

50th
ANNIVERSARY



ธนาคารกรุงไทย
KRUNGTHAI BANK

Management Discussion and Analysis

This report discusses principal changes in the audited consolidated financial statements for the three-month period ended September 30, 2016.

Thai economy expanded at the gradual pace on the back of public spending, private consumption, and tourism sector. The growth of tourism sector benefited the revenue for service sector and increased in private consumption. The value of merchandise exports continued to grow especially in electronic products, automobile, and electrical appliances in line with the key trading partner countries' economy after contraction since the first quarter of 2015. Nevertheless, private investment stayed low.

The Bank and Its Subsidiaries' Performance Performance for nine-month period of 2016

For the nine-month period of 2016, the Bank's consolidated pre-provision profit was Bt 55,367m, increased by Bt 6,947m (14.35%) compared to the same period of last year, attributed to the increase of net interest income by Bt 5,644m (9.49%) from the downsizing of interest expenses by Bt 6,839m (17.40%) as a consequence of the maturity of high-cost term deposit and appropriate funding cost management even though the interest income decreased by Bt 1,195m (1.21%). Moreover, net fee and service income improved by Bt 435m (2.77%) from ATM related business and electronic banking service fees.

The Bank's consolidated provision for bad debts, doubtful accounts and loss on impairment compared to the same period of last year, was Bt 24,000 m, increased by Bt 2,308 m (10.64%) compared to the same period of last year in order to maintain the coverage ratio of not less than 100%. The Bank's consolidated net profit was Bt 25,778 m, expanded by Bt 3,276m (14.56%) and net profit attributable to equity holders of the Bank, was Bt 24,841 m, showing an increase of Bt 3,117 m (14.35%) from the same period of last year.

Asset quality has deteriorated from the end of the year 2015 from corporate clients combined with SMEs and retail sectors. Consequently, the nine-month period of 2016, the Bank's consolidated coverage ratio was 105.58%.

Performance for the three-month period ended September 30, 2016

Pre-Provision Profit and Net Profit

KTB's consolidated pre-provision profit was Bt 18,400 m, increased by Bt 1,359 m or 7.97% compared to 3Q2015. After deducting impairment loss on loans and debt securities and income tax expense, net profit was Bt 8,946 m, showing an increase of Bt 3,347 m or 59.78% compared to 3Q2015. Net profit, attributable to equity holders of the Bank, was Bt 8,623 m, showing an increase of Bt 3,276 m or 61.27% from 3Q2015.

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Pre-provision profit*	18,400	18,708	(1.65)	17,041	7.97
Pre-provision profit before tax	10,764	10,967	(1.85)	6,588	63.39
Income tax expense	1,818	1,995	(8.87)	989	83.82
Net profit	8,946	8,972	(0.29)	5,599	59.78
Net profit (attributable to equity holders of the Bank)	8,623	8,679	(0.65)	5,347	61.27

*Pre-provision profit before Impairment loss of loans and debt securities

Net Interest Income

KTB's consolidated net interest income equaled Bt 21,595 m, showing an increase of Bt 2,360 m (12.27%) from 3Q2015 due to the maturity of high-cost fixed deposit as well as appropriate funding cost management. Consequently, Net Interest Margin (NIM) rose to 3.24% from 2.91% in 3Q2015.

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Interest income	31,996	32,920	(2.81)	31,791	0.64
- Interbank and money market items	2,841	2,839	0.07	2,727	4.18
- Investments and trading transactions	37	34	8.82	60	(38.33)
- Investment in debt securities	1,082	1,739	(37.78)	1,368	(20.91)
- Loans	27,309	27,534	(0.82)	26,727	2.18
- Hire purchase and financial lease	718	765	(6.14)	899	(20.13)
- Others	9	9	0.00	10	(10.00)
Less Interest expense	10,401	10,743	(3.18)	12,556	(17.16)
- Deposits	6,044	6,317	(4.32)	8,124	(25.60)
- Interbank and money market items	669	670	(0.15)	644	3.88
- Contributions to BOT and DPA	2,386	2,445	(2.41)	2,459	(2.97)
- Debts issued	1,289	1,297	(0.62)	1,314	(1.90)
Debenture	1,203	1,214	(0.91)	1,209	(0.50)
B/E	86	83	3.61	105	(18.10)
- Borrowings	7	7	0.00	7	0.00
- Others	6	7	(14.29)	8	(25.00)
Net interest income*	21,595	22,177	(2.62)	19,235	12.27
Net interest margin [based on earning assets] (%)	3.24	3.28	(0.04)	2.91	0.33

