

## Management Discussion and Analysis

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

### Overview of Operating Results

Krung Thai Bank PCL. and subsidiaries' operating profit before tax for 3Q11 was Bt 7,406 m, showing a decrease of Bt 43 m or 0.58% compared to 2Q11 but an increase of Bt 892 m or 13.69% compared to 3Q10. After deducting the Bt 1,914 m income tax expense, net income for 3Q11 amounted to Bt 5,492 m, showing an increase of Bt 251 m or 4.79% compared to 2Q11 and an increase of Bt 500 m or 10.02% compared to 3Q10.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Operating profit before tax	7,406	7,449	(0.58)	6,514	13.69
Income tax expense	1,914	2,208	(13.32)	1,522	25.76
Net income	5,492	5,241	4.79	4,992	10.02

**Table 1** Operating Results

### Net Interest Income

Net interest income for 3Q11 was Bt 13,338 m, increased by Bt 1,008 m or 8.18% from 2Q11 and also rose by Bt 3,064 m or 29.82% from 3Q10 mainly due to an increase in loans to customers and average lending rate. As a result, the Bank's net interest margin ("NIM") for 3Q11, based on earning assets, equaled to 2.86%, improved from 2.68% in 2Q11 and 2.47% in 3Q10.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Interest income	21,911	19,917	10.01	15,598	40.47
- Interbank and money market items	1,843	1,699	8.48	1,195	54.23
- Investments and trading transactions	30	(25)	220.00	98	(69.39)
- Investment in debt securities	1,316	983	33.88	513	156.53
- Loans	18,710	17,254	8.44	13,789	35.69
- Hire purchase and financial lease	9	4	125.00	-	-
- Others	3	2	50.00	3	-
Less Interest expense	8,573	7,587	13.00	5,324	61.03
- Deposits	4,067	3,541	14.85	2,467	64.86
- Interbank and money market items	895	577	55.11	344	160.17
- Contributions to Deposit Protection Agency	1,289	1,309	(1.53)	1,197	7.69
- Debts issued & Borrowings	2,294	2,159	6.25	1,315	74.45
- Others	28	1	2,700.00	1	2,700.00
Net interest income	13,338	12,330	8.18	10,274	29.82
Net interest margin [based on earning assets] * (%)	2.86	2.68		2.47	

\* 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 3Q11 was Bt 2,929 m, decreased by Bt 16 m or 0.54% from 2Q11 but increased by Bt 290 m or 10.99% from 3Q10. Fee income growth this quarter was mostly attributable from cards business.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Fee and service income	3,373	3,299	2.24	2,890	16.71
Less Fee and service expense	444	354	25.42	251	76.89
Net fee and service income	2,929	2,945	(0.54)	2,639	10.99

Table 3 Net Fee and Service Income

## Total Other Operating Income

Total other operating income for 3Q11 was Bt 2,550 m, rose by Bt 1,244 m or 95.25% from 2Q11, mainly driven by an increase in gain (loss) on trading and exchange together with dividend income while increased by Bt 419 m or 19.66% from 3Q10.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Gain (loss) on trading and exchange, net	732	635	15.28	413	77.24
Gain (loss) on investments, net	93	129	(27.91)	69	34.78
Share of profit (loss) from investments on equity method	100	278	(64.03)	340	(70.59)
Dividend income	941	127	640.94	1,041	(9.61)
Other income	684	137	399.27	268	155.22
Total other operating income	2,550	1,306	95.25	2,131	19.66

Table 4 Total Other Operating Income

## Other Operating Expenses

The Bank's other operating expenses for 3Q11 were Bt 8,398 m, increased by Bt 774 m or 10.15% from 2Q11 and increased by Bt 1,402 m or 20.04% from 3Q10. Cost-to-income ratio in 3Q11 equaled 45.47%, improved from 46.52% in 2Q11 and 47.77% in 3Q10 mainly due to the increase in total income.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Personnel expenses	4,385	4,349	0.83	3,852	13.84
Directors' remuneration	12	43	(72.09)	12	-
Premises and equipment expenses	1,726	1,514	14.00	1,479	16.70
Taxes and duties	757	641	18.10	541	39.93
Others	1,518	1,077	40.95	1,112	36.51
Total other operating expenses	8,398	7,624	10.15	6,996	20.04
Cost-to-income ratio * (%)	45.47	46.52		47.77	

\* 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

The Bank's asset quality continuously improved as shown in the declining of NPLs and NPLs ratio (gross). However, in this quarter the Bank decided to provide additional provision for bad debts and doubtful accounts of Bt 1,500 m to strengthen allowance for doubtful accounts, apart from normalize provision of Bt 500 m per month. Therefore, in 3Q11, the Bank set aside Bt 3,013 m provision for bad debts, doubtful accounts, and loss on impairment which increased by Bt 1,505 m or 99.80% from 2Q11 and Bt 1,479 m or 96.41% from 3Q10.

