

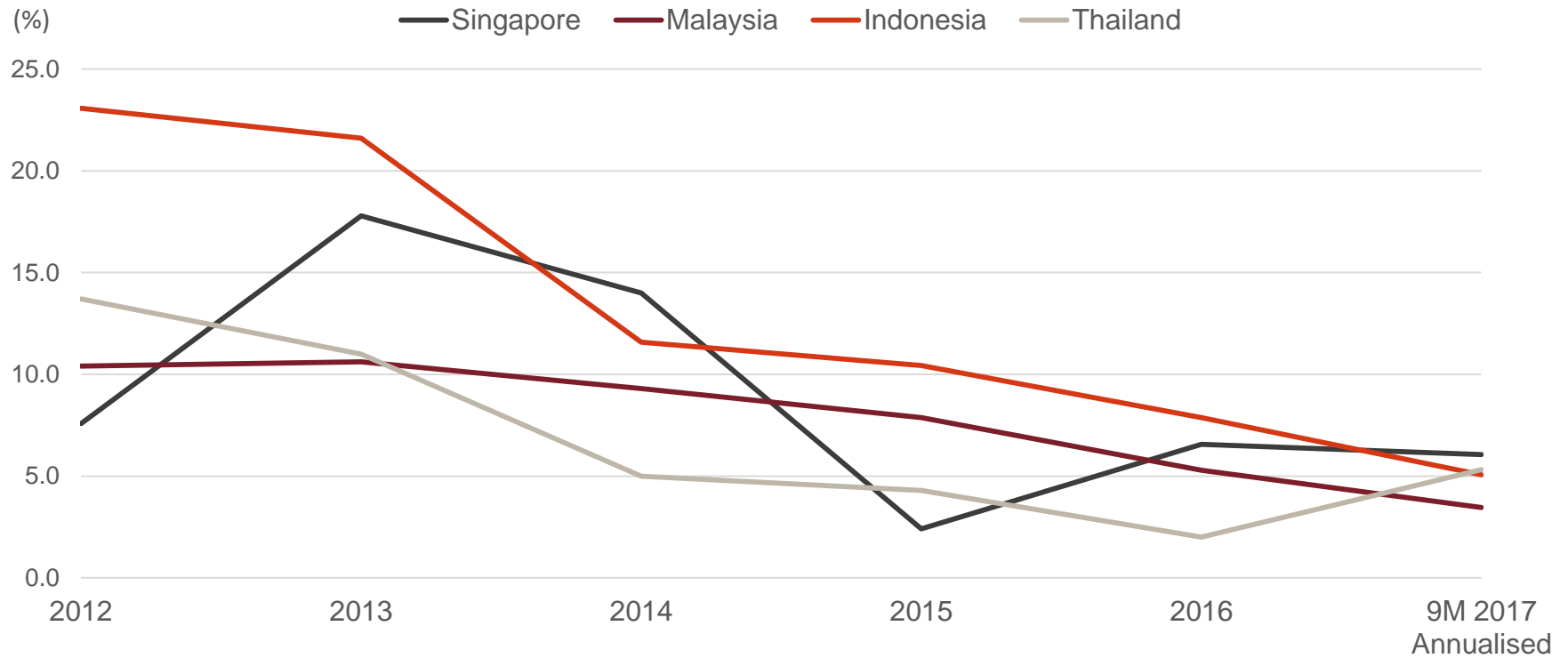
Thailand Banking Sector Trends

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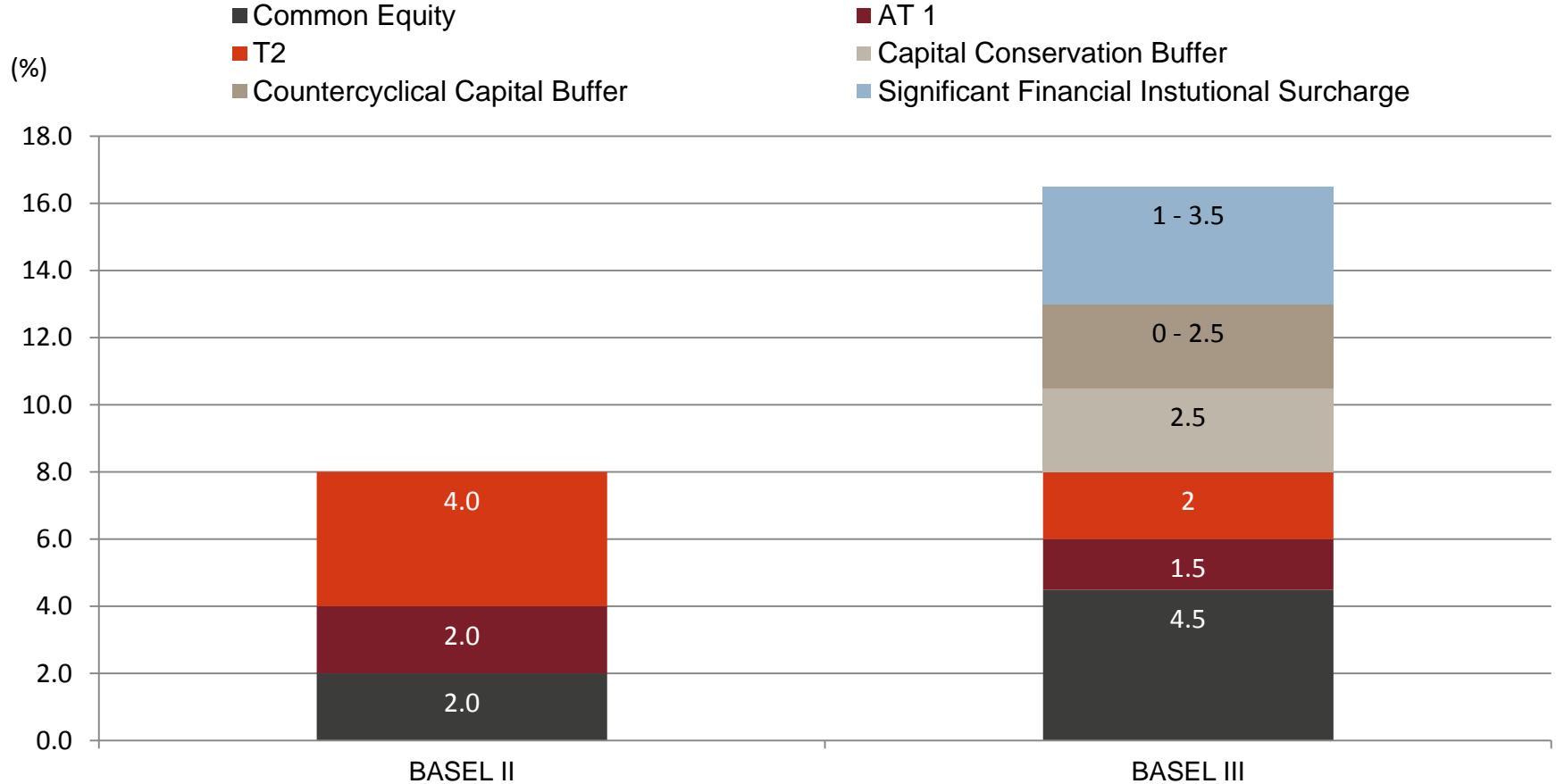
Long-Term Trend of Declining Loans Growth



Source: S&P Global Ratings, Central Bank Data

- Double digit to low single digit growth
- Revenue implications – interest income c.60% -70% of revenue
- 3Q17 GDP 4.3% fastest in four years