* For the nine-month period Statements of income and other comprehensive income of the year 2015, 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 which had partly impact on some items showing in the third quarter of 2015. Nonetheless, if statements of income and other comprehensive income of 3Q2015 were restated, the net interest income and net fee income will be Bt 20,408 m and Bt 5,590 m respectively. Thus, the net interest income and net fee income growth of 3Q2016, compare to 3Q2015, will be Bt 1,187 m (5.82%) and Bt 3 m (0.05%) respectively.

	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015	30 Sep 2015
Policy Interest Rate (%)	1.50%	1.50%	1.50%	1.50%	1.50%
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%	0.90%
- 6 Months Fixed Rate	1.35%	1.35%	1.35%	1.35%	1.35%
- 12 Months Fixed Rate	1.40%	1.40%	1.50%	1.50%	1.50%
Loan Rate (%)					
- MLR	6.275%	6.275%	6.525%	6.525%	6.525%
- MOR	7.120%	7.120%	7.375%	7.375%	7.375%
- MRR	7.620%	7.620%	7.875%	7.875%	7.875%

Net Fee and Service Income

KTB's consolidated net fee and service income in 3Q2016 amounted to Bt 5,593 m, decreased by Bt 1,167 m (17.26%) from 3Q2015 in response to the contraction of loans.

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Fee and service income	6,514	6,394	1.88	7,470	(12.80)
Less Fee and service expense	921	1,063	(13.36)	710	29.72
Net fee and service income*	5,593	5,331	4.91	6,760	(17.26)

* For the nine-month period Statements of income and other comprehensive income of the year 2015, 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 which had partly impact on some items showing in the third quarter of 2015. Nonetheless, if statements of income and other comprehensive income of 3Q2015 were restated, the net interest income and net fee income will be Bt 20,408 m and Bt 5,590 m respectively. Thus, the net interest income and net fee income growth of 3Q2016, compare to 3Q2015, will be Bt 1,187 m (5.82%) and Bt 3 m (0.05%) respectively.

Total Other Operating Income

KTB's consolidated total other operating income in 3Q2016 amounted to Bt 4,349 m, increased by Bt 1,070 m (32.63%) from 3Q2015. The main reason was the share of profit from investments by using equity method was well expanded from the insurance companies.

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Gain (loss) on trading and foreign exchange transactions, net	1,851	1,689	9.59	1,688	9.66
Gain (loss) on investments, net	148	237	(37.55)	27	448.15
Share of profit (loss) from investments on equity method	744	543	37.02	509	46.17
Dividend income	145	157	(7.64)	98	47.96
Other income	1,461	758	92.74	957	52.66
Total other operating income	4,349	3,384	28.52	3,279	32.63

Other Operating Expenses

The Bank's consolidated other operating expenses were Bt 13,137 m, increased by Bt 904 m (7.39%) compared to 3Q2015, mainly from the growth of other expenses and personnel expense by Bt 828 m (38.98%) and Bt 295 m (4.51%) respectively. With the same pace of operating income and expenses growth, the Cost-to-Income Ratio were 41.66% in 3Q2016 steady to 3Q2015 at 41.79%.

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Personnel expenses	6,843	6,744	1.47	6,548	4.51
Directors' remuneration	14	67	(79.10)	14	0.00
Premises and equipment expenses	2,205	2,222	(0.77)	2,291	(3.75)
Taxes and duties	1,123	1,125	(0.18)	1,256	(10.59)
Others	2,952	2,026	45.71	2,124	38.98
Total other operating expenses	13,137	12,184	7.82	12,233	7.39
Cost-to-income ratio (%)	41.66	39.44	2.22	41.79	(0.13)

Impairment Loss of Loans and Debt Securities

The Bank and its subsidiaries set aside Bt 7,636 m provision for impairment loss of loans and debt securities, decreased by Bt 2,817 m (26.95%) compared to 3Q2015 as the special transaction in the provision expense for the clients from steel industry in 3Q2015.

