



FitchRatings

**THAILAND AND REGIONAL
FINANCIAL SECTOR OUTLOOK**
2024

FitchRatings

Thai Bank Performance, Outlook and Regional Expansion

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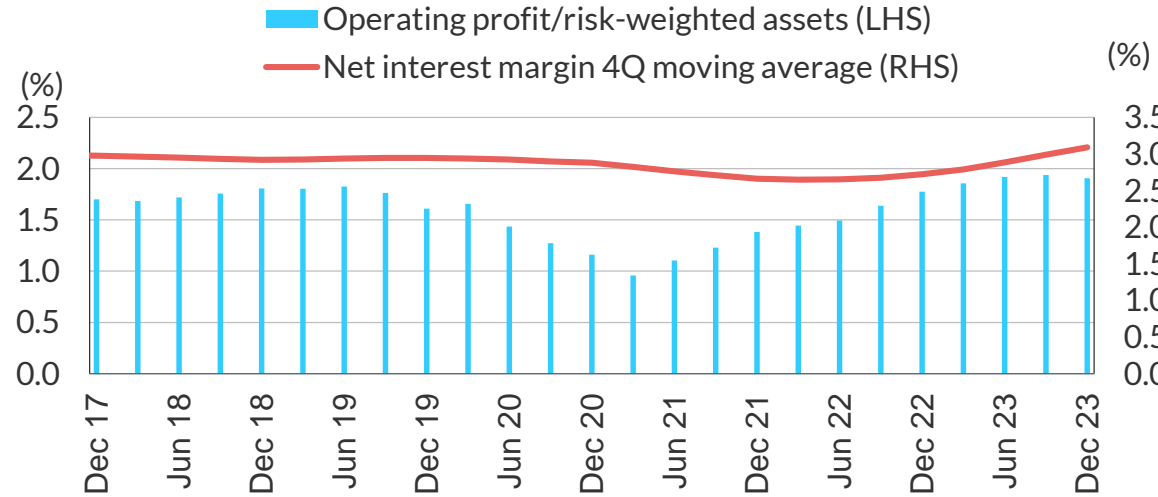
Part 1

Thai Bank Performance and Outlook

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Banking Sector's Earnings Rebound

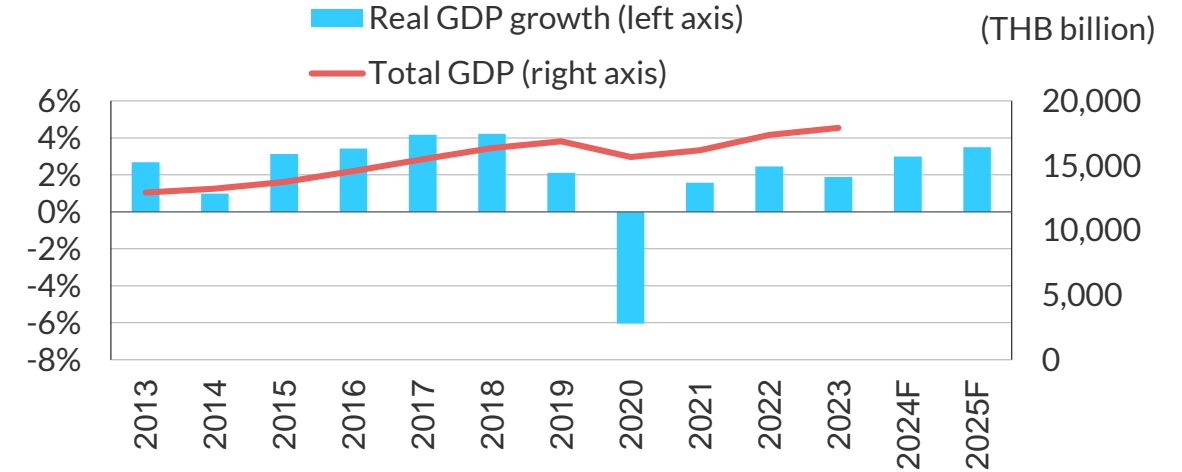
Banking Sector Profitability



Source: Fitch Ratings, Bank of Thailand

- The profitability of Thai banks has exceeded pre Covid-19 pandemic levels, with the operating profit/risk-weighted assets (RWAs) ratio rising to 1.9% in 2023 (2019: 1.6%). Fitch expects upside momentum to continue in 2024, which should help banks build core capital buffers and alleviate pressures from asset quality risks.
- The improvement has been driven by three main factors:
 1. improving business activity (compared to during the Covid-19 pandemic)
 2. higher interest rates (which is boosting net interest margins)
 3. reduced credit cost requirements.

Thailand's GDP trends

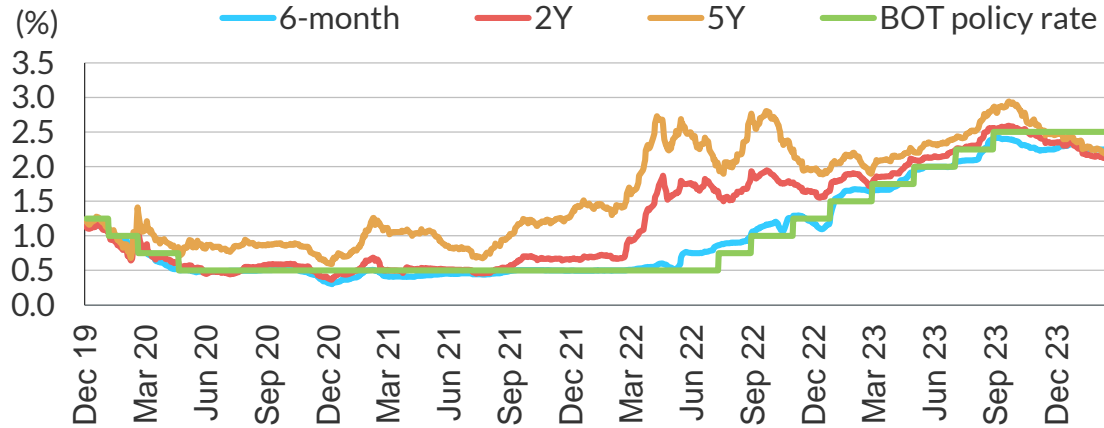


Source: National Economic and Social Development Council (NESDC)

