

50<sup>th</sup>  
ANNIVERSARY



ธนาคารกรุงไทย  
KRUNGTHAI BANK

## Highlights of key events in 2016

### Key events of the Bank

- October 10, 2016: 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)
- November 8, 2016: Mr.Payong Srivanich was inaugurated as the President of Krung Thai Bank in place of Mr.Vorapak Tanyawong who retired upon completion of his term on November 7, 2016.
- November 28, 2016: The Bank redeemed its Thai Baht Perpetual Non-Cumulative Subordinated Hybrid Tier 1 Debentures, in an amount of Bt 1,440m.

## Financial Highlight 2016

This report discusses principal changes in the audited consolidated financial statements for the year ended December 31, 2016.

In 2016, Thai economy continued to expand. Public spending of both government consumption and investment continued to expand well and remained an important economic growth driver. Capital spending expanded on the back of transportation projects and government short-term economic stimulus package. Tourism sector expanded despite the slowdown at end of the year. Exports significantly rose in the later part of the year as reflected by improvement of external demand for certain products ie. integrated circuits, electrical appliance as well as some temporary factors resulting in the stability of the overall export in the year 2016.

KTB's consolidated pre-provision profit was Bt 74,036 m, increased by Bt 8,349 m (12.71%). The Bank and its subsidiaries continued to show an increase of revenues as the Net Interest Income, Net Fee and Service Income, and Total Other Operating Income expanded by Bt 6,098 m (7.54%), Bt 699 m (3.28%), and Bt 1,264 (8.78%) respectively. The Net Interest Margin (NIM) rose to 3.30% from 3.02% due to the maturity of high-cost fixed deposit and appropriate funding cost management. The Other Operating Expense dropped by Bt 288 m (0.57%) resulting in the contraction of the Cost-to-Income Ratio from 43.67% to 40.61%. In 2016, the Bank and its subsidiaries increase 9.46% of provision for impairment loss of loans and debt securities, however, the profit continued to grow as the consolidated Net Profit equaled to Bt 33,544 m, increased by Bt 4,003 m (13.55%) and Net Profit Attributable to Equity Holders of the Bank, was Bt 32,283 m, showing an increase of Bt 3,789 m (13.30%).

The Bank's consolidated total loan to customers (less deferred revenue) was Bt 1,904,089 m, reduced by Bt 123,351 m (6.08%) as a consequence of the contraction of loan from all sectors especially the repayment from government sector and some SME clients as well as the stringency of underwriting standard. On the other hand, the Bank's consolidated deposits was Bt 1,972,404 m, decreased by Bt 163,094 m (7.64%) due to the maturity of short and long term deposits. The more contraction of deposits resulting in the Bank's consolidated loans to customers (less deferred revenue) -to-deposits ratio increase from 94.94% to 96.54% in 2016

For the asset quality side, the Bank' consolidated NPLs as at December 31, 2016 was Bt 91,128 m, rose by Bt 14,757 m (19.32%) due to the increase of NPLs from SME and retail clients and the contraction of loan to customer. The gross NPLs and net NPL ratio were 3.97% and 1.81% respectively, however, 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. In 2016, the Coverage Ratio rose to 121.57%, increase from 112.55% as at December 31, 2015.

As of December 31, 2016, on the financial business group basis, Common Equity Tier 1 capital was Bt 248,288 m (12.75% of its risk-weighted assets (RWA)) and Tier 1 capital was Bt 249,324 m (12.81% of its RWA). Total capital was Bt 323,206 m (16.60% of its RWA), increased from 14.85% as at December 31, 2015.

The Bank has determinate on sustaining its business by targeting on the growth of total asset in year 2017. With the GDP forecasted at 3.4%, the estimated financial targets are Loan Growth at 4-6%, Fee Income Growth at 3-5%, and maintain ROA, ROE, and NPLs Ratio (gross).

## The Bank and Its Subsidiaries' Performance

Performance for the year ended December 31, 2016

### Operating Profit before Tax and Net Profit

KTB's consolidated pre-provision profit was Bt 74,036 m, increased by Bt 8,349 m (12.71%) compared to 2015. After deducting the Bt 33,429 m impairment loss on loans and debt securities and the Bt 7,063 m income tax expense, net profit for 2016 was Bt 33,544 m, showing an increase of Bt 4,003 m (13.55%) compared to 2015. Net profit, attributable to equity holders of the Bank, was Bt 32,283 m, showing an increase of Bt 3,789 m (13.30%) as a result of the expansion of net interest income and non-interest income along with the flat operating expenses.