In 3Q2016, the Bank set aside Bt 6,500 m provision for impairment loss of loans and debt securities. Since 2016, the Bank's monthly normalized provision increased from Bt 700 m to Bt 1,000 m to be suitable to the Bank's outstanding loans. Moreover, in 3Q2016, the Bank set aside additional provision of Bt 3,500 m as a consequence of asset quality.

The Banks and its subsidiaries' coverage ratio was 105.58%, showing the decrease from 112.55% as at December 31, 2015. (The Bank's coverage ratio was 104.52%, decreased from 110.54% as at December 31, 2015)

Unit : Million Baht

	3Q2016	2Q2016	Change (%)	3Q2015	Change (%)
Impairment loss of loans and debt securities	7,636	7,741	(1.36)	10,453	(26.95)

The Bank and Its Subsidiaries' Financial Status As at the period ended September 30, 2016

Loans to Customers

The Bank's consolidated total loans to customers (less deferred revenue) was Bt 1,906,053 m, reduced by Bt 121,387 m (5.99%) from end of year 2015, as a consequence of the contraction of loan from all sectors especially the repayment from government sector and some corporate clients as well as stringent underwriting standard resulting in the decrease of total asset by Bt 126,153 m (4.48%) to be Bt 2,689,177 m.

- Loan portfolio breakdown by borrowers

Unit : Million Baht

The Bank's Financial Statements	Sep 30, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Private Corporate	656,590	35.58	685,253	34.79	(4.18)
Government and State Enterprise	82,818	4.49	129,865	6.59	(36.23)
SMEs*	392,554	21.27	429,125	21.78	(8.52)
Retail	713,180	38.64	725,122	36.81	(1.65)
Others	467	0.03	462	0.02	1.08
Total loans	1,845,610	100.00	1,969,827	100.00	(6.31)
Less Deferred revenue	159		166		(4.22)
Total	1,845,451		1,969,661		(6.31)

*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

KTB's consolidated net investments as of September 30, 2016 totaled Bt 239,966 m, declined by Bt 21,766 m (8.32%) from the end of last year.

Unit : Million Baht

	Sep 30, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Investments, net	221,614	92.35	247,082	94.40	(10.31)
Investments in subsidiaries and associates, net	18,352	7.65	14,650	5.60	25.27
Total investments, net	239,966	100.00	261,732	100.00	(8.32)

Total Assets

KTB's consolidated total assets as at September 30, 2016 was Bt 2,689,177 m, decreased by Bt 126,153 m (4.48%) from December 31, 2015, owing to the contraction of loans to customers (less deferred revenue) by 121,360m (6.15%).

Liabilities

The Bank's consolidated deposits was Bt 1,973,357 m, decreased by Bt 162,141 m (7.59%) from December 31, 2015 due to the maturity of long term deposit, consistent with the contraction of loans. The Bank's consolidated loans to customers (less deferred revenue) -to-deposits ratio was 96.59%, increased from the end of year 2015 at 94.94%. Meanwhile, the net interbank and money market item was Bt 209,366 m, increased by Bt 15,123 m (7.79%). Thus, the Bank's consolidated total liabilities were Bt 2,413,009 m, decreased by Bt 152,023 m (5.93%) compared to December 31, 2015

The Bank redeemed its US dollar Perpetual Non-Cumulative Tier 1 Securities in whole, in an amount of US\$189.5m (Bt 7,112.5m) on October 10, 2016 resulting in the contraction of Bank's debt issued and borrowings in 4Q2016

Equity

The total equity (Equity holders of the Bank) as at September 30, 2016 amounted to Bt 271,240 m, showing an increase of Bt 25,357 m (10.31%) from December 31, 2015.

Book value per share (Equity holders of the Bank) was Bt 19.40, raised from Bt 17.59 as at December 31, 2015.

