

## Highlights of key events in 2010

- February 5, 2010: The Board of Directors' Meeting passed the resolution to appoint Mr. Pongtep Polanun to be the Board Member in order to replace Mr.Pichit Likitkijjomboon who resigned from the Board Member, effective from 4th February 2010 onward.
- April 9, 2010: The Bank held the 17<sup>th</sup> Annual Ordinary General Meeting.
- July 2, 2010: The Bank had a major organizational restructuring, adding 2 more business groups from 13 groups to 15 groups as follows: Corporate Strategy Group and Corporate Banking Group 2.
- July 2, 2010: The Bank signed the memorandum of cooperation on Corporate Governance among the 7 state-owned banks: Krung Thai Bank Pcl., Small and Medium Enterprise Development Bank of Thailand, Bank for Agriculture and Agricultural Co-Operatives, Export-Import Bank of Thailand, Government Savings Bank, The Government Housing Bank, and Islamic Bank of Thailand.
- August 5, 2010: Mr. Aswin Kongsiri, Member of the Board of Directors of Krung Thai Bank PCL retired from directorship when he was 65 years old on 5<sup>th</sup> August 2010 in accordance with the Standard Qualification for Directors and Employees of State Enterprise Act, B.E.2518 (1975), effective from 6<sup>th</sup> August 2010 onward.
- September 16, 2010: The Board of Directors' Meeting of Krung Thai Bank PCL. passed the following resolutions:
  1. Appointed Mrs.Benja Louichareon to be Director in order to replace Mr.Aswin Kongsiri, who retired from directorship when he was 65 years old in accordance with the Standard Qualification for Directors and Employees of State Enterprise Act, B.E.2518 (1975) with an endorsement from the Bank of Thailand. Furthermore, the Board of Directors' Meeting has passed the resolution to appoint her to be Vice Chairman at the same time, effective from 16th September 2010 onward.
  2. Appointed Mr.Santi Vilassakdanont to be Member of the Audit committee in order to replace Mr. Naruenart Ratanakanok who was appointed to be Executive Director, effective from 16th September 2010 onward.
  3. Appointed Mr.Parinya Patanaphakdee to be Corporate Secretary, effective from 1st October 2010 onward.
- October 21, 2010: The Bank launched new products called KTB Oil Fund Card and KTB Gold Invest Card which are VISA debit cards attached with KT-OIL fund and KT-Gold fund, managed by Krung Thai Asset Management Pcl. (KTAM).
- November 4, 2010: The Bank in cooperation with Ministry of Defence, Royal Thai Air Force, Capital Market Academy, The Government Public Relations Department; Click VR1, TNEWS, Thailand Post, Centara, National Broadcasting Services of Thailand, Bangkok Post, and Post Today launched a campaign to help flood victims. The donations were collected at the head office and all branches in metropolitan area. The Bank also opened charity account for donations.
- The Bank was awarded "Outstanding SOE Board of the Directors Award for the year 2010", from the State Enterprise Policy Office, Ministry of Finance.
- The Bank was awarded "SET Awards 2010: Top Corporate Governance" from the Stock Exchange of Thailand in collaboration with Money & Banking Magazine.
- The Bank was awarded excellence "Corporate Governance Report of Thai Listed Companies 2010" from Thai Institute of Directors Association (IOD).

# Management Discussion and Analysis

This report discusses principal changes in the audited consolidated financial statements for the year ended December 31, 2010.

## Overview of Operating Results

Krung Thai Bank PCL. and subsidiaries' net profit before income tax for 2010 were Bt 20,448 m, showing an increase of Bt 2,833 m or 16.08% compared to 2009. After deducting the Bt 5,535 m income tax expense, net profit for 2010 amounted to Bt 14,913 m, showing an increase of Bt 2,724 m or 22.35% compared to 2009.