Profitability Improvement Continues in 2024

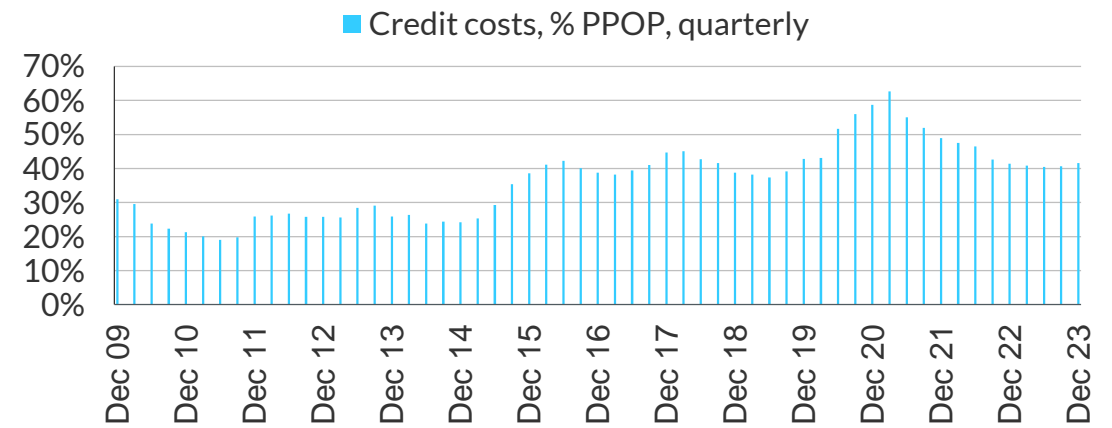
Thai government bond yields

Compared to BOT policy rate



Source: Thai Bond Market Association, Bank of Thailand

Capacity to Absorb ECL

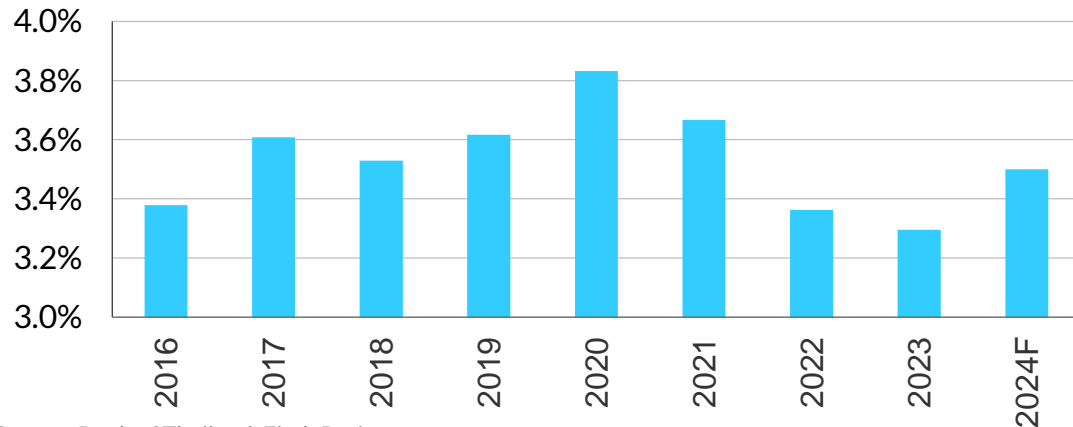


Source: Bank of Thailand, Fitch Ratings

- Bank NIMs have moved up in tandem with Thailand’s interest rate cycle. Upward momentum is slowing with the interest rate cycle at its peak and the next rate movement is likely downwards. However, during 2024 banks should still be benefiting from past rate rises.
- Credit costs declined to about 40% of pre-provisioning operating profit in 2023 from the pandemic peak at 63%. Fitch expects this decline is sustainable due to current reserve coverage levels.

Asset Quality Challenges Remain

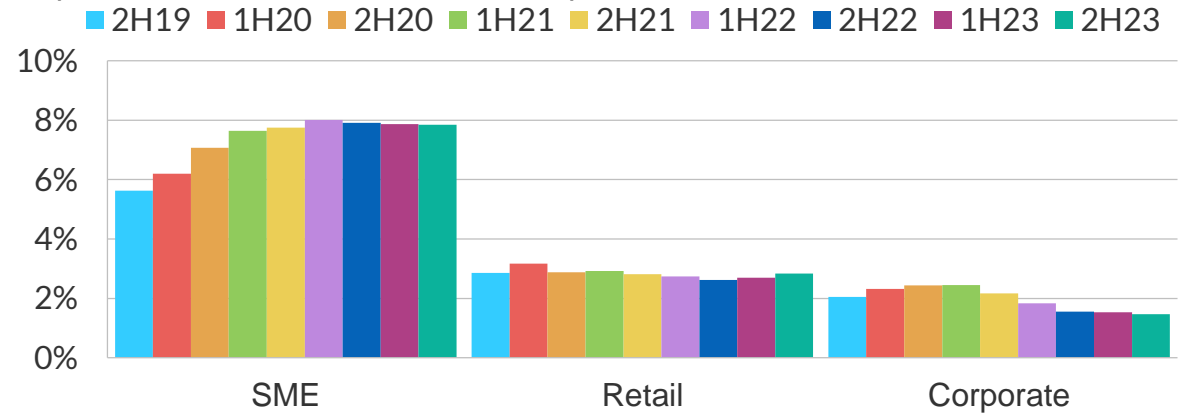
Commercial Bank's NPL Ratio Declines to Pre-Covid Level



