

Management Discussion and Analysis

This report discusses principal changes in the reviewed consolidated financial statements for the three-month period ended June 30, 2011.

Overview of Operating Results

Krung Thai Bank PCL. and subsidiaries' operating profit before tax for 2Q11 was Bt 7,449 m, showing an increase of Bt 170 m or 2.34% compared to 1Q11 and an increase of Bt 2,684 m or 56.33% compared to 2Q10. After deducting the Bt 2,208 m income tax expense, net income for 2Q11 amounted to Bt 5,241 m, showing a decrease of Bt 248 m or 4.52% compared to 1Q11 but an increase of Bt 1,868 m or 55.38% compared to 2Q10.

Unit : Million Baht

	2Q11	1Q11	Change (%)	2Q10	Change (%)
Operating profit before tax	7,449	7,279	2.34	4,765	56.33
Income tax expense	2,208	1,790	23.35	1,392	58.62
Net income	5,241	5,489	(4.52)	3,373	55.38

Table 1 Operating Results

Net Interest Income

Net interest income for 2Q11 was Bt 12,330 m, increased by Bt 965 m or 8.49% from 1Q11 and increased Bt 2,737 m or 28.53% from 2Q10 mainly due to an increase in loans to customers and average lending rate. As a result, the Bank's net interest margin ("NIM") for 2Q11, based on earning assets, equaled to 2.68%, showing an increase from 2.47% in 1Q11 and 2.39% in 2Q10.

Unit : Million Baht

	2Q11	1Q11	Change (%)	2Q10	Change (%)
Interest income	19,917	18,149	9.74	14,648	35.97
- Interbank and money market items	1,699	1,597	6.39	1,049	61.96
- Investments and trading transactions	(25)	105	(123.81)	57	(143.86)
- Investment in debt securities	983	633	55.29	471	108.70
- Loans	17,254	15,813	9.11	13,069	32.02
- Hire purchase and financial lease	4	-	-	-	-
- Others	2	1	100.00	2	-
Less Interest expense	7,587	6,784	11.84	5,055	50.09
- Deposits	3,541	3,059	15.76	2,402	47.42
- Interbank and money market items	577	766	(24.67)	255	126.27
- Contributions to Deposit Protection Agency	1,309	1,288	1.63	1,238	5.74
- Debts issued & Borrowings	2,159	1,670	29.28	1,160	86.12
- Others	1	1	-	-	-
Net interest income	12,330	11,365	8.49	9,593	28.53
Net interest margin [based on earning assets] * (%)	2.68	2.47		2.39	

* excluding dividend income and fee from loan

Table 2 Net Interest Income

Net Fee and Service Income

The Bank's net fee and service income in 2Q11 was Bt 2,945 m, increased by Bt 188 m or 6.82% from 1Q11 and increased by Bt 369 m or 14.32% from 2Q10. Fee income growth this quarter was mostly attributable from trade finance and cards business.

Unit : Million Baht

	2Q11	1Q11	Change (%)	2Q10	Change (%)
Fee and service income	3,299	3,086	6.90	2,991	10.30
Less Fee and service expense	354	329	7.60	415	(14.70)
Net fee and service income	2,945	2,757	6.82	2,576	14.32

Table 3 Net Fee and Service Income

Total Other Operating Income

Total other operating income for 2Q11 was Bt 1,306 m, decreased by Bt 1,261 m or 49.12% from 1Q11 due to a decrease in dividend income but increased by Bt 408 m or 45.43% from 2Q10.

Unit : Million Baht

	2Q11	1Q11	Change (%)	2Q10	Change (%)
Gain (loss) on trading and exchange, net	635	527	20.49	277	129.24
Gain (loss) on investments, net	129	(2)	6,550.00	(15)	960.00
Share of profit (loss) from investments on equity method	278	342	(18.71)	225	23.56
Dividend income	127	1,097	(88.42)	40	217.50
Other income	137	603	(77.28)	371	(63.07)
Total other operating income	1,306	2,567	(49.12)	898	45.43

Table 4 Total Other Operating Income

Other Operating Expenses

The Bank's other operating expenses for 2Q11 were Bt 7,624 m, decreased by Bt 272 m or 3.44% from 1Q11 but increased by Bt 833 m or 12.27% from 2Q10. Cost-to-income ratio in 2Q11 equaled 46.52%, decreased from 49.33% in 1Q11 from the decrease in total other operating expenses and decreased from 53.11% in 2Q10 mainly from the increase in total income.