	2009	2010	Change (2010/2009)	
			Amount	(%)
Net profit before income tax	17,615	20,448	2,833	16.08
Income tax expense	5,426	5,535	109	2.01
Net profit	12,189	14,913	2,724	22.35

Table 1 Operating Results

## Net Interest and Dividend Income

Net interest and dividend income for 2010 was Bt 46,848 m, increased by Bt 4,312 m or 10.14% from 2009. Interest income on loans was Bt 54,049 m, increased by Bt 3,376 m or 6.66% from 2009. Interest income on interbank and money market items was Bt 4,603 m, increased by Bt 677 m or 17.24% from 2009. Interest and dividend income on investments was Bt 4,420 m, increased by Bt 1,036 m or 30.61% in comparison to 2009. However, 2010 interest expense was Bt 16,224 m, increased by Bt 777 m or 5.03% from 2009. As a result, the Bank's net interest margin ("NIM") for 2010, based on earning assets, equaled to 2.93%, showing a decrease from 3.10% in 2009

	2009	2010	Change (2010/2009)	
			Amount	(%)
Interest and dividend income				
- Loans	50,673	54,049	3,376	6.66
- Interbank and money market items	3,926	4,603	677	17.24
- Investments	3,384	4,420	1,036	30.61
Less Interest expense	15,447	16,224	777	5.03
Net interest and dividend income	42,536	46,848	4,312	10.14
Net interest margin [based on earning assets] * (%)	3.10	2.93		

\* Including dividend income and excluding fee from loan

Table 2 Interest and Dividend Income

## Non-Interest Income

The Bank's non-interest income in 2010 was Bt 15,681 m, increased by Bt 1,896 m or 13.75% from 2009, while fees and service income totaled Bt 11,713 m, representing an increase by Bt 1,345 m or 12.97% from 2009.

Unit : Million Baht

	2009	2010	Change (2010/2009)	
			Amount	(%)
Fees and service income				
- Acceptances, aval and guarantees	1,001	1,064	63	6.29
- Others	9,367	10,649	1,282	13.69
Gain on exchange	665	1,055	390	58.65
Net gain on investments	593	204	(389)	(65.60)
Other income	883	1,450	567	64.21
Total non-interest income from core business	12,509	14,422	1,913	15.29
Share of profit from investments on equity method	971	1,089	118	12.15
Gain on disposal of properties foreclosed, net	305	170	(135)	(44.26)
Total non-interest income	13,785	15,681	1,896	13.75

Table 3 Non-Interest Income

## Non-Interest Expense

The Bank's non-interest expenses for 2010 were Bt 35,957 m, increased by Bt 3,494 m or 10.76% from 2009, mainly due to the personnel expenses, and premises and equipment expenses. Cost-to-income ratio in 2010 equaled 58.94%, increased from 58.03% in 2009.

Unit : Million Baht

	2009	2010	Change (2010/2009)	
			Amount	(%)
Personnel expenses	15,043	17,096	2,053	13.65
Premises and equipment expenses	5,474	5,950	476	8.70
Taxes and duties	2,028	2,142	114	5.62
Fees and service expenses	1,103	1,379	276	25.02
Directors' remuneration	70	72	2	2.86
Contribution to deposit protection agency	4,370	4,862	492	11.26
Other expenses	4,375	4,456	81	1.85
Total non-interest expenses	32,463	35,957	3,494	10.76
Cost-to-income ratio * (%)	58.03	58.94		

\* 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 4 Non-Interest Expenses

## Loan-Loss Provision

In 2010, the Bank set aside Bt 6,124 m provision for bad debts and doubtful accounts, which decreased by Bt 119 m or 1.91% from 2009. The Bank booked normalized provision for bad debts and doubtful accounts of Bt 500 m per month in 2010 in order to maintain sufficient provision.

