

50th
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ธนาคารกรุงไทย
KRUNGTHAI BANK

Management Discussion and Analysis

This report discusses principal changes in the reviewed consolidated financial statements for the three-month period ended March 31, 2016.

In early of 2016, Thai economy was driven by well-disbursed public spending and continued growth in the tourism sector from Chinese tourists and tourists from other regions. Nonetheless, private consumption was relatively stable, coupled with the contraction in the value of merchandise exports (excluding gold) as a result of a slowdown in major trading partners' economies such as China and ASEAN countries. Hence, overall Thai economy has stabilized from the previous period. The Bank, thus, conservatively operates the business, continuously improves working process as well as gives precedent to asset quality.

The Bank and Its Subsidiaries' Performance

Performance for the three-month period ended March 31, 2016

Operating Profit and Net Profit

Krung Thai Bank PCL and subsidiaries' operating profit was Bt 18,259 m, increased by Bt 4,338 m or 31.16% compared to 1Q2015. After deducting impairment loss on loans and debt securities and income tax expense, net profit was Bt 7,861 m, showing a decrease of Bt 358 m or 4.36% compared to 1Q2015. Net profit, attributable to equity holders of the Bank, was Bt 7,540 m, showing a decrease of Bt 389 m (4.91%) from 1Q2015.

	1Q2016	1Q2015	Unit : Million Baht	
			Change (1Q2016/1Q2015)	
			Amount	(%)
Operating profit (before Impairment loss of loans and debt securities)	18,259	13,921	4,338	31.16
Operating profit before tax	9,636	10,197	(561)	(5.50)
Income tax expense	1,775	1,978	(203)	(10.26)
Net profit	7,861	8,219	(358)	(4.36)
Net profit (attributable to equity holders of the Bank)	7,540	7,929	(389)	(4.91)

Net Interest Income

The Bank and its subsidiaries' net interest income equaled Bt 21,341 m, showing an increase of Bt 2,003 m (10.36%) from 1Q2015 due to the appropriate funding cost management and the shifting toward high yield loans strategy, partly softened impact from the downward interest rate trend. The policy rate was cut twice in the first and second quarter of 2015, total of 0.5 basis points, followed by the reduction of loan and term deposit rate of the Bank. Consequently, Net Interest Margin (NIM) rose to 3.17% from 2.88% in 1Q2015.

Unit : Million Baht

	1Q2016	1Q2015	Change (1Q2016/1Q2015)	
			Amount	(%)
Interest income	32,666	33,048	(382)	(1.16)
- Interbank and money market items	2,791	3,499	(708)	(20.23)
- Investments and trading transactions	26	119	(93)	(78.15)
- Investment in debt securities	679	856	(177)	(20.68)
- Loans	28,336	27,585	751	2.72
- Hire purchase and financial lease	823	984	(161)	(16.36)
- Others	11	5	6	120.00
Less Interest expense	11,325	13,710	(2,385)	(17.40)
- Deposits	6,852	9,162	(2,310)	(25.21)
- Interbank and money market items	706	606	100	16.50
- Contributions to BOT and DPA	2,460	2,546	(86)	(3.38)
- Debts issued	1,290	1,387	(97)	(6.99)
Debenture	1,212	1,204	8	0.66
B/E	78	183	(105)	(57.38)
- Borrowings	7	7	0	0.00
- Others	10	2	8	400.00
Net interest income*	21,341	19,338	2,003	10.36
Net interest margin [based on earning assets] (%)	3.17	2.88		

* The Bank has reclassified fee from loan from one of KTB's subsidiaries, thus some fee from loan in interest income were grouped as fee income since 3Q2015 onwards. Nonetheless, if Statements of income and other comprehensive income of 1Q2015 were restated, the net interest income and net fee income will be Bt 18,755 m and Bt 4,916 m respectively. Thus, the net interest income and net fee income growth of 1Q2016, compare to 1Q2015, will be Bt 2,586 m (13.79%) and Bt 293 m (5.96%) respectively.

