale through license intermediaries such as securities companies or financial institutions. Effectively, the measures made the issuance of BEs less attractive for banks, leading to a migration from BEs to traditional customer deposits.

EXHIBIT 18

Liquidity Profile Will Stabilize As Credit Growth Moderates

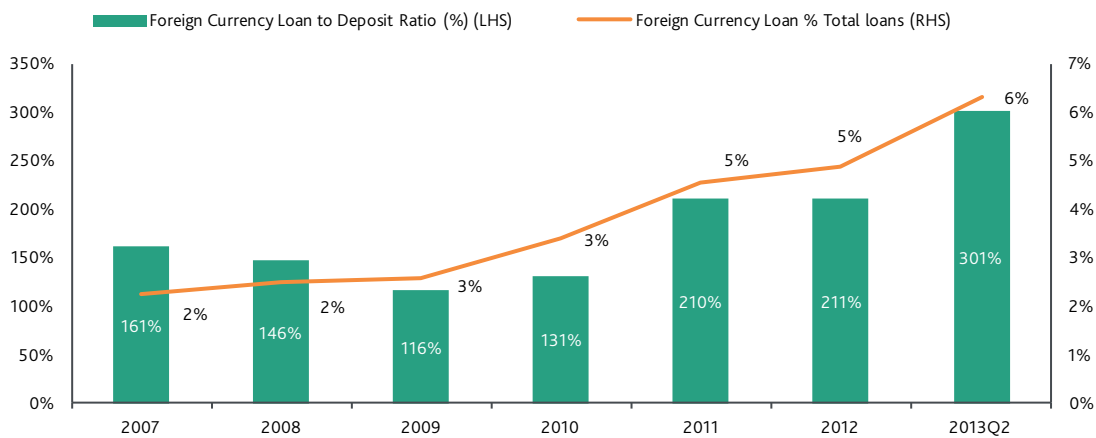


Source: BOT

» Foreign currency LDRs have been rising, topping 300% in Q2 2013 (Exhibit 19). This reflects growth in overseas loans from a low base as banks were encouraged by the government to support the international expansion and M&A of Thai companies. However, even with the recent growth, foreign borrowings still account for only 6% of Thai banks' loan books. The central bank's currency swap arrangements and the country's \$181.6 billion of foreign reserves⁶ also mitigate related risks.

EXHIBIT 19

Foreign Currency Loans Remain A Small Proportion of Total Banking System Loans



Source: BOT

⁶ Source: Bank of Thailand, as of December 2012

Profitability and Efficiency

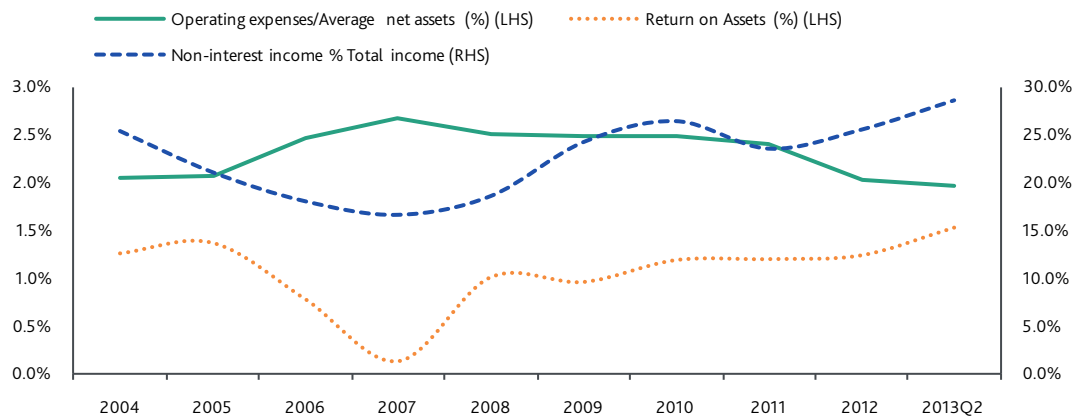
Profitability will remain stable as banks try to offset lending margin pressure with non-interest income