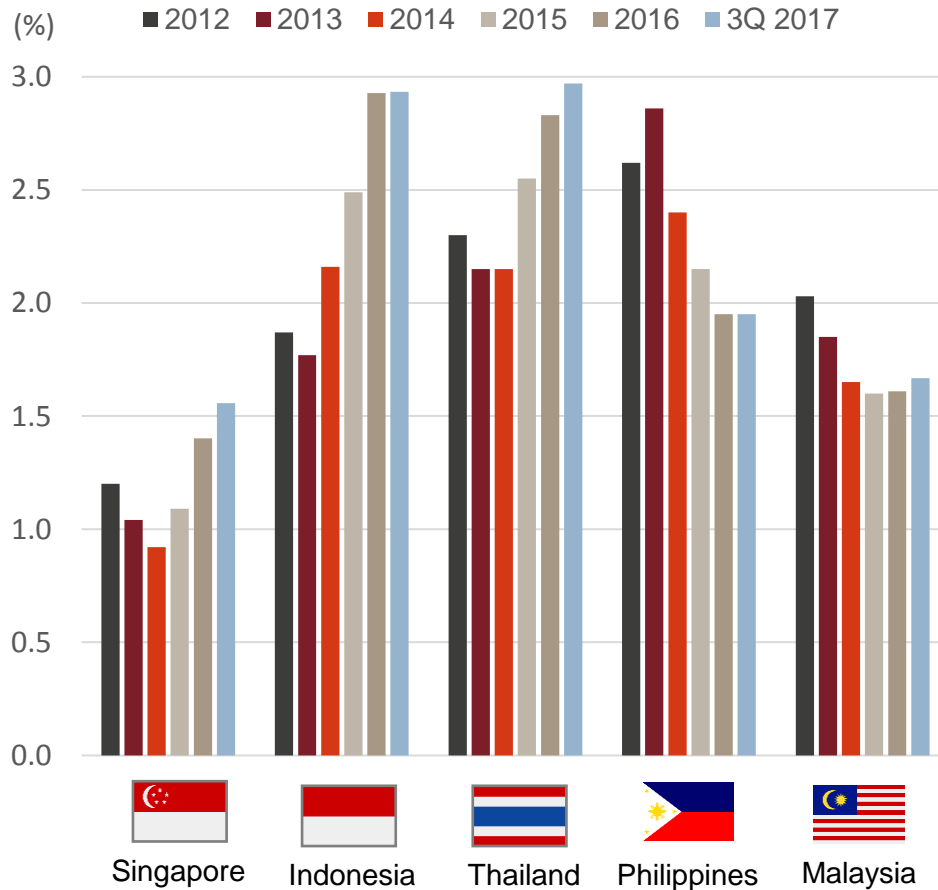
Regulations Have Raised Lending Costs



- Basel III requires higher quantity and quality of capital
- Introduction of several capital buffers, all to be met with common equity only
- IFRS 9