	31 Mar 2016	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015
Policy Interest Rate (%)	1.50%	1.50%	1.50%	1.50%	1.75%
Deposit Rate (%)					
- Saving Rate	0.50%	0.50%	0.50%	0.50%	0.50%
- 3 Months Fixed Rate	0.90%	0.90%	0.90%	0.90%	1.00%-1.125%
- 6 Months Fixed Rate	1.35%	1.35%	1.35%	1.35%	1.55%
- 12 Months Fixed Rate	1.50%	1.50%	1.50%	1.50%	1.625%
Loan Rate (%)					
- MLR	6.525%*	6.525%	6.525%	6.525%	6.625%
- MOR	7.375%*	7.375%	7.375%	7.375%	7.375%
- MRR	7.875%*	7.875%	7.875%	7.875%	8.00%

* The Bank announced the reduction on MLR to 6.275%, effective on 6th April 2016 and the reduction of MOR and MRR to 7.120% and 7.620% respectively, effective on 27th April 2016.

Net Fee and Service Income

The Bank and its subsidiaries' net fee and service income in 1Q2016 was Bt 5,209 m, increased by Bt 876 m or 20.22% from 1Q2015 in response to the fee expansion from electronic banking services as well as ATM and credit card businesses.

	Unit : Million Baht			
	1Q2016	1Q2015	Change (1Q2016/1Q2015)	
			Amount	(%)
Fee and service income	6,130	4,992	1,138	22.80
Less Fee and service expense	921	659	262	39.76
Net fee and service income*	5,209	4,333	876	20.22

* The Bank has reclassified fee from loan from one of KTB's subsidiaries, thus some fee from loan in interest income were grouped as fee income since 3Q2015 onwards. Nonetheless, if Statements of income and other comprehensive income of 1Q2015 were restated, the net interest income and net fee income will be Bt 18,755 m and Bt 4,916 m respectively. Thus, the net interest income and net fee income growth of 1Q2016, compare to 1Q2015, will be Bt 2,586 m (13.79%) and Bt 293 m (5.96%) respectively.

Total Other Operating Income

The Bank and its subsidiaries' total other operating income in 1Q2016 was Bt 4,173 m, increased by Bt 757 m or 22.16% from 1Q2015 mainly from the increase by Bt 735 m (67.31%) from the gains on tradings and foreign exchange transactions as the growing of businesses related to global market services.

	Unit : Million Baht			
	1Q2016	1Q2015	Change (1Q2016/1Q2015)	
			Amount	(%)
Gain (loss) on trading and foreign exchange transactions, net	1,827	1,092	735	67.31
Gain (loss) on investments, net	338	277	61	22.02
Share of profit (loss) from investments on equity method	559	913	(354)	(38.77)
Dividend income	116	175	(59)	(33.71)
Other income	1,333	959	374	39.00
Total other operating income	4,173	3,416	757	22.16

Other Operating Expenses

The Bank and its subsidiaries' other operating expenses in 1Q2016 were Bt 12,464 m, reduced by Bt 702 m (5.33%) from 1Q2015 mainly because of the shrinking of premises and equipment expenses and bonus expenses as the decline of the year 2015 profit. Cost-to-Income Ratio was 40.57% compared to 48.61% in 1Q2015, as a result of the expansion of operating income along with the decrease of operating expense in above mentioned.

Unit : Million Baht

	1Q2016	1Q2015	Change (1Q2016/1Q2015)	
			Amount	(%)
Personnel expenses	7,715	7,872	(157)	(1.99)
Directors' remuneration	15	14	1	7.14
Premises and equipment expenses	2,067	2,284	(217)	(9.50)
Taxes and duties	1,238	1,261	(23)	(1.82)
Others	1,429	1,735	(306)	(17.64)
Total other operating expenses	12,464	13,166	(702)	(5.33)
Cost-to-income ratio (%)	40.57	48.61		

Bad Debts, Doubtful Accounts and Loss on Impairment

For 1Q2016, the Bank and its subsidiaries set aside Bt 8,623 m provision for impairment loss of loans and debt securities, increased by Bt 4,899 m (131.55%), compared to 1Q2015. On the bank-only basis, the Bank set aside Bt 6,996 m provision for impairment loss of loans and debt securities. In 2016, the Bank's monthly normalized provision policy increased from Bt 700 m to Bt 1,000 m in accordance with the consideration of outstanding loans and economic situation factor. Furthermore, the Bank's additional provision were provided in amount of Bt 4,000 m in response to the rise in NPLs and the prudent banking practice to maintain coverage ratio at not less than 100%.

The Bank and its subsidiaries' coverage ratio was 103.43%, compared to 112.55% as at the end of year 2015.