Non-interest income to remain a key driver

- » We expect stable profitability over our outlook horizon, as slower growth in lending income and higher funding costs for deposits are offset by higher fee income and tight cost management. Specifically:
 - For the banks' lending business, which represents close to 71% of the system's total income (Exhibit 20), slower overall loan growth and a modest rise in margin pressure will result in slightly compressed net interest margin, notwithstanding the increasing focus on higher-yielding loan segments.
 - As for non-lending income, we expect to see stronger fee-based income growth as banks continue to expand their cash management and transaction-based services as well as their offering of insurance and investment products to their growing pool of middle-class consumer customers.
 - In Q2 2013, the system's return on assets increased to 1.52% from 1.19% in 2011 (Exhibit 20), mostly due to higher non-interest income.
 - From a credit differentiation perspective, banks that are active in raising longer-term funding to supplement deposits and broaden their funding mix will experience higher funding costs that could impact net interest margins as competition for deposits intensifies.

EXHIBIT 20

System Profitability Has Improved



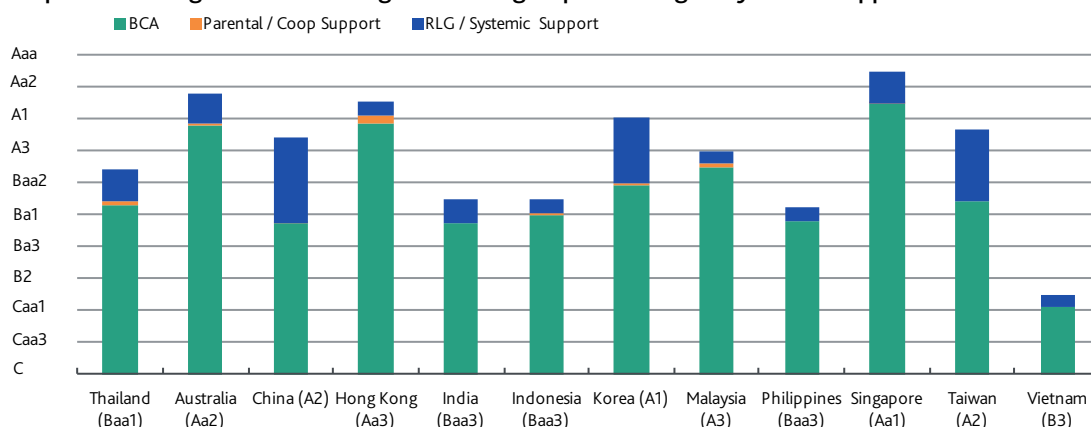
Source: BOT

Systemic Support

- » In September 2013, we removed systemic support uplift of two notches previously incorporated in the subordinated debt rating of the Thai banks, to reflect the increasing international trend of imposing losses on holders of subordinated debt securities as a pre-condition for distressed banks to receive government support, and our expectation that the Thai government support for the holders of such securities would be less forthcoming.⁷
- » That said, we continue to view Thailand as a high support system (Exhibit 21). The government has a history of providing support to the banks in past crises, notably through Financial Institutions Development Fund, during the Asian financial crisis. Importantly, the government has not allowed any bank in the country to default in at least the past three decades.
- » We expect no change in our support assumption over the horizon of this outlook, and continue to view the government to have sufficient capacity and willingness to support its banking sector as needed.
- » As a result of our assumption of strong government support, we incorporate ratings uplifts of between one and six notches for seven of the 10 banks that we rate in this system.

EXHIBIT 21

Comparison of Regional Peers' Weighted Average Uplift Owing to Systemic Support



Note: Ratings data as of 7-Oct-2013

Source: Moody's, Banking Financial Metrics

⁷ See press release "[Moody's downgrades three banks' subdebt ratings in Thailand on increased bail-in risk](#)", 5 September 2013

Appendix 1

Definition of Banking System Outlook

Banking System Outlooks represent our forward-looking assessment of fundamental credit conditions that will affect the creditworthiness of banks in a given system over the next 12-18 months. As such, banking system outlooks provide our view of how the operating environment for banks, including macroeconomic, competitive and regulatory trends, will affect asset quality, capital, funding, liquidity and profitability. Banking system outlooks also consider our forward-looking view of the systemic support environment for bank creditors.