Source: Bank of Thailand, Fitch Ratings

Thai Banks' Asset Quality by Segment

Impaired Loans Ratio movements since pandemic



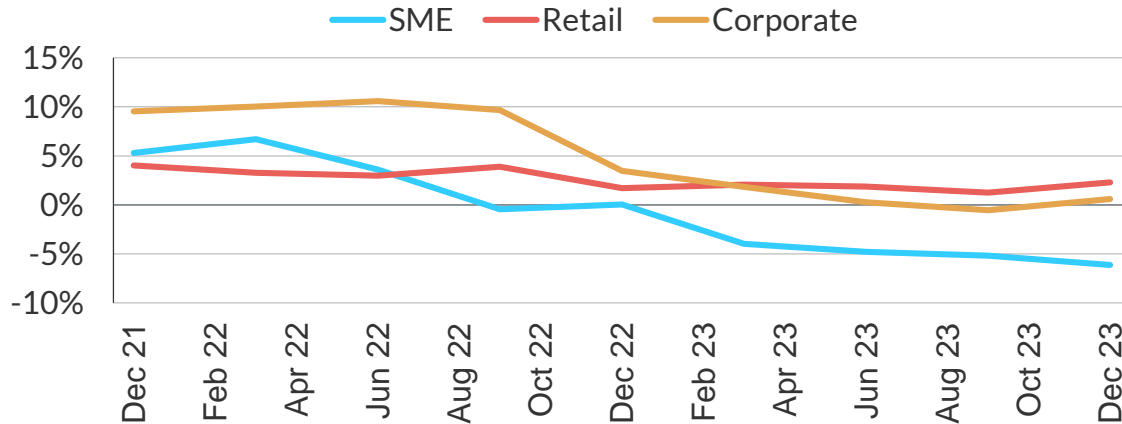
Source: Bank of Thailand, Fitch Ratings

- Despite a declining trend in the impaired loans ratio during 2022-2023, asset quality pressures are expected to continue into 2025.
- The economic recovery has been weaker than expected and legacy risks remain, particularly on more-vulnerable debtors and loans that were restructured during the pandemic.
- The SME segment experienced the greatest impact from the pandemic and remain under pressure due to higher interest rates and the still weak operating environment.

Adequate Reserve Cushions

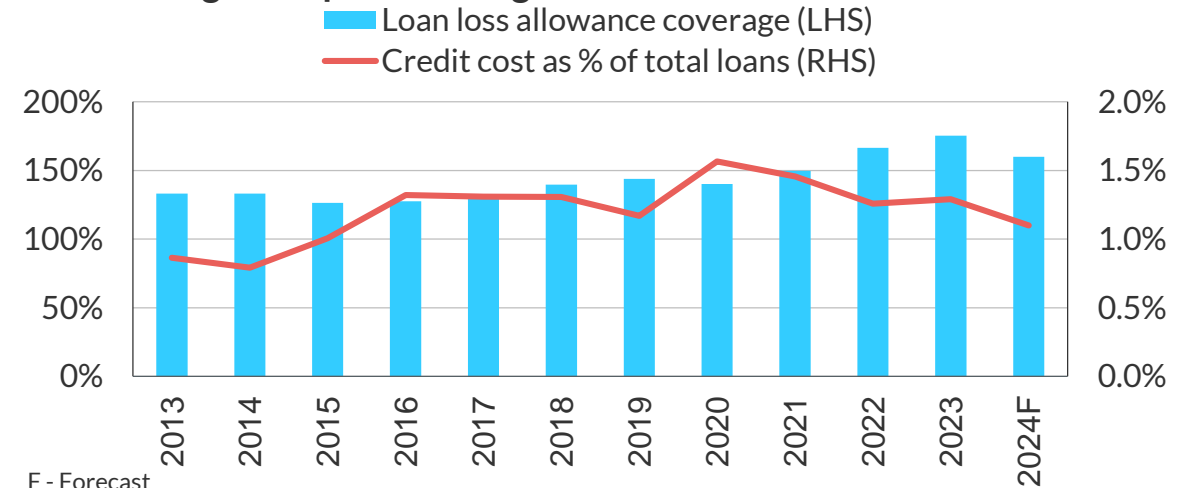
Loan growth by segments

YoY growth



Source: Bank of Thailand, Fitch Ratings

Banks - long-term provisioning trends



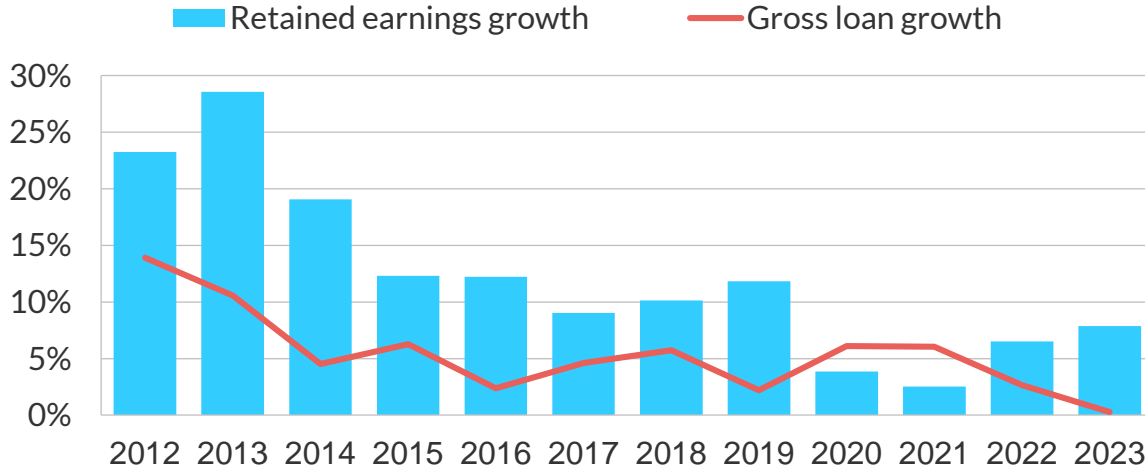
F - Forecast

Source: Fitch Ratings, Bank of Thailand

- Risk control measures, evident in cautious lending and additional loan loss provisioning should help mitigate asset quality risks.
- SME loans have declined, reflecting commercial banks' cautious approach in extending loans to high-risk segments.
- Sector loan loss allowances coverage has increased consistently over the past several years and currently stands at record levels (latest 177%).