	2016	2015	Unit : Million Baht	
			Change (2016/2015)	
			Amount	(%)
Pre-provision profit*	74,036	65,687	8,349	12.71
Operating profit before tax	40,607	35,146	5,461	15.54
Income tax expense	7,063	5,605	1,458	26.01
Net income	33,544	29,541	4,003	13.55
Net income (attributable to equity holders of the Bank)	32,283	28,494	3,789	13.30

\*Pre-provision profit before Impairment loss of loans and debt securities and income tax expense

### Net Interest Income

KTB's consolidated net interest income equaled Bt 86,966 m, showing an increase of Bt 6,098 m (7.54%) from 2015 due to the maturity of high-cost fixed deposit as well as appropriate funding cost management. Consequently, Net Interest Margin (NIM) rose to 3.30% from 3.02% in 2015

Unit : Million Baht

	2016	2015	Change (2016/2015)	
			Amount	(%)
Interest income	129,230	132,525	(3,295)	(2.49)
- Interbank and money market items	11,213	12,092	(879)	(7.27)
- Investments and trading transactions	137	319	(182)	(57.05)
- Investment in debt securities	4,585	4,963	(378)	(7.62)
- Loans	110,298	111,438	(1,140)	(1.02)
- Hire purchase and financial lease	2,957	3,679	(722)	(19.62)
- Others	40	34	6	17.65
<b>Less Interest expense</b>	<b>42,264</b>	<b>51,657</b>	<b>(9,393)</b>	<b>(18.18)</b>
- Deposits	24,770	33,762	(8,992)	(26.63)
- Interbank and money market items	2,719	2,579	140	5.43
- Contributions to BOT and DPA	9,658	10,057	(399)	(3.97)
- Debts issued	5,061	5,214	(153)	(2.93)
Debenture	4,726	4,716	10	0.21
B/E	335	498	(163)	(32.73)
- Borrowings	29	27	2	7.41
- Others	27	18	9	50.00
Net interest income	86,966	80,868	6,098	7.54
Net interest margin [based on earning assets] (%)	3.30	3.02		

	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015
BOT Repo 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	1.15%-1.35%	1.35%	1.35%	1.35%	1.35%
- 12 Months Fixed Rate	1.30%	1.40%	1.40%	1.50%	1.50%
Loan Rate (%)					
- MLR	6.275%	6.275%	6.275%	6.525%	6.525%
- MOR	7.120%	7.120%	7.120%	7.375%	7.375%
- MRR	7.620%	7.620%	7.620%	7.875%	7.875%

## Net Fee and Service Income

KTB's consolidated net fee and service income in 2016 amounted to Bt 22,042 m, increased by Bt 699 m (3.28%) 2015 in response to the expansion of ATM related business as well as electronic banking service fees.

	2016	2015	Unit : Million Baht	
			Change (2016/2015)	
			Amount	(%)
Fee and service income	25,931	24,224	1,707	7.05
<b>Less</b> Fee and service expense	3,889	2,881	1,008	34.99
Net fee and service income	22,042	21,343	699	3.28

## Total Other Operating Income

KTB's consolidated total other operating income 2016 amounted to Bt 15,660 m, increased by Bt 1,264 m (8.78%) from 2015. The main reason was the expansion of other income and net gain on trading and foreign exchange transactions.