Unit : Million Baht

	1Q2016	1Q2015	Change (1Q2016/1Q2015)	
			Amount	(%)
Impairment loss of loans and debt securities	8,623	3,724	4,899	131.55

The Bank and Its Subsidiaries' Financial Status

As at the period ended March 31, 2016

Loans to Customers

According to the Consolidated Financial Statements, the Bank and its subsidiaries' loans to customers (less deferred revenue) as of March 31, 2016 totaled Bt 1,991,305 m, reduced by Bt 36,135 m or 1.78% from December 31, 2015, owing to the contraction of all major sectors as the declining demand in the slowdown economy situation and the cautiousness in lending.

The following table provides information on the Bank's loan portfolio according to its borrowers:

Unit : Million Baht

The Bank's Financial Statements	Mar 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Private Corporate	681,464	35.22	685,253	34.79	(0.55)
Government and State Enterprise	113,935	5.89	129,865	6.59	(12.27)
SMEs*	417,411	21.57	429,125	21.79	(2.73)
Retail	721,444	37.29	725,122	36.81	(0.51)
Others	483	0.03	462	0.02	4.55
Total loans	1,934,737	100.00	1,969,827	100.00	(1.78)
Less Deferred revenue	154		166		
Total	1,934,583		1,969,661		

*SMEs were private companies that have employee no. less than/equal to 200 people and fixed asset (excluding land) less than/equal to Bt 200 m.

Investments

The Bank and its subsidiaries' total investments net as of March 31, 2016 totaled Bt 245,571 m, declined by Bt 16,161 m or 6.17% from the end of last year.

Unit : Million Baht

	Mar 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Investments, net	225,259	91.73	247,082	94.40	(8.83)
Investments in subsidiaries and associates, net	20,312	8.27	14,650	5.60	38.65
Total investments, net	245,571	100.00	261,732	100.00	(6.17)

Total Assets

Total assets as at March 31, 2016 were Bt 2,851,181 m, rose by Bt 35,851 m or 1.27% from December 31, 2015, owing to the expansion of net interbank and money market items from its liquidity position in spite of the decrease in loans to customers and total investments.

Liabilities

As at March 31, 2016, the Bank and its subsidiaries' deposits were Bt 2,092,754 m, decreased by Bt 42,744 m (2.00%) from the end of last year mainly from the reduction of current deposit and the maturity of term deposit. On the contrary, the Bank's net interbank & money market items and debts issued & borrowings rose by Bt 31,324 m (16.13%) and Bt 1,603 m (1.38%) respectively.

The Bank and its subsidiaries' total liabilities were Bt 2,583,607 m, raised by Bt 18,575 m (0.72%) from December 31, 2015.

Equity

The total equity (Equity holders of the Bank) as at March 31, 2016 was Bt 263,262 m, showing an increase of Bt 17,379 m or 7.07% from December 31, 2015.

Book value per share (Equity holders of the Bank) was Bt 18.83, raised from Bt 17.59 as at December 31, 2015.

Liquidity

As of March 31, 2016, loans to customers (less deferred revenue) -to-deposits ratio increased to 95.15% in comparison to 94.94% as at December 31, 2015, as a reason of the reduction of deposits, consistent with the contraction of loans

Sources and Uses of Funds

As of March 31, 2016, of the Bank's source of funds, 73.40% were deposits; the rest included interbank borrowings, debt issued and borrowings and shareholders' equity. For the period, 69.84% of funds were loans to customers (less deferred revenue). Meanwhile, net interbank and money market items, and net investments and net investments in subsidiaries and associates contributed to 17.40% and 8.61% of the Bank and its subsidiaries' asset, respectively.

Unit : Million Baht

	Mar 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Deposits	2,092,754	73.40	2,135,498	75.85	(2.00)
Interbank and money market items, net	225,567	7.91	194,243	6.90	16.13
Debt issued and borrowings	117,843	4.13	116,240	4.13	1.38
Others	147,443	5.17	119,051	4.23	23.85
Total equity					
- Equity holders of the Bank	263,262	9.24	245,883	8.73	7.07
- Non-controlling interest	4,312	0.15	4,415	0.16	(2.33)
Total	2,851,181	100.00	2,815,330	100.00	1.27

Statutory Capital Fund

As at March 31, 2016, Common Equity Tier 1 capital was Bt 223,049 m (11.56% of its risk-weighted assets (RWA)), Tier 1 capital was Bt 229,431 m (11.89% of its risk-weighted assets (RWA)). Total capital was Bt 303,388 m (15.72% of its risk-weighted assets (RWA)), increased from 15.22% at December 31, 2015). The calculation was in line with BOT's regulations regarding Basel III compliance.