	Unit : Million Baht				
	3Q11	2Q11	Change (%)	3Q10	Change (%)
Bad debts, doubtful accounts and loss on impairment	3,013	1,508	99.80	1,534	96.41

**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 September 30, 2011 totaled Bt 1,320,907 m, showing an expansion of Bt 70,207 m or 5.61% 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	September 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Private Corporate	501,226	37.94	432,152	34.54	15.98
Government and State Enterprise	198,736	15.04	242,448	19.38	(18.03)
SME	258,439	19.56	251,639	20.12	2.70
Retail	362,145	27.74	324,162	25.91	11.72
Others	601	0.05	646	0.05	(6.97)
<b>Total loans</b>	<b>1,321,147</b>	<b>100.00</b>	<b>1,251,047</b>	<b>100.00</b>	
Less Deferred revenue	240		347		
<b>Total</b>	<b>1,320,907</b>		<b>1,250,700</b>		<b>5.61</b>

\*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

- Investments

Apart from loans to customers, the Bank's total investments, net as of September 30, 2011 totaled Bt 233,230 m, showing an increase of Bt 31,634 m or 15.69% from December 31, 2010.

Unit : Million Baht

	September 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Investments, net	224,332	96.18	192,508	95.49	16.53
Investments in subsidiaries and associates, net	8,898	3.82	9,088	4.51	(2.09)
<b>Total investments, net</b>	<b>233,230</b>	<b>100.00</b>	<b>201,596</b>	<b>100.00</b>	<b>15.69</b>

**Table 8** Investments

- Total assets

Total assets as at September 30, 2011 were Bt 1,918,532 m, showing an increase of Bt 156,056 m or 8.85% from December 31, 2010.

## Liabilities

Deposits totaled Bt 1,269,009 m, showing an increase of Bt 20,958 m or 1.68% from December 31, 2010, mainly due to an increase in savings deposits. The Bank's net interbank and money market items were Bt 180,883 m, rose by Bt 38,143 m or 26.72%. Also, debts issued and borrowings were Bt 246,124 m, rose by Bt 64,807 m (35.74%) due to the B/E issuance. Therefore, the Bank's total liabilities were Bt 1,792,977 m, representing an increase of Bt 156,288 m or 9.55% as at December 31, 2010.

## Equity

The total equity as at September 30, 2011 was Bt 125,555 m, showing a decrease of Bt 232 m or 0.18% from December 31, 2010, mainly from the revaluation deficit on investments.

Book value per share as at September 30, 2011 was Bt 11.23 per share, showing a decrease from Bt 11.25 per share as at December 31, 2010.

## Liquidity

As of September 30, 2011, loans to customers (less deferred revenue) -to-deposits ratio increased to 103.81% 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 90.67% as at September 30, 2011, which decreased from 91.19% as at December 31, 2010.

## Sources and Uses of Funds

In 3Q11, deposits, as a major source of funds, contributed to 66.15% of the Bank's source of funds. Other sources of funds included shareholders' equity, debt issued and borrowings, and interbank borrowings. For the period, 68.66% 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 12.16% and 12.71% of the Bank's asset, respectively.

Unit : Million Baht

	September 30, 2011		Dec 31, 2010		Change (%)
	Amount	(%)	Amount	(%)	
Deposits	1,269,009	66.15	1,248,051	70.81	1.68
Interbank and money market items, net	180,883	9.43	142,740	8.10	26.72
Debt issued and borrowings	246,124	12.83	181,317	10.29	35.74
Others	96,961	5.05	64,581	3.66	50.14
Total equity	125,555	6.54	125,787	7.14	(0.18)
Total	1,918,532	100.00	1,762,476	100.00	8.85

Table 9 Sources of Funds

## Statutory Capital Fund

As at September 30, 2011, the Bank's tier 1 capital was Bt 119,631 m or 9.08% Tier 1 Capital ratio which was higher than the minimum rate of 4.25% required by the BOT. Total capital fund was Bt 187,166 m or 14.21% Total Capital Fund ratio, 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.

Tier 1 capital ratio and Total capital fund ratio decreased from December 31, 2010, even though the Bank counted net income of the first half as Tier 1 capital. This is because the Bank adopted the TAS 19 Employee Benefits by adjusting total amount of employee benefits obligation with brought forward retained earnings of the Bank. Moreover, the growth in loans to customers increased risk-weighted assets of the Bank.

Unit : Million Baht

The Bank's Financial Statements	September 30, 2011		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(%)
Tier 1 capital	119,631	9.08	115,695	9.90	3.40
Tier 2 capital	67,535		65,717		2.77
Total capital fund	187,166	14.21	181,412	15.52	3.17
Risk-weighted assets	1,316,986		1,168,632		

Table 10 Statutory Capital Fund

## Asset Quality

### Non-Performing Loans

As at September 30, 2011, the Bank and subsidiaries' gross non-performing loans (NPLs) were Bt 67,090 m, showing a decrease of Bt 9,252 m, or 12.12% from Bt 76,342 m of December 31, 2010. Thus, NPL ratio (gross) decreased to 4.36% compare to 5.31% as at December 31, 2010. Net non-performing loans were at Bt 41,680 m or 2.75% of total loans.

As at September 30, 2011, the Bank's gross non-performing loans (NPLs) were Bt 66,882 m, showing a decrease of Bt 9,251 m, or 12.15% from December 31, 2010.

In addition, the Bank believed that the level of effect from flood situation and world economic uncertainty were manageable. Also, the Bank provided special measures for our loan customers as needed.

## Credit Ratings

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

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

**Table 11** Credit Ratings