

Bank Sector – Neutral

News update

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Net positive from government's forbearance

- **Further balance sheet clean-up...**
 - **...with funding support by the government.**
 - **This should improve lending appetites.**
 - **Beneficiaries are KKP, TTB and KBANK**
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- The Bank of Thailand (BoT) is set to announce details of a new forbearance program designed to aid borrowers and stabilize the banking sector. The scheme targets mortgage, auto hire-purchase (HP), and SME borrowers with Stage 2 loans or NPLs that are less than one year old, offering 3-year interest payment deferral and a reduction in principal and extension of repayment terms
 - The program focuses on borrowers in three categories:
 - 1) Housing loans: Loan amounts of not exceeding Bt3m.
 - 2) Auto HP loans: Loan amounts of not exceeding Bt800,000.
 - 3) SME loans: Loan amounts of not exceeding Bt3m for business purposes.
 - The cut-off date for loan classification eligibility is October 31, 2024, and participation requires registration with the BoT.
 - The Finance Ministry estimates that the program will cover 2.3m accounts, with a total debt of Bt1.31 tr. This includes: 37% in housing loans, 29% in auto HP loans and 34% in SME loans.
 - The BoT will support the program by reducing the FIDF fee by 0.23%, equivalent to approximately Bt35bn pa. Banks are required to match the FIDF savings with an equivalent amount of foregone interest income. For banks that provide interest reductions exceeding their FIDF savings, the BoT will offer compensation. Any mismatches in benefits will be settled in cash with the BoT by year-end, bypassing profit-and-loss (P&L) statements.
 - Financial Implications for Banks
 - 1) Interest Savings: Borrowers could save around 2% annually.
 - 2) Banks' P&L Impact: Lower interest income recognition and NIM contraction from Stage 2 loans. But these will be offset by reduced credit costs.
 - 3) Balance Sheet Benefits: The program enables banks to clean up their balance sheets with government-supported funding, potentially increasing lending appetite.
 - Banks with significant exposure to fragile borrowers in the targeted segments are poised to benefit the most. These include KKP, TTB and KBANK.
 - TTB and KTb remain our top sector pick, and we have recently upgraded KKP to BUY.

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