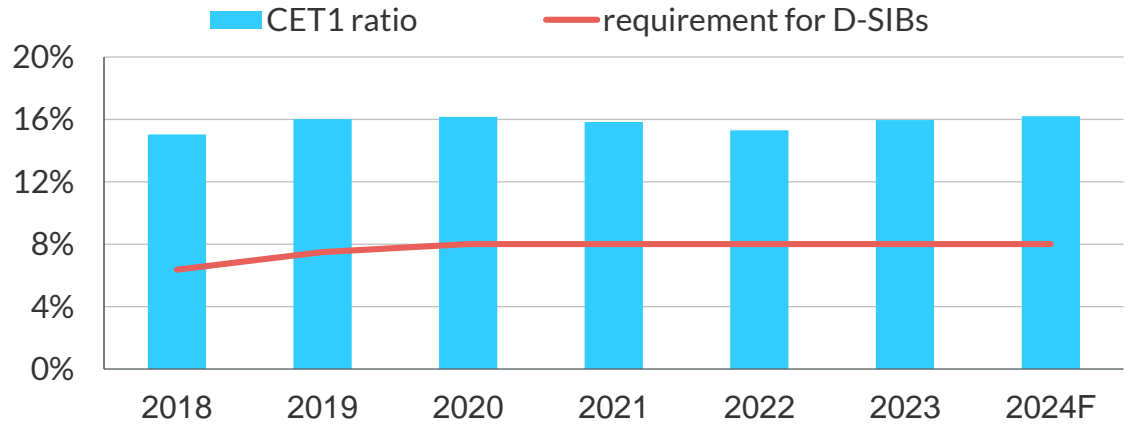
Capital Accumulation Recovering Post-pandemic

Thai Banks - Earnings Retention vs Loan Growth



Source: Fitch Ratings, Bank of Thailand

Thai Banks - Long Term CET1 trends



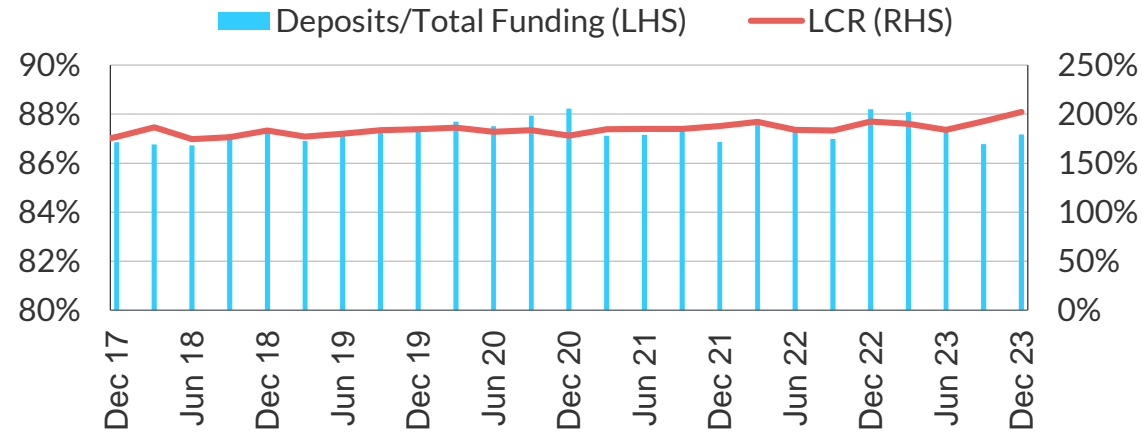
Source: Bank of Thailand, Fitch Ratings

- Thai banks have consistently grown retained earnings faster than gross loans for a decade, except for the pandemic years of 2020-2021.
- The long-term trend of sustained capital retention has ensured sound core capital buffers above regulatory requirements, with a CET1 ratio of 16% as of end-2023.
- Fitch expects internal capital generation to remain positive, due to improving earnings and continued moderate loan growth.