Since banking system outlooks represent our forward-looking view on credit conditions that factor into our bank ratings, a negative (positive) outlook suggests that negative (positive) rating actions are more likely on average.

Appendix 2: Moody's Stress Test Assumption

Moody's Stress Test Assumptions

Loan Portfolio breakdown	Adverse Scenario			Highly Adverse Scenario		
	PD	LGD	EL	PD	LGD	EL
Agriculture and mining	13%	36%	5%	25%	48%	12%
Manufacturing and commercial	17%	40%	7%	35%	50%	18%
Real estate and construction	12%	60%	7%	23%	60%	14%
Utilities and services	11%	34%	4%	22%	46%	10%
Housing loans	9%	26%	2%	19%	35%	7%
Others (other unclassified industries)	6%	75%	5%	12%	100%	12%
Other consumer loans (unsecured)	6%	75%	5%	12%	100%	12%
Total	11%	53%	6%	22%	69%	15%

Appendix 3: Excerpt from Sovereign Credit Opinion

Credit Strengths

Support factors for Thailand include:

- » Robust external payments position
- » Improved growth outlook
- » Low government financing costs

Credit Challenges

Areas of concern for Thailand include:

- » Political risks from polarization and regional insurrection
- » Containing the rise in public debt
- » Weaknesses in governance

Rating Rationale

Thailand's Baa1 government ratings reflect moderate economic and institutional strengths, but receive support from a high level of government financial strength resulting from a relatively low stock of debt and easily financed deficits. The vulnerability of the government's balance sheet to external shocks had been lessened by the reduction of foreign currency-denominated debt and accumulation of official foreign exchange reserves following the Asian financial crisis. External indicators are considerably stronger than the median values of not only Baa peers, but also many A-rated countries. The global financial crisis interrupted the steady, downward trend in Thailand's debt trajectory at both the general government and public sector levels, yet Thailand's government debt burden remains well positioned relative to Baa peers.

Susceptibility to event risk is low, despite deep political polarization. The intrinsic strength of the Thai financial system was not destabilized from the global financial crisis and continues to be resilient to stresses from the sovereign debt crisis in the euro area. Thailand's income level is also lower than its peers, but this is offset by economic diversity, a high level of national savings, and favorable economic growth prospects.

Rating Outlook

The rating outlook has been stable since October 2010. The robust economic recovery and fiscal consolidation following the global financial crisis was interrupted by massive flooding in the second half of 2011. Increased expenditure on flood management measures, coupled with sizable fiscal transfers, corporate tax cuts, and other measures promised by the ruling Pheu Thai Party during the 2011 elections, has placed increased pressure on fiscal accounts and is pushing up public debt. Nevertheless, financing risks are mitigated by the large stock of domestic savings, which provide a reliable source of baht-denominated funds at a low cost--reflecting both the continued health of Thailand's external position and well-anchored inflation expectations.

Following the clear-cut electoral victory of the Pheu Thai Party-led coalition in the 2011 parliamentary elections, domestic politics have stabilized. Since then, however, debates over constitutional change and culpability over the violence during the 2010 Bangkok protests have revealed lingering polarization. Stability could be affected by underlying risks related to monarchical succession and continued violence in southern Thailand.

What Could Change the Rating - Up

Maintenance of the strong external payments position. Progress in strengthening public sector finances, which includes reducing the fiscal deficit and off-budget spending, as well as limiting contingent fiscal liabilities from populist measures and social welfare programs. Improvement in the political climate that supports long-term stability and governance effectiveness.

What Could Change the Rating - Down

Political instability that leads to a deep weakening of credit fundamentals and competitiveness. A significant deviation from fiscal rules that results in widening fiscal deficits and a steep buildup of government debt.

Recent Developments

Full-year real GDP growth in 2012 came in strong, reaching 6.4% year-on-year, up from 0.1% growth in 2011. Growth was particularly robust in Q4, at 18.9% the strongest on record. Investment and consumption were the main expenditure-side sources of growth, and manufacturing and services drove the supply side. We expect real GDP growth to average 5% in 2013-14 with investment and consumption as the main drivers as a recovery in exports will remain gradual. Initial disbursements under the government's THB2.2 trillion infrastructure program are expected towards end-2013, and private consumption remains supported by growing incomes and continued high consumer confidence. Unemployment remains very low, at a seasonally-adjusted 0.66% as of February.