	2009	2010	Unit : Million Baht	
			Change (2010/2009)	
			Amount	(%)
Provision for bad debts and doubtful accounts	6,243	6,124	(119)	(1.91)

**Table 5** Loan-Loss Provision

## Financial Status

### Assets

- Loans

Unit : Million Baht

	Dec 31, 2009		Dec 31, 2010		Change
	Amount	(%)	Amount	(%)	(2010/2009) (%)
Agriculture and mining	22,887	2.13	39,876	3.20	74.23
Manufacturing and commerce	364,181	33.98	369,520	29.61	1.47
Real estate and construction	128,003	11.94	124,886	10.01	(2.44)
Public utilities and services	249,013	23.23	352,921	28.28	41.73
Housing loans	161,722	15.09	175,610	14.07	8.59
Others	147,706	13.78	186,817	14.97	26.48
Less Unearned discounts	1,632	0.15	1,789	0.14	9.62
<b>Total loans</b>	<b>1,071,880</b>	<b>100.00</b>	<b>1,247,841</b>	<b>100.00</b>	<b>16.42</b>

**Table 6** Loans classified by business types

- Total investments

Total investments (Net) totaled Bt 201,596 m, showing an increase of Bt 65,222 m or 47.83% from December 31, 2009.

- Total assets

Total assets as at December 31, 2010 were Bt 1,762,476 m, showing an increase of Bt 218,646 m or 14.16% from December 31, 2009.

### Liabilities

As at December 31, 2010, total liabilities were Bt 1,636,689 m, showing an increase of Bt 205,386 m or 14.35% compared to December 31, 2009. Total deposits totaled Bt 1,248,051 m, showing an increase of Bt 40,438 m or 3.35% from December 31, 2009, mainly due to an increase in savings deposits.

Unit : Million Baht

	Dec 31, 2009		Dec 31, 2010		Change (2010/2009)
	Amount	(%)	Amount	(%)	(%)
Demand deposits	77,403	6.41	72,042	5.77	(6.93)
Savings deposits	665,062	55.07	741,031	59.38	11.42
Time deposits	465,148	38.52	434,978	34.85	(6.49)
- less than 6 months	149,447	12.38	129,987	10.42	(13.02)
- 6 months – less than 1 year	36,372	3.01	36,360	2.91	(0.03)
- 1 year and over	279,329	23.13	268,631	21.52	(3.83)
Total deposits	1,207,613	100.00	1,248,051	100.00	3.35
B/E	59,875	-	120,294	-	

**Table 7** Deposits classified by products

## Shareholders' Equity

The shareholders' equity as at December 31, 2010 was Bt 125,787 m, showing an increase of Bt 13,260 m or 11.78% from December 31, 2009. The major changes are as follows:

- Revaluation surplus on investments amounted to Bt 4,429 m, showing an increase of Bt 2,884 m or 186.67% from December 31, 2009.
- For the year ended December 31, 2010, the Bank's net profit equaled to Bt 14,913 m.

Book value per share as at December 31, 2010 totaled Bt 11.25 per share, showing an increase from Bt 10.06 per share as at December 31, 2009.

## Off-Balance Sheet: Contingencies

As at December 31, 2010, the Bank had total contingencies of Bt 1,089,424 m, showing an increase of Bt 309,007 m or 39.60% from December 31, 2009. Such change was in line with the Bank's normal business.

Unit : Million Baht

	Dec 31, 2009	Dec 31, 2010	Change (2010/2009)
	Amount	Amount	(%)
Aval to bills and guarantees of loans	6,271	15,914	153.77
Liabilities under unmatured import bills	-	-	-
Letters of credit	25,357	25,161	(0.77)
Other contingencies	748,789	1,048,349	40.01
Total contingencies	780,417	1,089,424	39.60

**Table 8** Off-Balance Sheet: Contingencies

## Liquidity

The Bank's policy on liquidity management is to maintain enough funds to support its loan growth and sustain its liquidity. The Bank's Assets and Liabilities Management Committee has the authority to formulate policies on liquidity management which also follows the BOT's requirements.

As of December 31, 2010, loan-to-deposit ratio increased to 99.98% in comparison to 88.76% as at December 31, 2009. However, if short-term borrowings were included as deposit, loan-to-deposit ratio would have been 91.19% as at December 31, 2010 and 84.57% as at December 31, 2009.