Headline NPL Appears To Be Peaking

Early signs of stabilization

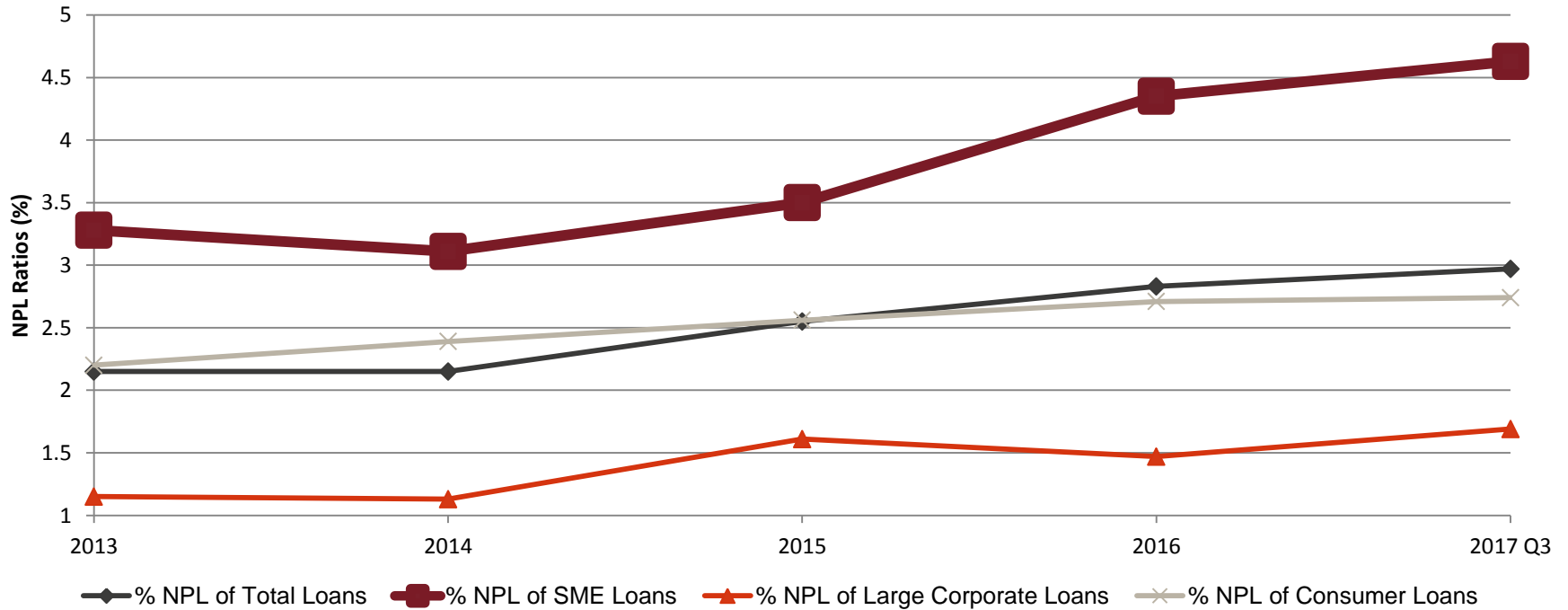


Source: S&P Global Ratings, Central Bank Data

- **Singapore** – Oil and Gas Upstream
- **Indonesia** – Mining and FX exposures
- **Thailand** – Retail orientated SME
- Macro trends are supportive – record GDP growth, low interest rates, full employment conditions, recovery in commodity
- **Philippines** – outperformer, economy driven by domestic consumption, not export dependent and limited commodities exposures