Core inflation averaged 2.1% in 2012, well within the central bank's target range of 0.5-3%; headline inflation averaged 3%. Disinflation continued during the first four months of 2013 and April headline inflation was 2.4% year-on-year. Looking forward, inflationary pressures should remain contained, despite recent minimum wage increases and strong credit growth. Following a pilot phase during the second half of 2012, minimum wage was increased on a nationwide basis to THB300 per day with effect from 1 January 2013. Credit to the private sector continued to post robust growth of 13.8% year-on-year on average during Q1 2013, but the monthly increase has come to an halt in March. The strong Thai baht, together with stable commodity prices, will counterbalance domestic inflationary pressure. We expect headline inflation to average 2.6% this year and 2.8% in 2014.

Thailand's overall balance of payments ended 2012 with a surplus of USD5.3 billion. The current account surplus was USD1.3 billion in Q1 2013, slightly lower than the USD1.4 billion surplus a year ago, as the trade balance turned into a USD220 million deficit, compared to a USD1.1 billion surplus in Q1 2012. We expect a current account surplus of around 1-1.5% of GDP for this year and next. Latest figures from BoT show that foreign exchange reserves stood at USD168.9 billion as of end-April, slightly up from USD168.5 billion a year earlier, but below the 2012 year-end close of USD171.1 billion.

The BoT's concerns over financial stability have led it to maintain its policy rate at 2.75% - contrary to the Ministry of Finance's repeated calls for interest rate cuts. Domestic credit-to-GDP ratio has risen to 130% at end-2012 from 109% in 2010 and the central bank warned about rising household debt

In a press release dated 30 April 2013, BoT's Monetary Policy Committee "expressed concern over recent volatility and rapid appreciation of the baht" and called for the implementation of appropriate policy responses, in close coordination with government agencies like the Ministry of Finance. The baht had strengthened to THB28.6 per USD on 19 April but has weakened again since then. Nevertheless, it is still up 3% year-to-date. BoT has submitted a list of potential macroprudential measures to manage speculative foreign portfolio capital inflows to Cabinet, including limits on foreign buyers' purchases of short-term and BoT bonds, introduction of minimum holding periods, and capital gains tax.

Non-resident ownership of local currency government securities continued to increase, rising to THB592.9 billion or 18.9% of total government bonds outstanding in April, from THB495 billion (16.4% of government bonds) as of end-2012. From 2003-2009, non-residents holdings averaged 2.2% of total Thai government bonds. Rising non-resident absorption is broadly in line with trends in other countries in the region and is expected to persist as long as extraordinary monetary accommodation continues in the US, the euro area, and Japan.

Data released at the end of April by BoT show a slightly higher fiscal deficit in 2012, 4.1% of GDP instead of 3.9% of GDP provisionally published earlier this year. The upward revision was due to a larger than previously expected non-budgetary cash deficit.

Bangkok gubernatorial elections took place on 3 March 2013, with incumbent Sukhumband Paribatra of the Democrat Party (DP) winning with 47.75% of the popular vote. By-elections for Bangkok's Don Muang district parliament seat will take place on 16 June, after the Elections Commission disqualified Pheu Thai Party's Karun Hosakul for defaming DP's Tankhun Jittitsara. Mr Thankhun Jittitsara will stand again in the by-election, facing Yuranan Pamornmontri from the Pheu Thai Party.