Unit : Million Baht

The Bank's Financial Statements	March 31, 2016			December 31, 2015		
	Amount	(%)	The minimum rate required by the BOT* (%)	Amount	(%)	The minimum rate required by the BOT (%)
Common Equity Tier 1 capital	223,049	11.56	5.125	217,646	11.06	4.50
Tier 1 capital	229,431	11.89	6.625	225,092	11.43	6.00
Tier 2 capital	73,957			74,529		
Total capital fund	303,388	15.72	9.125	299,621	15.22	8.50
Risk-weighted assets	1,930,063			1,968,708		

* According to the BOT guideline, commercial banks in Thailand have to implement the extension of the capital conservation buffer which will require banks to hold a further 0.625% of the minimum capital ratio annually, effective from 2016 until 2019.

Asset Quality

Non-Performing Loans

The Bank and its subsidiaries' NPLs as at March 31, 2016 amounted to Bt 90,031 m, increased by Bt 13,660 m (17.89%) from December 31, 2015. The increase of NPLs was partly from corporate, large SME clients combined with the increase of NPLs from SME and retail sectors, owing to the weak economic conditions. NPLs ratio (gross) was 3.70% and NPLs ratio (net) was 1.89%.

On the bank-only basis, the Bank's gross non-performing loans (NPLs) were Bt 85,467 m, showing an increase of Bt 13,619 m, or 18.96% from December 31, 2015. NPLs ratio (gross) was 3.59% and NPLs ratio (net) was 1.90%.

The Bank highlighted the stringent collection process along with the tightened debt restructuring as the main priorities to cope with the deteriorated asset quality under unfavorable economic situation.

Unit: Million Baht

	Mar 31, 2016		Dec 31, 2015		Change (%)
	Amount	(%)	Amount	(%)	
1. Loans					
Normal	1,852,517	93.03	1,899,234	93.68	(2.46)
Special Mention	48,757	2.45	51,835	2.56	(5.94)
Sub-Standard	24,396	1.22	18,722	0.92	30.31
Doubtful	18,231	0.92	19,004	0.94	(4.07)
Doubtful of loss	47,404	2.38	38,645	1.90	22.67
Total Loans	1,991,305	100.00	2,027,440	100.00	(1.78)
2. NPLs gross ⁽¹⁾	90,031	3.70	76,371	3.20	17.89
NPLs net ⁽¹⁾	45,079	1.89	40,612	1.73	
3. Provisioning for loan loss ⁽²⁾	93,117		85,956		8.33
Coverage Ratio		103.43		112.55	

(1) NPLs Ratio (gross) and NPLs Ratio (net) from BOT definition

(2) Allowance for doubtful accounts and revaluation allowance for debt restructuring

Credit Ratings

Bank's credit ratings rated by Standard and Poor's, Moody's Investors Service and Fitch Ratings were as follows:

	March 2016	December 2015
<ul style="list-style-type: none"> ■ Standard & Poor's 		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	BBB / A-2	BBB / A-2
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Stand-Alone Credit Profile (SACP) 	bb+	bb+
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (USD) 	B+	B+
<ul style="list-style-type: none"> ■ Moody's Investors Service 		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	Baa1 / P-2	Baa1 / P-2
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Baseline Credit Assessment (BCA) 	ba1	ba1
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (USD) 	B1	B1
<ul style="list-style-type: none"> ■ Fitch Ratings 		
<ul style="list-style-type: none"> Foreign Currency Credit Ratings 		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	BBB / F3	BBB / F3
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Viability Rating 	bbb-	bbb-
<ul style="list-style-type: none"> ▪ Subordinated Debt (USD) 	BBB-	BBB-
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (USD) 	B	B
<ul style="list-style-type: none"> National Credit Ratings 		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	AA+(tha) / F1+ (tha)	AA+(tha) / F1+ (tha)
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Subordinated Debt (Baht) 	AA(tha)	AA(tha)
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (Baht) 	BBB(tha)	BBB(tha)