Stable Funding Prospects

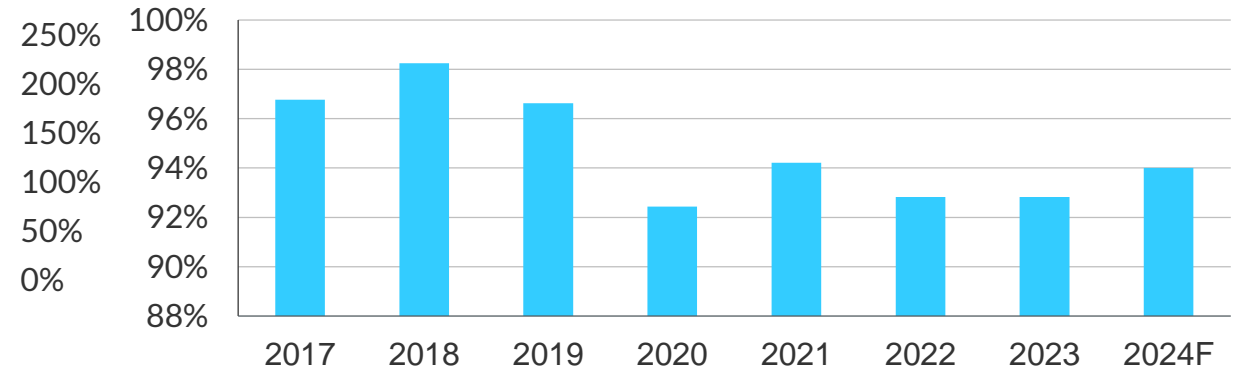
Banking Sector liquidity ratios

quarterly, to Dec-2023



Source: Bank of Thailand, Fitch Ratings

Banking Sector Loans-to-Deposits Ratio



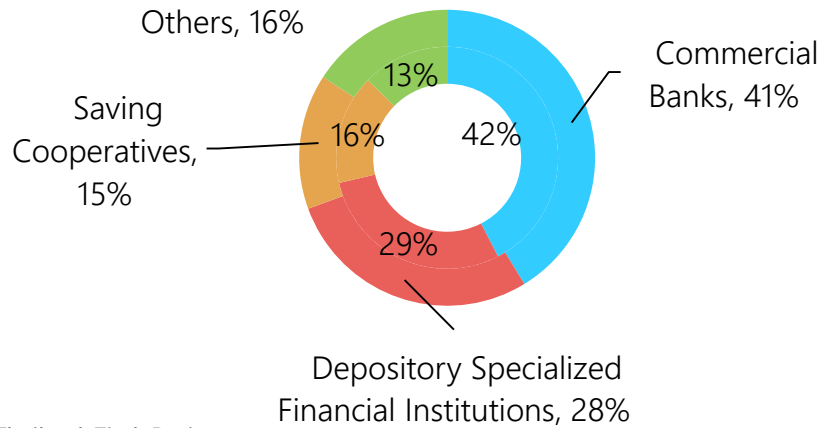
Source: Bank of Thailand, Fitch Ratings

- Thai banks primarily rely on domestic deposits, with customer deposits accounting for 85-90% of their total non-equity funding.
- The banking sector LDR declined from 97% to 92% during the pandemic due to flight-to-safety investment flows, but has since stabilized at that level. Fitch expects no near-term unusual pressures on LDR or on banks' liquidity.

Challenges in the Sector Environment: High Leverage

Loans to household by lender

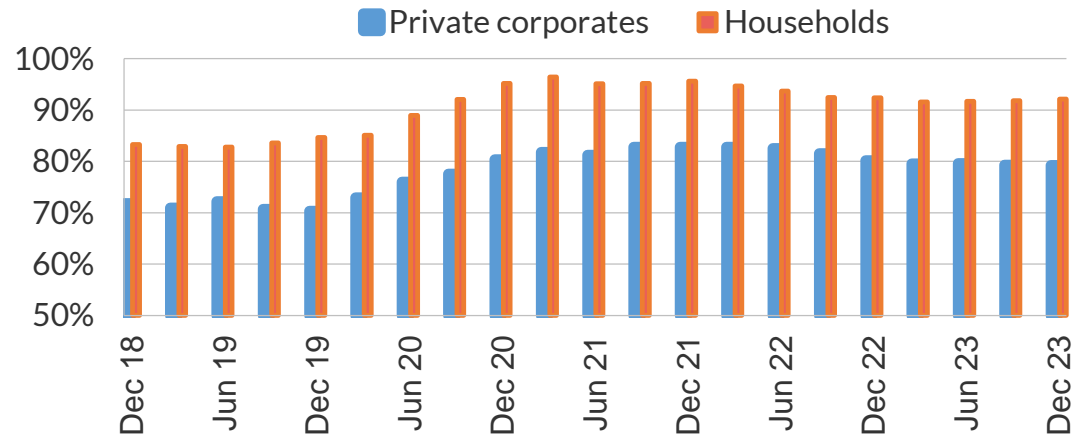
Outer circle = 3Q2023, Inner circle = 2019



Source: Bank of Thailand, Fitch Ratings

Thai Private-Sector Credit

as % of GDP; including all financial liabilities / institutions



Source: Bank of Thailand, NESDC

- The slow recovery in nominal GDP means that leverage levels, which increased during the pandemic, remains relatively high.
- High levels of corporate and household debt prompts ongoing regulatory actions and regulatory concerns, which may negatively affect banks' performance.
- The high levels of debt is also contributing to the cautious lending practices, as well as limiting opportunities for aggressive loan growth.

Challenges in the Sector Environment: New Entrants



Source: Royal Gazette, Fitch Ratings

- The introduction of virtual banks could lead to greater competition, especially in retail banking, which may affect margins and profitability.
- Many major Thai banks have been preparing for these changes, having made substantial investments in technology in recent years.
- Fitch expects the balance sheets of the new virtual banks to be relatively small and unlikely to significant pressure the market share of incumbent banks in the near-term.
- Virtual banks are expected to target mainly underserved and unserved sectors – which may also reduce their direct competition with traditional banking institutions.

Summary

- The earnings performance of commercial banks has rebounded strongly, surpassing levels seen before the pandemic.
- While Fitch anticipates this momentum to continue into 2024, Fitch also expects that further substantial upside is becoming more limited. Upside may be constrained by the sluggish economic rebound, the possibility of reduced interest rates, and the high levels of leverage in the economy.
- There is still the possibility of asset quality deterioration, particularly within the SME sector. However, the recovery has provided banks with solid loss absorption buffers against potential downside.
- Fitch expects that capital buffers and funding profiles of banks to be broadly stable and to support sector resilience.



Part2

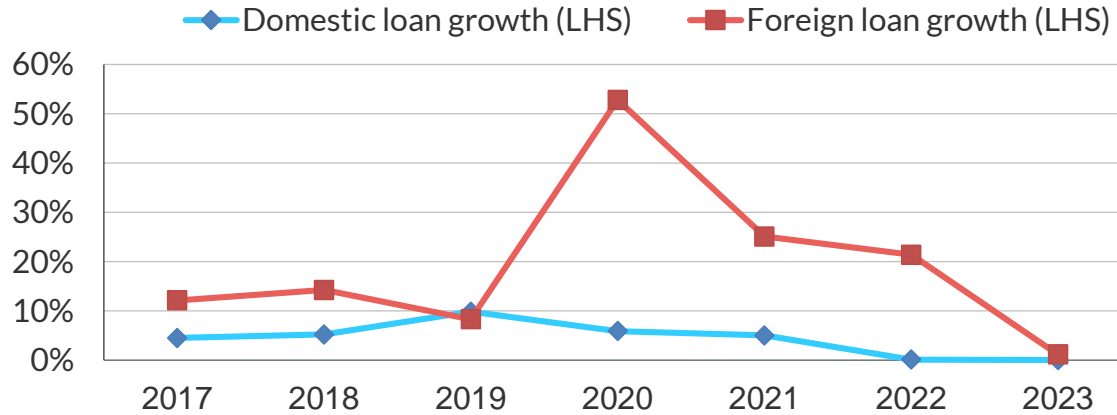
Thai Banks' Regional Expansion

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International Expansion to Re-emerge