Lingering Weakness in the SME Segment

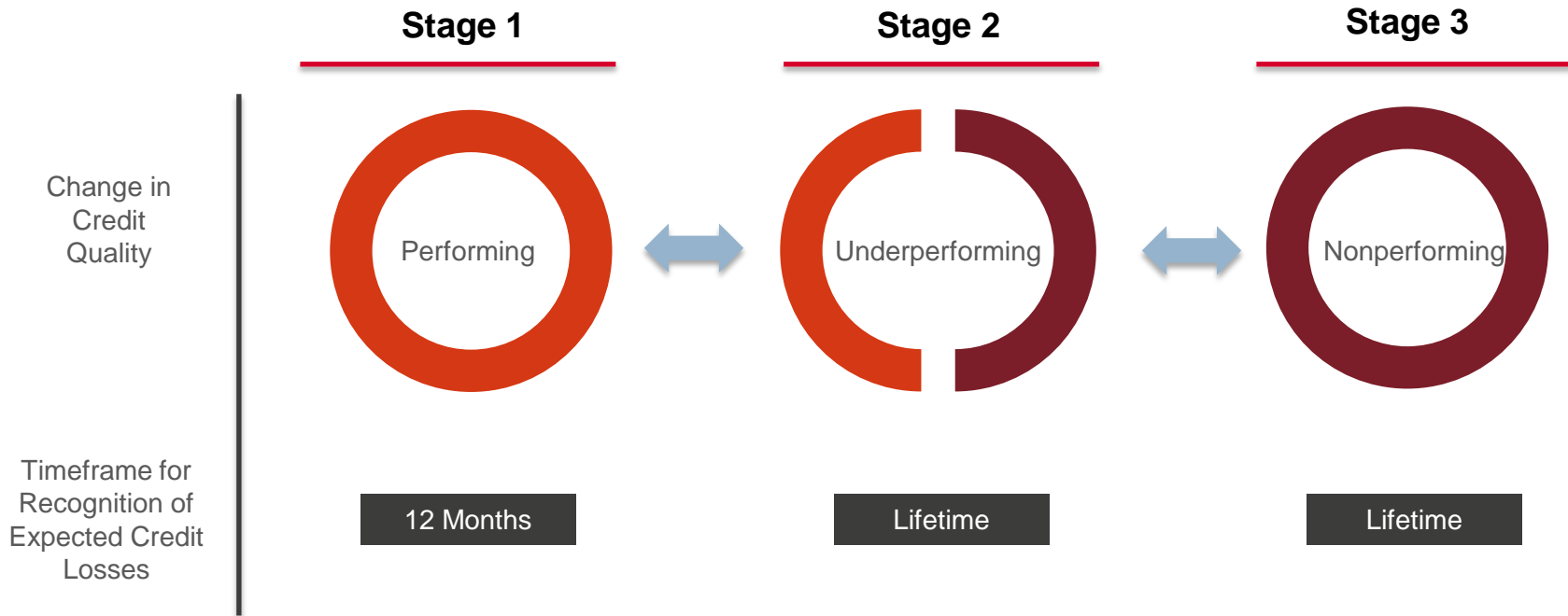
Breakdown of NPLs By Sector



Source: S&P Global Ratings, Central Bank Data

- Wide gap: SME NPL 4.6% vs Corporate NPL 1.7%
- Export driven recovery, domestic orientated SME missing out
- High household debt, aging demographics