	2016	2015	Unit : Million Baht	
			Change (2016/2015)	
			Amount	(%)
Gain (loss) on trading and exchange, net	6,827	6,701	126	1.88
Gain (loss) on investments, net	695	648	47	7.25
Share of profit (loss) from investments on equity method	3,083	3,038	45	1.48
Dividend income	482	408	74	18.14
Other income	4,573	3,601	972	26.99
Total other operating income	15,660	14,396	1,264	8.78

## Other Operating Expenses

The Bank's consolidated other operating expenses were Bt 50,632 m, decreased by Bt 288 m (0.57%) compared to 2015, mainly from the reduction of taxes and duties by Bt 519 m (10.29%) and the decrease in the premises and equipment expenses by Bt 464 m (4.99%). As the contraction of other operating expenses and increase in Bt 124,668 m of total operating income by Bt 8,061 m (6.91%) from 2015, the Cost-to-Income Ratio decrease to 40.61% from 43.67% in 2015

	2016	2015	Unit : Million Baht	
			Change (2016/2015)	
			Amount	(%)
Personnel expenses	27,947	27,374	573	2.09
Directors' remuneration	106	115	(9)	(7.83)
Premises and equipment expenses	8,830	9,294	(464)	(4.99)
Taxes and duties	4,526	5,045	(519)	(10.29)
Others	9,223	9,092	131	1.44
Total other operating expenses	50,632	50,920	(288)	(0.57)
Cost-to-income ratio (%)	40.61	43.67		

### Impairment Loss of Loans and Debt Securities

The Bank and its subsidiaries set aside Bt 33,429 m provision for impairment loss of loans and debt securities, increased by Bt 2,888 m (9.46%) compared to 2015. 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 while the additional provision was slightly lower.

The Banks and its subsidiaries' coverage ratio was 121.57%, showing the increase from 112.55% as at December 31, 2015. (The Bank's coverage ratio was 121.30%, increased from 110.54% as at December 31, 2015)

	2016	2015	Unit : Million Baht	
			Change (2016/2015)	
			Amount	(%)
Bad debts, doubtful accounts and loss on impairment	33,429	30,541	2,888	9.46

## The Bank and Its Subsidiaries' Financial Status

As at the period ended December 31, 2016

### Loans to Customers

The Bank's consolidated total loans to customers (less deferred revenue) was Bt 1,904,089 m, reduced by Bt 123,351 m (6.08%) from end of year 2015, as a consequence of the contraction of loan from all sectors especially the repayment from government sector and some SME clients as well as stringent underwriting standard resulting in the decrease of total asset by Bt 125,884 m (4.47%) to be Bt 2,689,446 m.

Loan portfolio breakdown by borrowers

Unit : Million Baht

The Bank's Financial Statements	Dec 31, 2016		Dec 31, 2015		Change (%)
	Amount	(%)	Amount	(%)	
Private Corporate	673,217	36.64	685,253	34.79	(1.76)
Government and State Enterprise	81,513	4.44	129,865	6.59	(37.23)
SMEs	372,413	20.27	429,125	21.78	(13.22)
Retail	709,642	38.63	725,122	36.81	(2.13)
Others	458	0.02	462	0.02	(0.87)
<b>Total loans</b>	<b>1,837,243</b>	<b>100.00</b>	<b>1,969,827</b>	<b>100.00</b>	<b>(6.73)</b>
<b>Less</b> Deferred revenue	123		166		(25.90)
<b>Total</b>	<b>1,837,120</b>		<b>1,969,661</b>		<b>(6.73)</b>

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

Loan portfolio breakdown by industry

Unit : Million Baht

Consolidated Financial Statements	Dec 31, 2016		Dec 31, 2015		Change (%)
	Amount	(%)	Amount	(%)	
Agriculture and mining	40,799	2.14	40,082	1.98	1.79
Manufacturing and commerce	574,205	30.16	577,718	28.49	(0.61)
Real estate and construction	127,181	6.68	146,830	7.24	(13.38)
Public utilities and services	264,001	13.86	394,721	19.47	(33.12)
Housing loans	361,770	19.00	381,950	18.84	(5.28)
Others	536,133	28.16	486,139	23.98	10.28
<b>Total loans</b>	<b>1,904,089</b>	<b>100.00</b>	<b>2,027,440</b>	<b>100.00</b>	<b>(6.08)</b>



## Investments

KTB's consolidated net investments as of December 31, 2016 totaled Bt 242,266 m, declined by Bt 19,466 m (7.44%) from the end of last year as a result of the reduction of investment in debt securities.

Unit : Million Baht

	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Investments, net	226,955	93.68	247,082	94.40	(8.15)
Investments in subsidiaries and associates, net	15,311	6.32	14,650	5.60	4.51
Total investments, net	242,266	100.00	261,732	100.00	(7.44)

## ■ Total Assets

KTB's consolidated total assets as at December 31, 2016 was Bt 2,689,446 m, decreased by Bt 125,884m (4.47%) from December 31, 2015, owing to the contraction of loans to customers and net investment.