Thai D-SIBs Loan Breakdowns

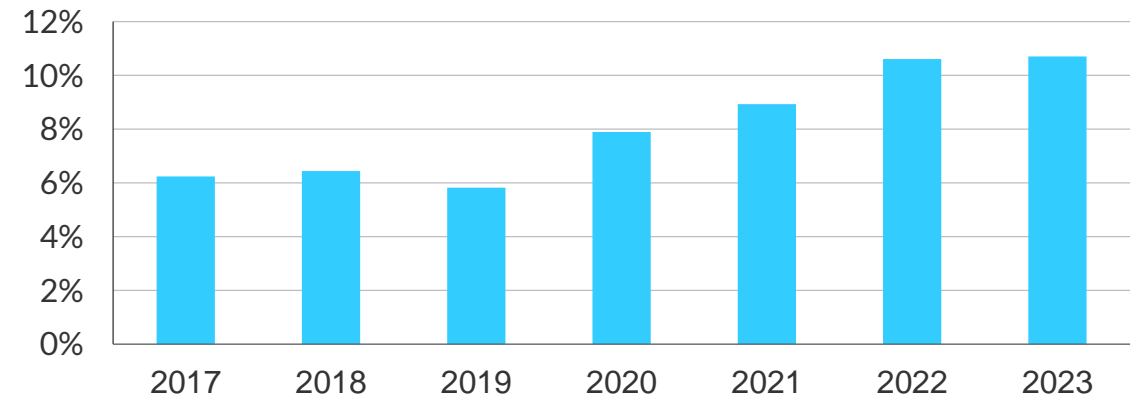
Trend for foreign expansion



Source: Fitch Ratings, Fitch Solutions, banks

Percentage of foreign loans to total loans

D-SIBs



Source: Fitch Ratings, Fitch Solutions, banks

- Thai banks' foreign expansion slowed markedly in 2023, after cross-border acquisitions led to substantial overseas loan growth during 2020-2022.
- Fitch expects that international expansion is based on fundamental strategic factors, and will re-emerge in 2024 and beyond.
- Except for BBL, which has a significant international loan exposure, the percentage of International exposure in the loan book remains modest for most banks and there is still room for growth.

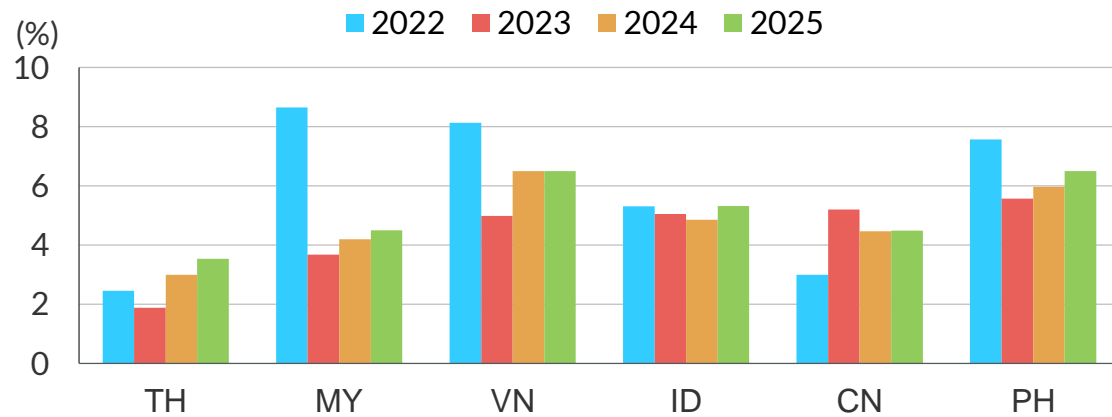
Thai Banks Seek Higher Growth Markets

Date	Buyer	Target	Country	Ownership	Notes on purchase	% of Assets	% of Profit
May-2020	BBL	PT Bank Permata Tbk	Indonesia	98.7%	Acquired 89.1% initially and added 10.6% in October 2020	12.3%	13.8%
Nov-2022	BAY	HC Consumer Finance Philippines, Inc.	Philippines	75.0%		0.8%	1.8%
Nov-2022	BAY	PT Home Credit Indonesia (HCI)	Indonesia	75.0%		0.3%	1.0%
Dec-2022	KBank	PT Bank Maspion Indonesia Tbk	Indonesia	84.6%	Acquired 67.5% initially and increased to 84.6% in November 2023	1.1%	0.3%
May-2023	BAY	SHB Finance	Vietnam	50.0%	To increase to 100% in 2026	0.3%	n.a.
	SCB	Home Credit Vietnam Finance Company Limited	Vietnam	100.0%	Signed sell and purchase agreement; the transaction to be completed in 1H25	1.1%	3.8%

- Thai banks over the past several years have begun to increase their overseas activities, including through purchases.
- Fitch expects this trend will continue due to the greater opportunities for growth and profitability that are available in regional markets.

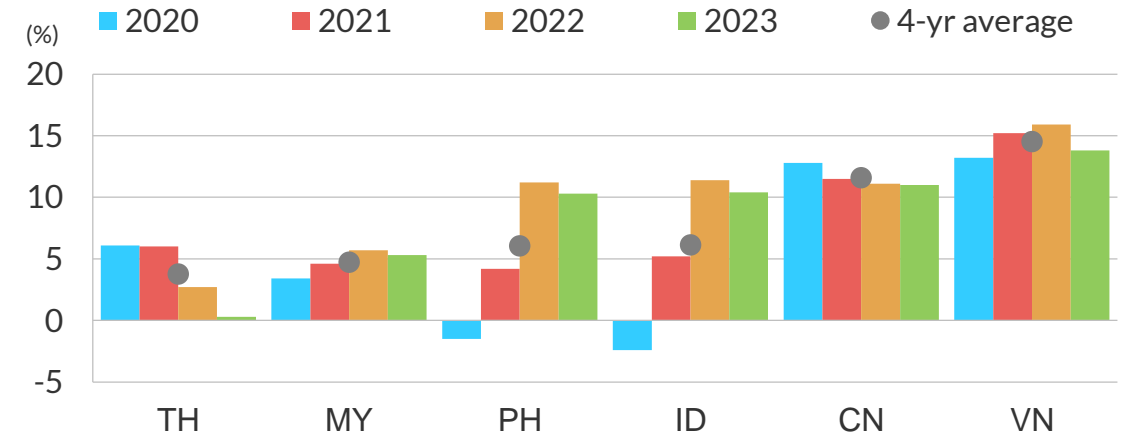
Thailand's Long-term Economic Underperformance