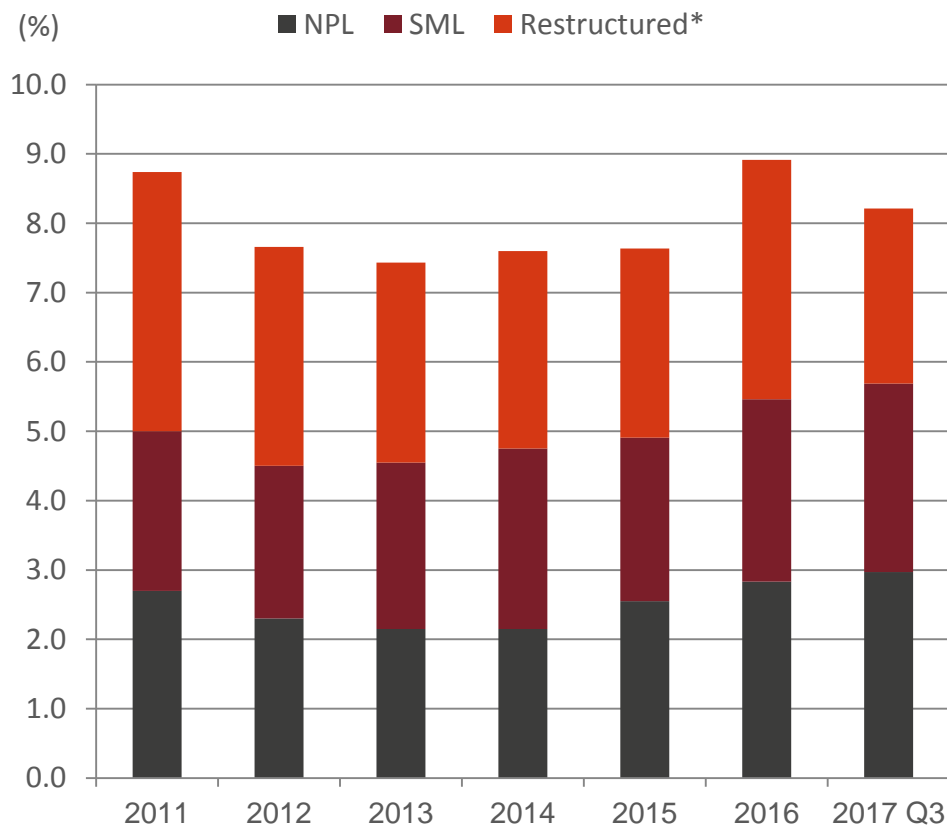
IFRS 9 May Raise Lending Costs



- Provisioning based on expected loss vs incurred loss
- Old: Loans classified as performing and non-performing
- New: Performing loans segregated into Stage 1 and Stage 2
- Watch list, special mention, restructured loans likely to be Stage 2
- Troubled SMEs likely Stage 2

The Impact of IFRS 9 Is Uneven

Thailand Banks Have Sizable Pool of Weak Loans



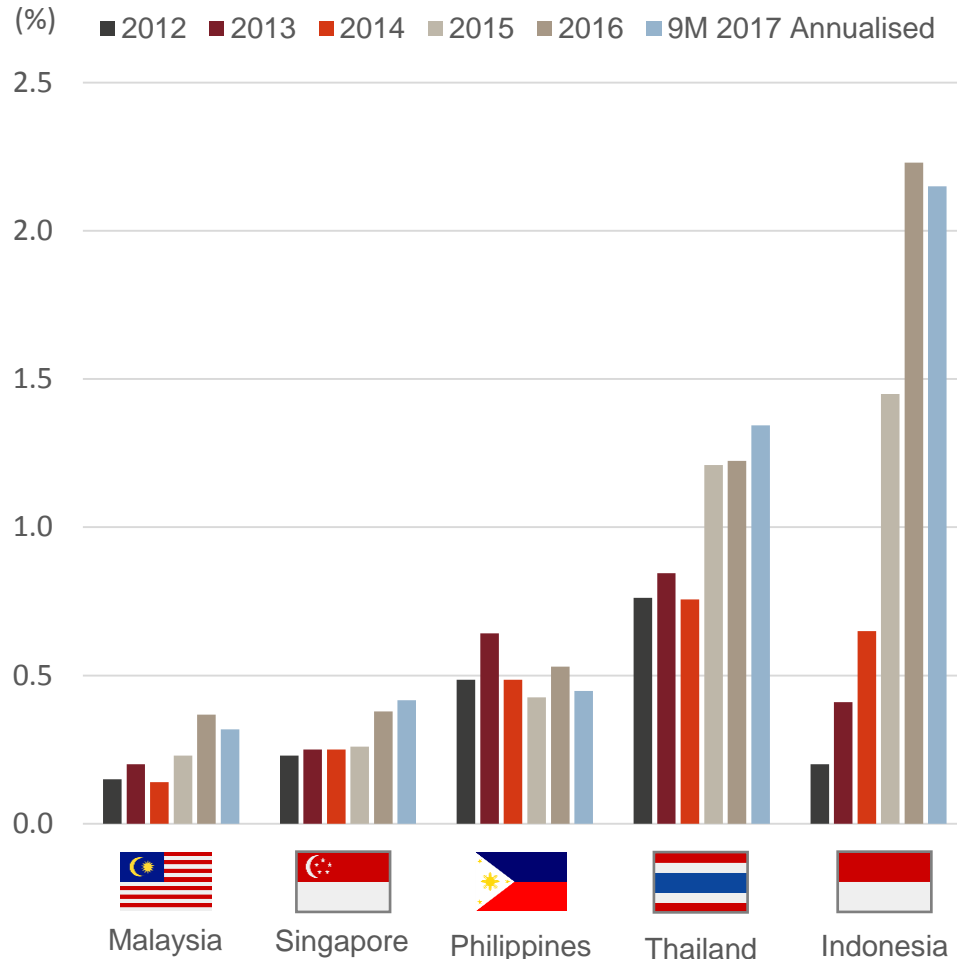
- Weak loans = NPL + Special Mention + Performing Restructured Loans
- Active restructuring of SME loans
- Provisioning could spike if SM and Restructured reclassified as Stage 2 loans