Sources and Uses of Funds

As of September 30, 2016, 73.38% of the Bank's source of funds was deposits; the rests were interbank borrowings, debt issued and borrowings, and equity. The Bank's use of funds comprised of 70.88% loans to customers (less deferred revenue), 16.62% net interbank and money market items, and 8.92% net investments and net investments in subsidiaries and associates.

Unit : Million Baht

	Sep 30, 2016		Dec 31, 2015		Change (%)
	Amount	(%)	Amount	(%)	
Deposits	1,973,357	73.38	2,135,498	75.85	(7.59)
Interbank and money market items, net	209,366	7.79	194,243	6.90	7.79
Debt issued and borrowings	119,276	4.43	116,240	4.13	2.61
Others	111,010	4.13	119,051	4.23	(6.75)
Total equity					
- Equity holders of the Bank	271,240	10.09	245,883	8.73	10.31
- Non-controlling interest	4,928	0.18	4,415	0.16	11.62
Total	2,689,177	100.00	2,815,330	100.00	(4.48)

Statutory Capital Fund

As of September 30, 2016, on the financial business group basis, Common Equity Tier 1 capital was Bt 248,334 m (12.45% of its risk-weighted assets (RWA)) and Tier 1 capital was Bt 256,176 m (12.85% of its RWA). Total capital was Bt 330,773 m (16.59% of its RWA), increased from 14.85% as at December 31, 2015. The increase of capital ratio was due to the appropriation of first half of 2016 net profit for capital, along with the weakening of loan. The calculation was in line with BOT's regulations regarding Basel III compliance.

The Bank's Common Equity Tier 1 capital, Tier 1 capital, and Total capital were 12.81%, 13.15%, and 17.04% of its risk-weighted assets (RWA) respectively.

Unit : Million Baht

The financial business group	September 30, 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	248,334	12.45	5.125	220,491	10.74	4.50
Tier 1 capital	256,176	12.85	6.625	229,348	11.17	6.00
Tier 2 capital	74,597			75,496		
Total capital fund	330,773	16.59	9.125	304,844	14.85	8.50
Risk-weighted assets	1,994,253			2,052,672		

* Balance sheet as under regulatory scope of consolidation means financial statement for consolidated basis under BOT's regulation which does not include non-life and life insurance companies, and companies where the Bank controls and holds less than 50 percent of paid-up shares capital.

** According to BOT's regulation, the minimum capital ratios of Commercial Banks in Thailand will be increased to absorb Capital conversation buffer at 0.625 percent starting from January 1, 2016 until reaches 2.50 percent by January 1, 2019.

Asset Quality - Non-Performing Loans

The Bank' consolidated NPLs as at September 30, 2016 was Bt 98,421 m, rose by Bt 22,050 m (28.87%) from December 31, 2015. The gross NPLs ratio and net NPL ratio were 4.24% and 2.12% respectively. The increase of gross NPL ratio from 3.20% as at December 31, 2015 was from increasing in NPLs from some corporate clients, SME and Retail sectors, combined with the contraction of loan to customer.

The Bank has tightened the underwriting standard to cope with its deteriorated asset quality, focused on the fasten collection process with teamwork as well as conducted appropriated debt restructuring.

Unit : Million Baht

NPLs classification and provision coverage	Sep 30, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
1. Loans					
Pass	1,763,545	92.52	1,899,234	93.68	(7.14)
Special Mention	44,087	2.31	51,835	2.56	(14.95)
Sub-Standard	14,213	0.75	18,722	0.92	(24.08)
Doubtful	31,290	1.64	19,004	0.94	64.65
Doubtful of loss	52,918	2.78	38,645	1.90	36.93
Total Loans	1,906,053	100.00	2,027,440	100.00	(5.99)
2. NPLs gross ⁽¹⁾	98,421	4.24	76,371	3.20	28.87
NPLs net ⁽¹⁾	48,235	2.12	40,612	1.73	18.77
3. Actual provisioning for loan loss ⁽²⁾	103,908		85,956		20.89
Coverage Ratio		105.58		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:

	June 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 		
<p>Foreign Currency Credit Ratings</p>		
<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
<p>National Credit Ratings</p>		
<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)