Unit : Million Baht

	2Q11	1Q11	Change (%)	2Q10	Change (%)
Personnel expenses	4,349	4,415	(1.49)	3,731	16.56
Directors' remuneration	43	12	258.33	36	19.44
Premises and equipment expenses	1,514	1,538	(1.56)	1,476	2.57
Taxes and duties	641	590	8.64	535	19.81
Others	1,077	1,341	(19.69)	1,013	6.32
Total other operating expenses	7,624	7,896	(3.44)	6,791	12.27
Cost-to-income ratio * (%)	46.52	49.33		53.11	

* Non-interest expense (Excluding exceptional items: loss on impairment of properties foreclosed, loss on impairment of land, and loss on impairment of other asset) / [Net interest and dividend income + Non-interest income (Excluding share of gain from investments on equity method and exceptional items: reversal of loss on impairment of properties foreclosed, reversal of loss on impairment of land, and reversal of loss on impairment of other asset)]

Table 5 Other Operating Expenses

Bad Debts, Doubtful Accounts and Loss on Impairment

In 2Q11, the Bank set aside Bt 1,508 m provision for bad debts, doubtful accounts, and loss on impairment which decreased by Bt 6 m or 0.40% from 1Q11 and decreased by Bt 3 m or 0.20% from 2Q10. The Bank booked normalized provision for bad debts and doubtful accounts of Bt 500 m per month in 2Q11.

	Unit : Million Baht				
	2Q11	1Q11	Change (%)	2Q10	Change (%)
Bad debts, doubtful accounts and loss on impairment	1,508	1,514	(0.40)	1,511	(0.20)

Table 6 Bad Debts, Doubtful Accounts and Loss on Impairment

Financial Status

Assets

- Loans to Customers

According to the Bank's Financial Statements, the Bank's loans to customers (less deferred revenue) as of June 30, 2011 totaled Bt 1,331,054 m, showing an increase of Bt 80,354 m or 6.42% from December 31, 2010.

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

Unit : Million Baht

The Bank's Financial Statements	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Private Corporate	482,469	36.24	432,152	34.54	11.64
Government and State Enterprise	243,415	18.28	242,448	19.38	0.40
SME	262,432	19.71	251,639	20.12	4.29
Retail	342,380	25.72	324,162	25.91	5.32
Others	609	0.05	646	0.05	(5.73)
Total loans	1,331,305	100.00	1,251,047	100.00	6.42
Less Deferred revenue	251		347		
Total	1,331,054		1,250,700		

*SME : 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.

Table 7 Loans classified by borrowers

Unit : Million Baht

The Bank's Financial Statements	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Agriculture and mining	38,293	2.88	39,553	3.16	(3.19)
Manufacturing and commerce	421,812	31.69	366,890	29.33	14.97
Real estate and construction	120,276	9.03	125,277	10.01	(3.99)
Public utilities and services	348,923	26.21	351,068	28.06	(0.61)
Housing loans	182,695	13.72	175,610	14.04	4.03
Others	219,306	16.47	192,649	15.40	13.84
Total loans	1,331,305	100.00	1,251,047	100.00	6.42
Less Deferred revenue	251		347		
Total	1,331,054		1,250,700		

Table 8 Loans classified by business types

- Investments

Apart from loans to customers the Bank's total investments, net as of June 30, 2011 totaled Bt 232,625 m, showing an increase of Bt 31,029 m or 15.39% from December 31, 2010.

Unit : Million Baht

	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Investments, net	223,569	96.11	192,508	95.49	16.13
Investments in subsidiaries and associates, net	9,056	3.89	9,088	4.51	(0.35)
Total investments, net	232,625	100.00	201,596	100.00	15.39

Table 9 Investments

- Total assets

Total assets as at June 30, 2011 were Bt 1,849,248 m, showing an increase of Bt 86,772 m or 4.92% from December 31, 2010.

Liabilities

As at June 30, 2011, total liabilities were Bt 1,727,381 m, showing an increase of Bt 90,692 m or 5.54% compared to December 31, 2010. Deposits totaled Bt 1,312,393 m, showing an increase of Bt 64,342 m or 5.16% from December 31, 2010, mainly due to an increase in savings deposits.

Unit : Million Baht

	Jun 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Demand deposits	73,902	5.63	72,042	5.77	2.58
Savings deposits	793,205	60.44	741,030	59.38	7.04
Time deposits	445,286	33.93	434,979	34.85	2.37
Total Deposits	1,312,393	100.00	1,248,051	100.00	5.16
B/E	150,187	-	120,294	-	24.85

Table 10 Breakdown of Deposits by Product

Equity

The total equity as at June 30, 2011 was Bt 121,867 m, showing a decrease of Bt 3,920 m or 3.12% from December 31, 2010. The Bank adopted the TAS 19 Employee Benefit and dividend payment which reduced retained earnings.

Book value per share as at June 30, 2011 totaled Bt 10.90 per share, showing a decrease from Bt 11.25 per share as at December 31, 2010.

Liquidity

As of June 30, 2011, loans to customers (less deferred revenue) -to-deposits ratio increased to 101.17% in comparison to 99.98% as at December 31, 2010. However, if B/E were included as deposit, loans to customers (less deferred revenue) -to-deposits include B/E ratio would have been 90.79% as at June 30, 2011, which decreased from 91.19% as at December 31, 2010.

Sources and Uses of Funds

In 2Q11, deposits, as a major source of funds, contributed to 70.97% of the Bank's source of funds. Other sources of funds included shareholders' equity, debt issued and borrowings, and interbank borrowings. For the period, 71.80% of funds were invested in loans to customers (less deferred revenue). Meanwhile, net investments and net investments in subsidiaries and associates, and net interbank and money market items contributed to 12.58% and 10.19% of the Bank's asset, respectively.