NPL – Nonperforming Loan. SML – Special Mention Loans *The restructured loans ratios is computed based on performing loan of the 5 rated banks in Thailand: Bank of Ayudhya, Bangkok Bank, Kasikornbank, Krung Thai Bank, Siam Commercial Bank.

Source: Bank of Thailand and Bank's Financial Reports

How Will ASEAN React to IFRS 9?

Credit Cost Comparison of ASEAN Banks

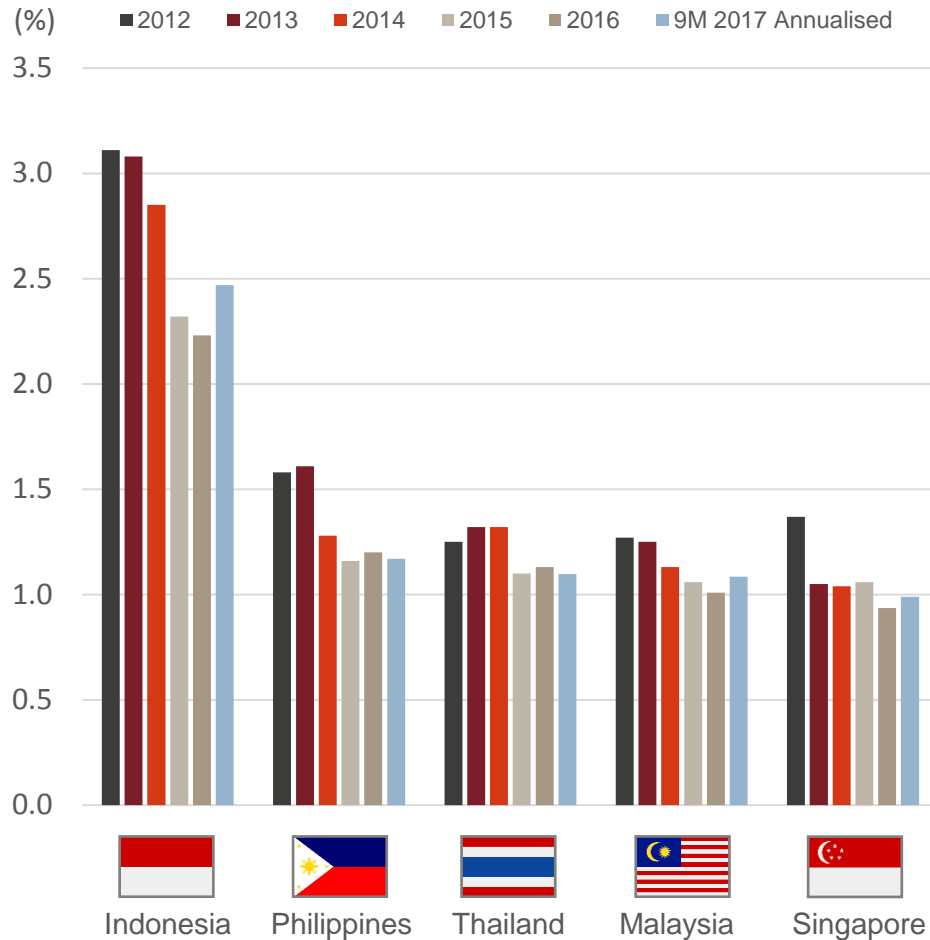


- Delay the implementation e.g. Indonesia Jan 2020
- Reduce loan tenor
- Pass on the additional provisioning costs to customers (but easier said than done)
- Prepare for P&L volatility – ECL will spike more during a downturn when loans move from Stage 1 to 2
- Complexity - The ECL model is subjective and Impact will vary across geographies and across banks – very hard to predict!