## Sources and Uses of Funds

In December 31, 2010, deposits, as a major source of funds, contributed to 70.81% of the Bank's source of funds. Other sources of funds included shareholders' equity, borrowings through debt instruments, and interbank borrowings. For the period, 70.80% of funds were invested in loans (excluding accrued interest receivable and interbank loans). Meanwhile, net investments, and interbank and money market items contributed to 11.44% and 11.97% of the Bank's asset, respectively.

Unit : Million Baht

	Dec 31, 2009		Dec 31, 2010		Change (2010/2009)
	Amount	(%)	Amount	(%)	(%)
Loans					
- Within 1 year	356,617	33.27	376,552	30.17	5.59
- Over 1 year	716,895	66.88	873,078	69.97	21.79
Less Unearned discounts	1,632	0.15	1,789	0.14	9.62
Total loans*	1,071,880	100.00	1,247,841	100.00	16.42
Deposits					
- Within 1 year	1,195,344	98.98	1,234,587	98.92	3.28
- Over 1 year	12,269	1.02	13,464	1.08	9.74
Total deposits	1,207,613	100.00	1,248,051	100.00	3.35

Note: (\*) Excluding accrued interest receivable and interbank and money market loans

**Table 9** Loans and Deposits classified by remaining maturity

## Statutory Capital Fund

As at December 31, 2010, the Bank's tier 1 capital was Bt 115,695 m or 9.90% 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 181,412 m or 15.52% 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 new BOT's regulations regarding Basel II.

Unit : Million Baht

The Bank's Financial Statements	Dec 31, 2009		Dec 31, 2010		Change (2010/2009)
	Amount	(%)	Amount	(%)	Amount
Tier 1 capital fund	106,628	10.05	115,695	9.90	8.50
Tier 2 capital fund	62,306		65,717		5.47
Total capital fund before less items	168,934		181,412		7.39
Less Revaluation deficit (net) on investments in available-for-sale equity securities	-		-		-
Total capital fund	168,934	15.92	181,412	15.52	7.39
Risk-weighted assets	1,061,174		1,168,632		10.13

Table 10 Statutory Capital Fund

## Asset Quality

### Non-Performing Loans

As at December 31, 2010, the Bank and subsidiaries' gross non-performing loans (NPLs) were Bt 76,257 m, showing a decrease of Bt 8,663 m, or 10.20% from Bt 84,920 m of December 31, 2009. Thus, the Bank has ratio of NPLs, over the total loans decreased to 5.30% as at December 31, 2010 in comparison to 6.52% as at December 31, 2009. Net non-performing loans as at December 31, 2010 were at Bt 43,471 m or 3.09% of total loans.

As at December 31, 2010, the Bank's gross non-performing loans (NPLs) were Bt 76,133 m, showing a decrease of Bt 8,629 m, or 10.18% from December 31, 2009.

## Credit Ratings

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

	December 2009	December 2010
<ul style="list-style-type: none"> <li>■ <b>Standard &amp; Poor's</b></li> </ul>		
<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>■ <b>Moody's Investors Service</b></li> </ul>		
<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>	Baa3	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>■ <b>Fitch Ratings</b></li> </ul>		
<ul style="list-style-type: none"> <li>Foreign Currency Credit Ratings</li> </ul>		
<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
<ul style="list-style-type: none"> <li>National Credit Ratings</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Long-term/ Short-term</li> </ul>	AA+(tha) / F1+(tha)	AA+(tha) / F1+ (tha)
<ul style="list-style-type: none"> <li>▪ Subordinated Debt</li> </ul>	AA(th)	AA(th)
<ul style="list-style-type: none"> <li>▪ Hybrid Tier 1 (USD)</li> </ul>	A(th)	A(th)
<ul style="list-style-type: none"> <li>▪ Outlook</li> </ul>	Stable	Stable

**Table 11** Credit Ratings