Unit : Million Baht

	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Deposits	1,312,393	70.97	1,248,051	70.81	5.16
Interbank and money market items, net	135,134	7.31	142,740	8.10	(5.33)
Debt issued and borrowings	211,298	11.42	181,317	10.29	16.54
Others	68,556	3.71	64,581	3.66	6.16
Total equity	121,867	6.59	125,787	7.14	(3.12)
Total	1,849,248	100.00	1,762,476	100.00	4.92

Table 11 Sources of Funds

Unit : Million Baht

The Bank's Financial Statements	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Loans					
- ≤ 1 year	446,352	33.53	375,997	30.04	18.82
- > 1 year	884,953	66.49	875,050	69.99	1.09
Less Unearned Discounts	251	0.02	347	0.03	(27.67)
Total loans *	1,331,054	100.00	1,250,700	100.00	6.42
Deposits					
- ≤ 1 year	1,296,109	98.75	1,234,728	98.92	5.21
- > 1 year	16,442	1.25	13,464	1.08	22.12
Total deposits	1,312,551	100.00	1,248,192	100.00	5.40

* Excluding accrued interest receivable and interbank loans

Table 12 Loans and Deposits Classified by Maturity

Statutory Capital Fund

As at June 30, 2011, the Bank's tier 1 capital was Bt 109,192 m or 8.46% of its risk-weighted assets ("RWA") which was higher than the minimum rate of 4.25% required by the BOT. Total capital fund was Bt 176,564 m or 13.68% of RWA, which was higher than the minimum rate of 8.50% required by the BOT as well. The calculation of tier 1 capital and total capital fund was in line with the BOT's regulations regarding Basel II.

In 2011, the Bank adopted the TAS 19 Employee Benefits by adjusting total amount of employee benefits obligation with brought forward retained earnings that made the Bank's tier 1 and capital decrease from December 31, 2010.

Unit : Million Baht

The Bank's Financial Statements	June 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	
Tier 1 capital	109,192	8.46	115,695	9.90	(5.62)
Tier 2 capital	67,372		65,717		2.52
Total capital fund	176,564	13.68	181,412	15.52	(2.67)
Risk-weighted assets	1,290,708		1,168,632		

Table 13 Statutory Capital Fund

Asset Quality

Non-Performing Loans

As at June 30, 2011, the Bank and subsidiaries' gross non-performing loans (NPLs) were Bt 67,536 m, showing a decrease of Bt 8,806 m, or 11.53% from Bt 76,342 m of December 31, 2010. Thus, the Bank has ratio of NPLs to total loans decreased to 4.50% as at June 30, 2011 in comparison to 5.31% as at December 31, 2010. Net non-performing loans as at June 30, 2011 were at Bt 44,369 m or 3.00% of total loans.

As at June 30, 2011, the Bank's gross non-performing loans (NPLs) were Bt 67,314 m, showing a decrease of Bt 8,819 m, or 11.58% from December 31, 2010.

Unit : Million Baht

The Bank's Financial Statements	June 30, 2011		Dec 31, 2010	
	Amount	(%)	Amount	(%)
Agriculture and mining	1,807	2.68	1,710	2.25
Manufacturing and commerce	29,056	43.16	38,649	50.77
Real estate and construction	19,345	28.74	20,293	26.65
Public utilities and services	12,484	18.55	10,799	14.18
Housing loans	3,760	5.59	3,674	4.83
Others	862	1.28	1,008	1.32
Total non-performing loans	67,314	100.00	76,133	100.00

Table 14 Non-performing loans classified by business types

Credit Ratings

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

	June 2011	December 2010
<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"> ▪ Hybrid Tier 1 (USD) 	BB+	BB+
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Bank Fundamental Strength Ratings : BFSR 	C	C
<ul style="list-style-type: none"> ■ Moody's Investors Service 	June 2011	December 2010
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	Baa1 / P-2	Baa1 / P-2
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (USD) 	B2	B2
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
<ul style="list-style-type: none"> ▪ Bank Fundamental Strength Ratings : BFSR 	D-	D-
<ul style="list-style-type: none"> ■ Fitch Ratings 	June 2011	December 2010
Foreign Currency Credit Ratings		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	BBB / F3	BBB / F3
<ul style="list-style-type: none"> ▪ Subordinated Debt 	BBB-	BBB-
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (USD) 	BB	BB
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable
National Credit Ratings		
<ul style="list-style-type: none"> ▪ Long-term/ Short-term 	AA+(tha)	AA+(tha) / F1+ (tha)
<ul style="list-style-type: none"> ▪ Subordinated Debt 	AA(thai)	AA(thai)
<ul style="list-style-type: none"> ▪ Hybrid Tier 1 (Baht) 	A(thai)	A(thai)
<ul style="list-style-type: none"> ▪ Outlook 	Stable	Stable

Table 16 Credit Ratings