Moody's Related Research

Rating Methodology:

- » [Global Banks, May 2013 \(154255\)](#)

Banking System Profile:

- » [Thailand, January 2013 \(149294\)](#)

Credit Opinion:

- » [Thailand, Government of](#)

Analysis:

- » [Thailand, Government of, April 2013\(152865\)](#)

Country Statistics:

- » [Thailand, Government of](#)

Credit Focus:

- » [Upcoming Change of Foreign Strategic Partner at Bank of Ayudhya: Positive for Creditors But Uncertainty Remains \(157623\)](#)

Sector Comments:

- » [Thailand's Increasingly Expensive Rice Buying Scheme Is Credit Negative \(154757\)](#)
- » [Thai Banks Increase Loan-Loss Reserves, a Credit Positive \(156624\)](#)

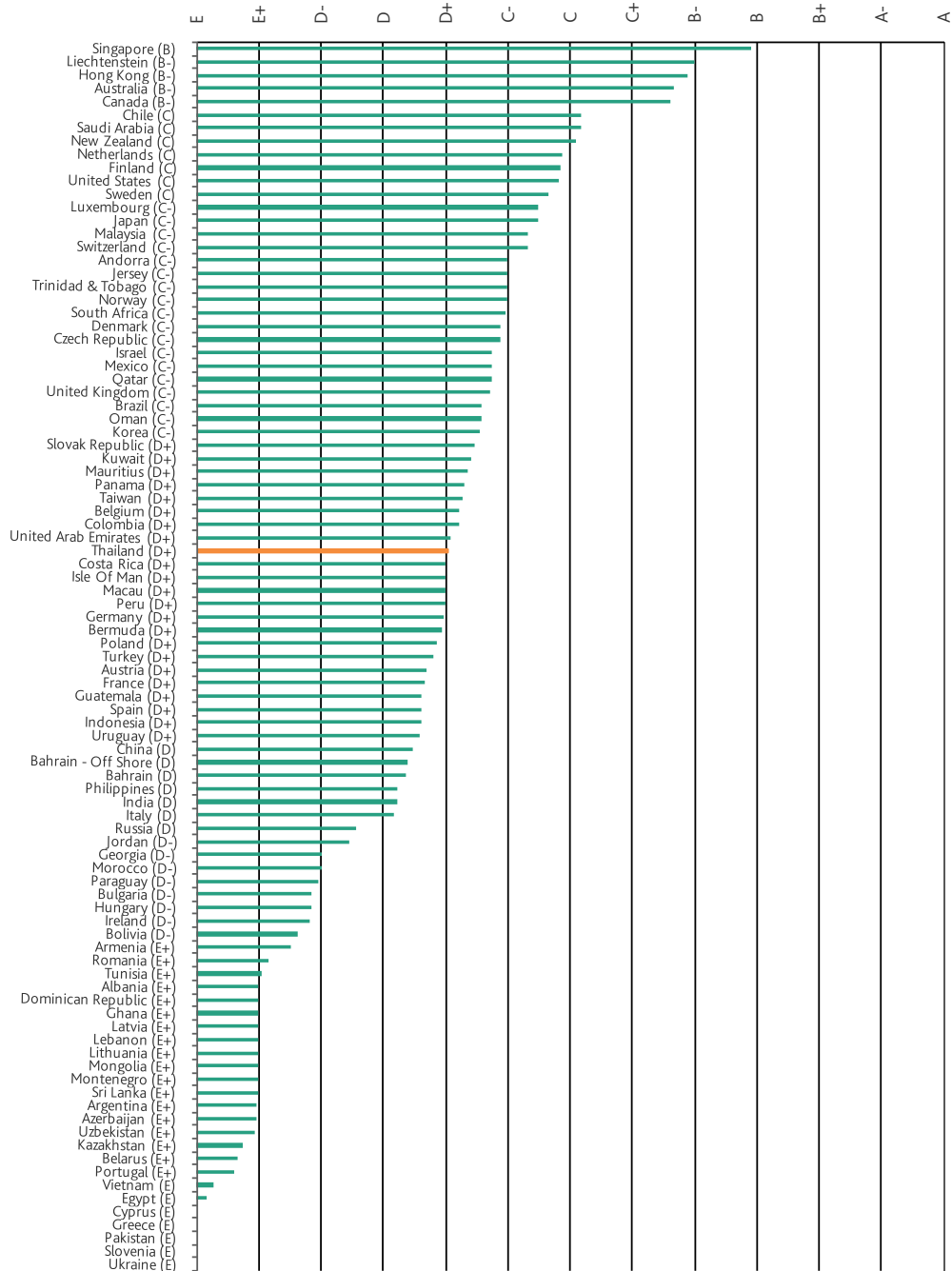
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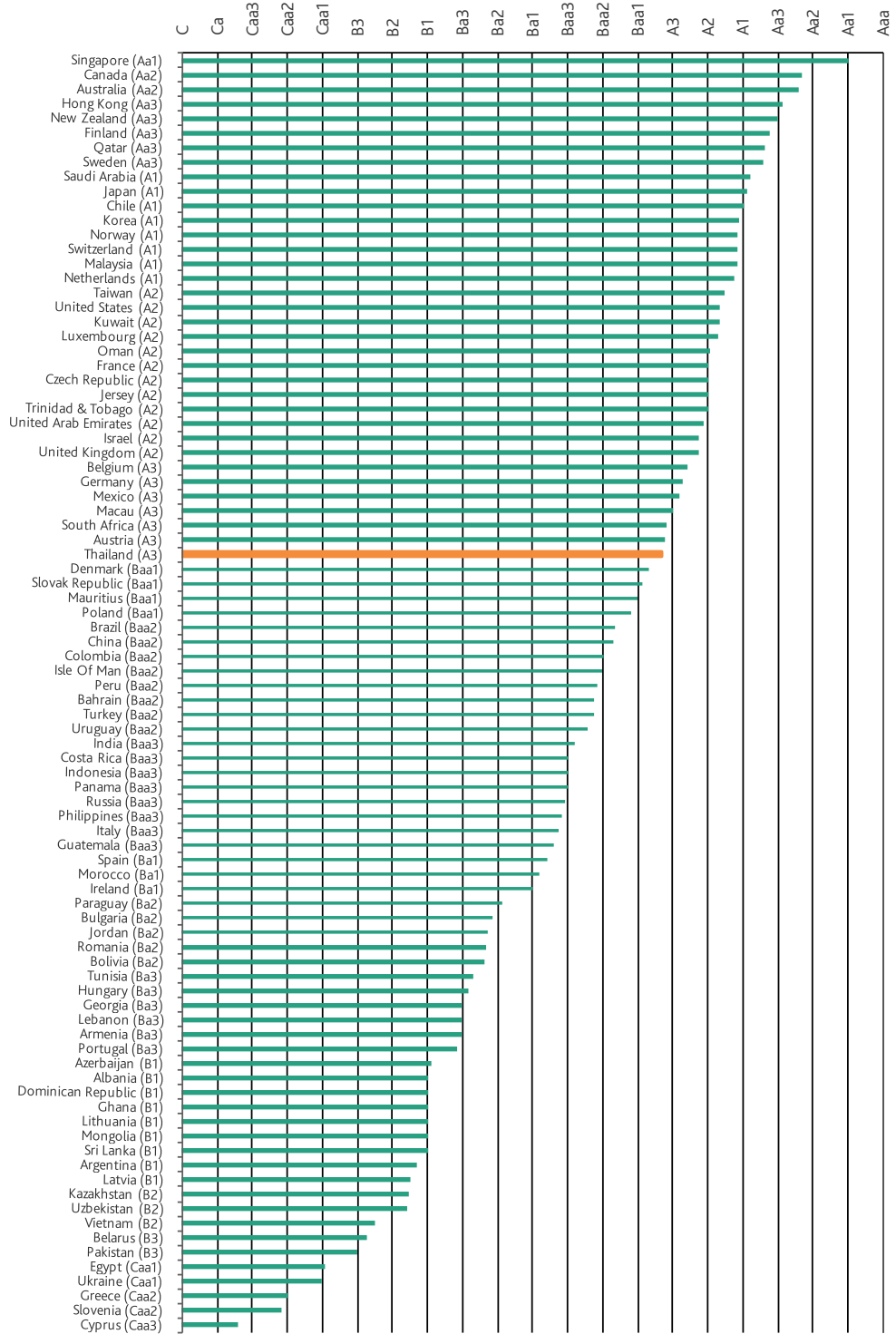