## Liabilities

The Bank's consolidated deposits was Bt 1,972,404 m, decreased by Bt 163,094 m (7.64%) from December 31, 2015 due to the maturity of short and long term deposits, consistent with the contraction of loans. The Bank's consolidated loans to customers (less deferred revenue) -to-deposits ratio was 96.54%, increased from the end of year 2015 at 94.94%. Meanwhile, the net interbank and money market item was Bt 203,166 m, increased by Bt 8,923 m (4.59%). Thus, the Bank's consolidated total liabilities were Bt 2,410,299 m, decreased by Bt 154,733m (6.03%) 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 and its Thai Baht Perpetual Non-Cumulative Subordinated Hybrid Tier 1 Debentures, in an amount of Bt 1,440 m on November 28, 2016, resulting in the contraction of Bank's debt issued and borrowings in 2016. However, in 2016, Bank's subsidiary increased its borrowings bringing about an increase of the Bank's consolidated debt issued and borrowings by Bt 4,451 m (3.83%) to be Bt 120,691 m in 2016.

Unit : Million Baht

	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Demand deposits	92,574	4.69	126,974	5.95	(27.09)
Savings deposits	1,221,292	61.92	1,147,811	53.75	6.40
Fixed deposits	658,538	33.39	860,713	40.30	(23.49)
Total Deposits	1,972,404	100.00	2,135,498	100.00	(7.64)
B/E	8,006		6,735		18.87

## Equity

The total equity (Equity holders of the Bank) as at December 31, 2016 amounted to Bt 273,929 m, showing an increase of Bt 28,046 m (11.41%) from December 31, 2015.

Book value per share (Equity holders of the Bank) was Bt 19.59, raised from Bt 17.59 as at December 31, 2015.

## Sources and Uses of Funds

As of December 31, 2016, 73.34% 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 70.80% loans to customers (less deferred revenue), 16.05% net interbank and money market items, and 9.01% net investments and net investments in subsidiaries and associates.

Unit : Million Baht

	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Deposits	1,972,404	73.34	2,135,498	75.85	(7.64)
Interbank and money market items, net	203,166	7.55	194,243	6.90	4.59
Debt issued and borrowings	120,691	4.49	116,240	4.13	3.83
Others	114,038	4.24	119,051	4.23	(4.21)
Total equity					
- Equity holders of the Bank	273,929	10.19	245,883	8.73	11.41
- Non-controlling interest	5,218	0.19	4,415	0.16	18.19
Total	2,689,446	100.00	2,815,330	100.00	(4.47)

### Loans and Deposits Classified by Remaining Maturity

Unit : Million Baht

The Bank's Financial Statements	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Loans					
- ≤ 1 year	621,906	33.85	652,664	33.14	(4.71)
- > 1 year	1,215,337	66.16	1,317,163	66.87	(7.73)
Less Unearned Discounts	123	0.01	166	0.01	(25.90)
Total loans *	1,837,120	100.00	1,969,661	100.00	(6.73)
Deposits					
- ≤ 1 year	1,831,142	92.71	1,946,713	91.08	(5.94)
- > 1 year	144,016	7.29	190,733	8.92	(24.49)
Total deposits	1,975,158	100.00	2,137,446	100.00	(7.59)

\* Excluding accrued interest receivable and interbank loans and money market item.

## Statutory Capital Fund

As of December 31, 2016, on the financial business group basis, Common Equity Tier 1 capital was Bt 248,288 m (12.75% of its risk-weighted assets (RWA)) and Tier 1 capital was Bt 249,324 m (12.81% of its RWA). Total capital was Bt 323,206 m (16.60% 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 expansion. 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 12.96%, 12.96%, and 16.85% of its risk-weighted assets (RWA) respectively.