Real GDP Growth Forecast 2022-2025



Source: Fitch Ratings, Fitch Solutions

Banking Sector Loan Growth in Key Markets



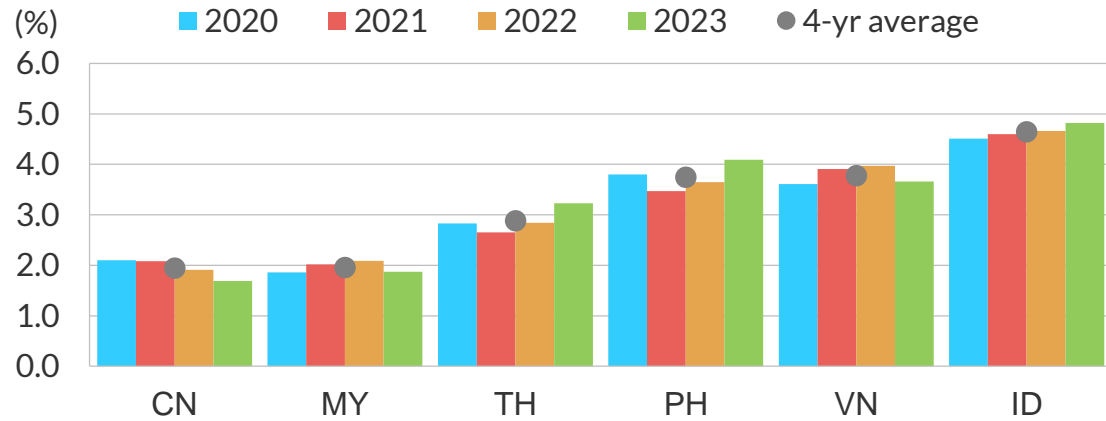
Source: Fitch Ratings, Fitch Solutions

- Relatively weak economic growth in Thailand compared to other APAC emerging markets has resulted in low loan growth and poor performance.
- Higher growth market such as Indonesia, Philippines, Vietnam present stronger long-term growth opportunities compared to Thailand.
- The international expansion of Thai banks opens doors to a realm of opportunities that can drive growth, diversify their revenue sources and elevate their market position both regionally and globally.

Thai Banks Profitability Lag Behind EM Peers

Regional Banking Sector Earnings

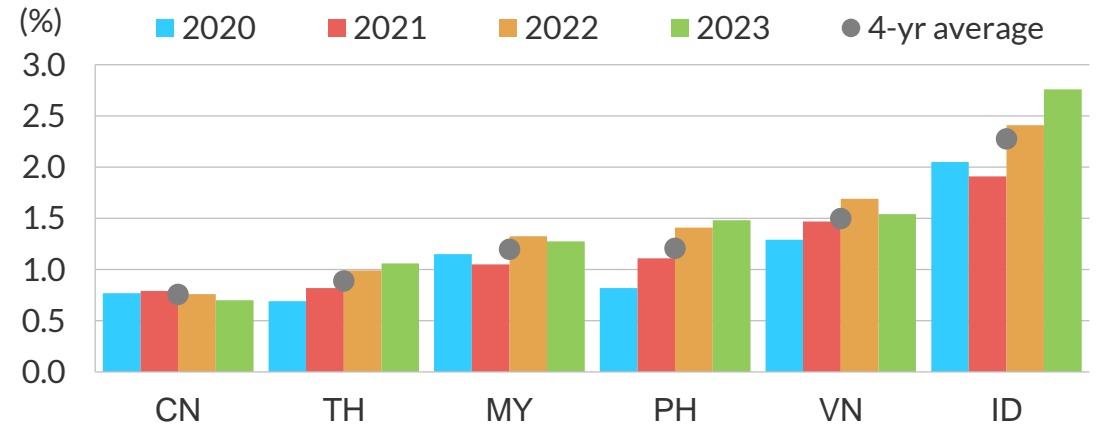
Net interest margin comparisons



Source: Fitch Ratings, Fitch Solutions

Regional Banking Sector Earnings

Return on asset comparisons



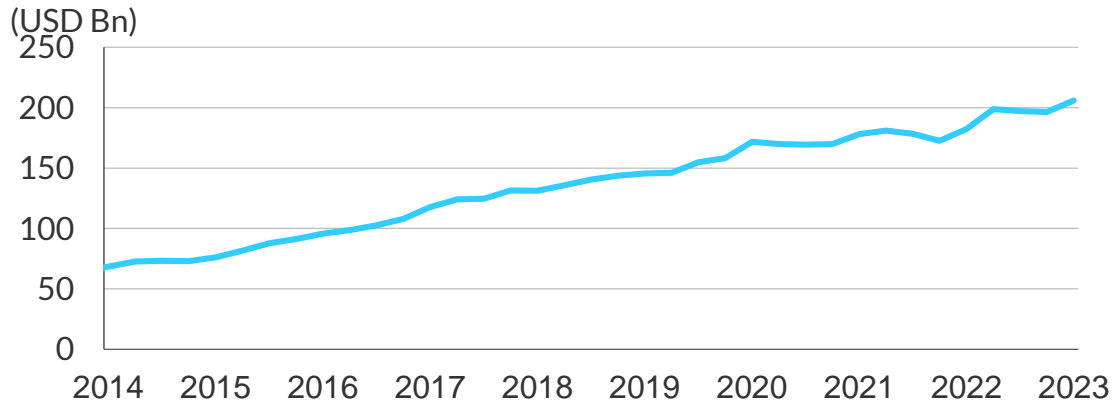
Source: Fitch Ratings, Fitch Solutions

- Profitability at Thai banks has improved, but remains relatively poor compared to regional markets.
- This is due to intense domestic competition, regulatory challenges, weak operating environment and high credit cost.
- Fitch expects this under-performance to persist.