Source: Company's Financial Reports, S&P Global Calculations, Central Bank Data

Profitability Is The Main Casualty

Banks Earnings Under Pressure From Multiple Fronts



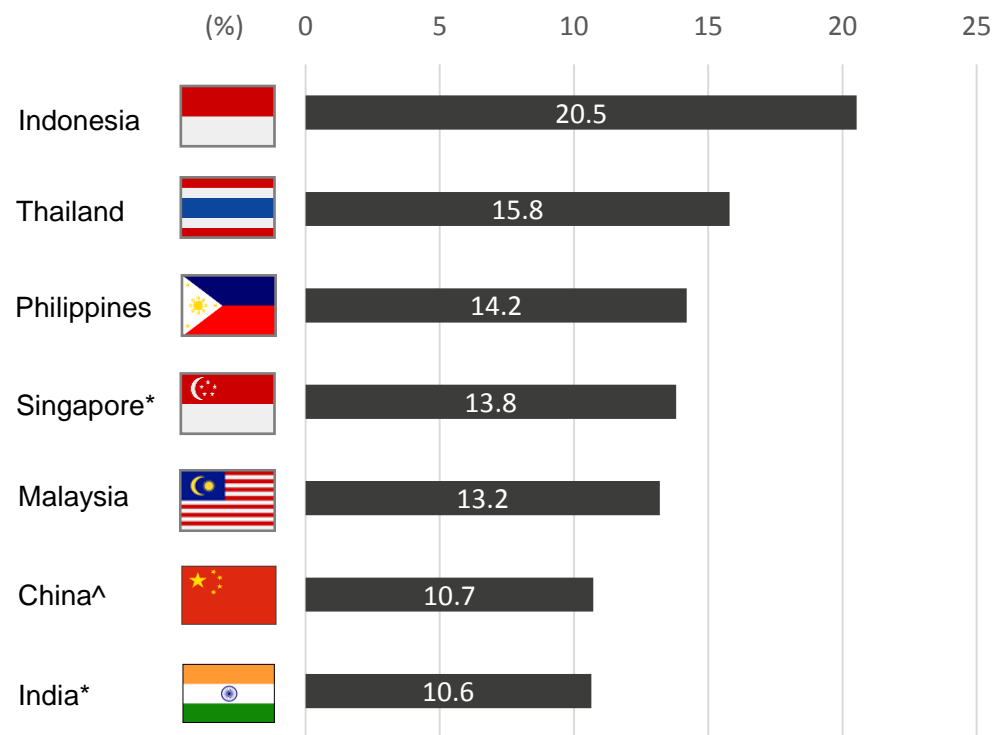
- Regulatory costs e.g. higher capital requirements likely under Basel IV
- Accounting and provisioning costs - IFRS 9
- Banks lowering lending rates to support SMEs e.g. 25 bps rate cut in May 2017
- Thai banks are doing the best that they can by managing costs (v. good cost to income of 45%) and embracing Fintech

Source: Company's Financial Reports, S&P Global Calculations, Central Bank Data

Adequate Capital Buffer, Funding and Liquidity

Build Up Of Financial Buffers Offer Downside Protection

Regional Banks' Common Equity Tier 1 Ratios



- **Capitalisation:** satisfactory, offset asset quality pressure
- **Provision coverage:** under stress but remain adequate (Thailand 130%)
- **Funding and Liquidity:** predominantly deposit funded (Thailand LCR 170%)
- **Government Support:** government support uplift ratings on banks' systemic importance.

*Estimated based on the average of S&P Global rated banks

^CBRC data for Chinese banking sector weighted average CET 1 ratio does not include foreign bank branches in China.

Data as of September 2017 except for The Philippines and India Banking system which is as of June 2017.

Source: SNL, Central Bank Data, S&P Global Ratings estimates

Thank you



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