Unit : Million Baht

The financial business group*	December 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	248,288	12.75	5.125	220,491	10.74	4.50
Tier 1 capital	249,324	12.81	6.625	229,348	11.17	6.00
Tier 2 capital	73,882			75,496		
Total capital fund	323,206	16.60	9.125	304,844	14.85	8.50
Risk-weighted assets	1,946,712			2,052,672		

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

\*\* 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's consolidated NPLs as at December 31, 2016 was Bt 91,128 m, rose by Bt 14,757 m (19.32%) from December 31, 2015. The gross NPLs ratio and net NPL ratio were 3.97% and 1.81 % respectively. The increase of gross NPL ratio from 3.20% as at December 31, 2015 was from increasing in NPLs from SME and retail clients combined with the contraction of loan to customer. From the progress of the rehabilitation plan for a steel corporate client in 4Q2016, the Bank reclassified the client's loan from Non-Performing Loan to Special-Mention Loan. To be more careful, in 4Q2016, the revision of the loan classification procedure, together with some vulnerable group of customers resulted in the increase of Non-Performing Loan and Special-Mention Loan (Non-Performing Loan increased from 2.56% at the end of 2015 to 3.68% of total loan including financial institutions)

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

	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
1. Loans					
Pass	1,742,881	91.53	1,899,234	93.68	(8.23)
Special Mention	70,079	3.68	51,835	2.56	35.20
Sub-Standard	14,152	0.74	18,722	0.92	(24.41)
Doubtful	17,017	0.90	19,004	0.94	(10.46)
Doubtful of loss	59,960	3.15	38,645	1.90	55.16
Total Loans	1,904,089	100.00	2,027,440	100.00	(6.08)
2. NPLs gross <sup>(1)</sup>	91,128	3.97	76,371	3.20	0.77
NPLs net <sup>(1)</sup>	40,758	1.81	40,612	1.73	0.08
3. Actual provisioning for loan loss <sup>(2)</sup>	110,782		85,956		
Coverage Ratio		121.57		112.55	

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

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

Unit: Million Baht

	Dec 31, 2016		Dec 31, 2015		Change
	Amount	(%)	Amount	(%)	(%)
Agriculture and mining	1,590	1.74	1,220	1.60	30.33
Manufacturing and commerce	39,276	43.10	33,835	44.30	16.08
Real estate and construction	10,988	12.06	11,573	15.15	(5.05)
Public utilities and services	11,335	12.44	8,056	10.55	40.70
Housing loans	17,236	18.91	12,629	16.54	36.48
Others	10,703	11.75	9,058	11.86	18.16
<b>Total Non-Performing Loans</b>	<b>91,128</b>	<b>100.00</b>	<b>76,371</b>	<b>100.00</b>	<b>19.32</b>

## Credit Ratings

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

Standard & Poor's	December 2016	December 2015
▪ Long-term/ Short-term	BBB / A-2	BBB / A-2
▪ Outlook	Stable	Stable
▪ Stand-Alone Credit Profile (SACP)	bb+	bb+
Moody's Investors Service	December 2016	December 2015
▪ Long-term/ Short-term	Baa1 / P-2	Baa1 / P-2
▪ Outlook	Stable	Stable
▪ Baseline Credit Assessment (BCA)	ba1	ba1
Fitch Ratings	December 2016	December 2015
<b>Foreign Currency Credit Ratings</b>		
▪ Long-term/ Short-term	BBB / F3	BBB / F3
▪ Outlook	Stable	Stable
▪ Viability Rating	bbb-	bbb-
▪ Subordinated Debt (USD)	BBB-	BBB-
<b>National Credit Ratings</b>		
▪ Long-term/ Short-term	AA+(tha) / F1+ (tha)	AA+(tha) / F1+ (tha)
▪ Outlook	Stable	Stable
▪ Subordinated Debt (Baht)	AA(thai)	AA(thai)

## Estimated Financial Target 2017

In 2016, The Bank's performance showed the contraction of the total asset as a result of its loan reduction, however, we determinate on sustaining its business by targeting on the growth of total asset in year 2017. The estimated financial targets show as follows:

The Bank's Financial Statements	2017 Estimated Financial Target
GDP Growth (Forecast)	3.4%
Loan Growth	4 - 6%
Fee Income Growth	3 – 5%
NPLs Ratio (gross)	Maintain
ROA	Maintain
ROE	Maintain

The above financial targets are based on the Bank's preliminary estimation that may be changed by the economic conditions and the situation affecting to the environment.