Global Comparison Charts

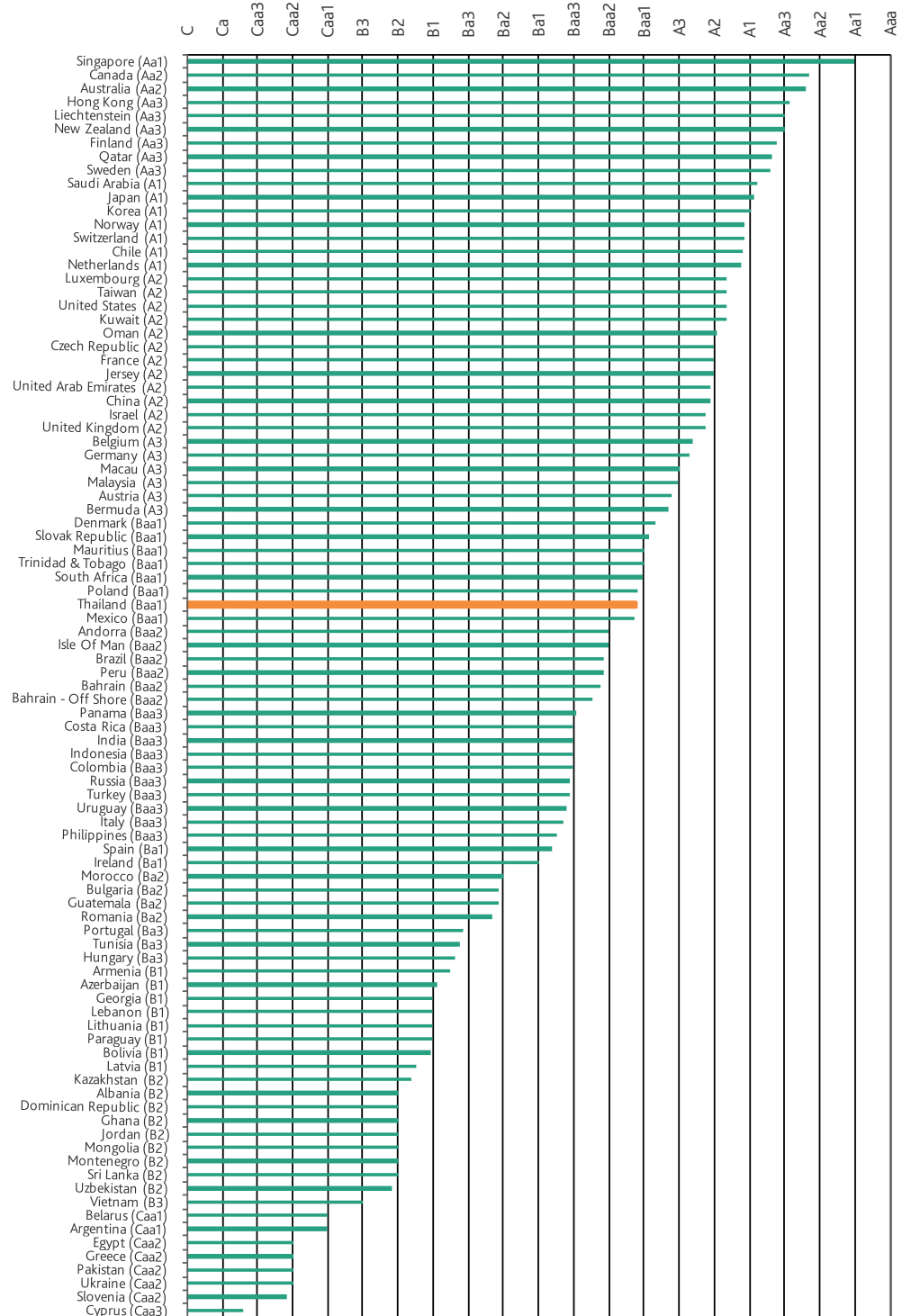
Asset-Weighted Average Bank Financial Strength Ratings (as of October 7, 2013)



Asset-Weighted Average Local Currency Long-Term Bank Deposit Ratings (as of October 7, 2013)



Asset-Weighted Average Foreign Currency Long-Term Bank Deposit Ratings (as of October 7, 2013)



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