Thai Corporates Expand Overseas Investment

Thai Corporates' Direct Investment Abroad

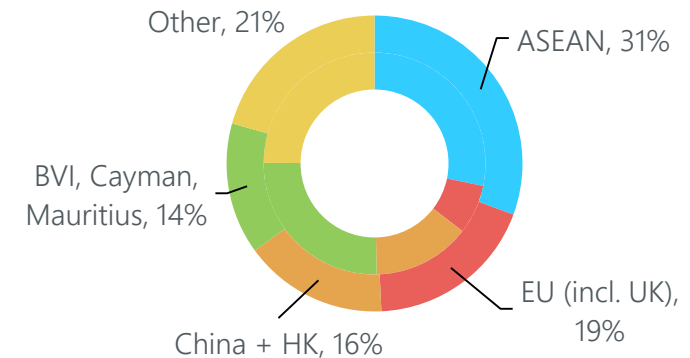
Long-term trend for growth



Source: Bank of Thailand

Thai Direct Investment Overseas

Outer circle = 3Q2023, Inner circle = 2014



Source: Bank of Thailand

- Regional business opportunities have also led the Thai corporate sector to expand offshore, with their overseas direct investments rising by 223% over the past ten years (10-years CAGR of 12%).
- This corporate expansion offers another rationale for Thai banks to also expand their offshore activities, to better serve their existing clients, mainly Thai conglomerates.
- It is also offering opportunities for banks to increase in cross-border financial services, and to increase fee income.

Key Challenges and Constraints

- There are three main challenges to Thai banks' overseas aspirations
 - 1. Execution challenges
 - 2. Risk profile impact
 - 3. Increased funding complexity
- Execution challenges:
 - Overseas expansion strategies among banks can vary, and is tailored to each bank's specific expertise and the opportunities it perceives to be presented.
 - However, in all cases there should be substantial execution risk.
 - Operating internationally is a relatively new area for most Thai banks, and may lead to challenges in navigating the complexities of foreign markets.
 - These markets are also often competitive, with other foreign banks, including from developed markets, also present.

Risk Profile Impact

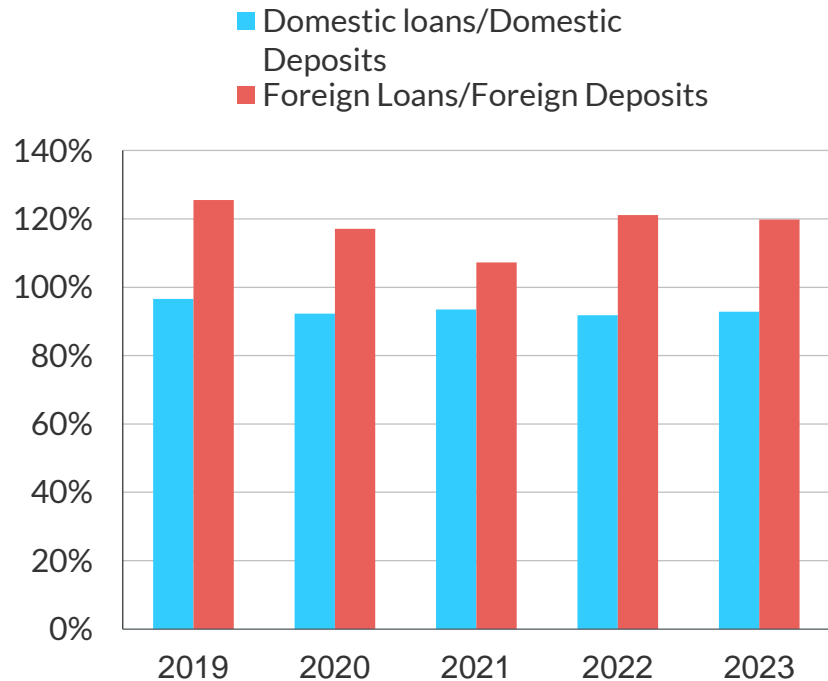
Jurisdiction	Operating Environment Assessment	Outlook
Singapore	aa	Stable
South Korea	a+	Stable
Hong Kong	a	Stable
Taiwan	a	Stable
Japan	a-	Stable
Malaysia	bbb+	Stable
Thailand	bbb	Stable
China	bbb-	Stable
India	bb+	Stable
Indonesia	bb+	Stable
Philippines	bb+	Stable
Vietnam	bb	Stable

- Overseas expansion may increase their risk.
- It remains uncertain if Thai banks can leverage global opportunities while mitigating the inherent risks of cross-border business ventures.
- Expansion is typically into markets with lower operating environment scores, which has the potential to raise performance volatility, higher credit and market risk, and lead to the requirement for higher loss absorption buffers.
- Aside from the impact to their Risk Profile assessments, banks with a substantial level of offshore exposures may see their Operating Environment scores be calculated using a blended approach, which may also affect how other rating factors are assessed.

Increased Funding Complexity

Thai D-SIBs Funding

Loan-to-deposit ratios



Source: Fitch Ratings, Fitch Solutions, banks

- Thai banks' funding sources are primarily in Thai baht, and from customer deposits. Liquidity profiles are generally stable, with no reliance on foreign or wholesale funding.
- Overseas expansion, particularly into non-bank financial institutions that are not self-funded, leads to the possibility of increasing their dependence on foreign markets.
- This may also lead to significantly greater asset-liability management challenges at Thai banks, and an increase in market risk exposures.

Summary of Regional Expansion Prospects

- Fitch expects a strong continued trend of Thai banks expanding their investments overseas, driven by structural factors such as relatively weak domestic growth and profitability constraints.
- The impact of these investments varies across banks, analysis is considered on a bank-by-bank basis. The analysis should include the investment size, funding methods and the synergy that could be created (in the case of M&A). Additionally, the changes to the business profile, risk profile and financial profile of the banks should be considered.
- International expansion can benefit a bank's business profile by enhancing revenue diversification and improving its overseas network.
- Key risks linked with overseas investments include the potential impact on the Operating Environment and Risk Profile of banks. Poor execution of cross-border acquisitions could also potentially lead to negative impacts on key Financial Profile factors.

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