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เรื่องเงิน เรื่องง่าย"

# Management Discussion and Analysis

For the quarter and the year ended
December 31, 2014

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## *Executive Summary:*

Despite the modest growth recorded in the first half of the year resulting from prolonged political uncertainty, and a weaker than expected economic recovery, Krungsri successfully delivered a solid performance for 2014, with a **net profit** of Baht 14,323 million, representing a 19.5% increase over 2013. The increase in net profit was attributed to higher net interest income supported by loan growth, net fees and service income growth and disciplined expenses management, together with a lower loan loss provision.

Total **loans** reached Baht 1,012,761 million, an increase of Baht 69,259 million, or 7.3%, from the year earlier. Loan growth was broad-based across all customer segments. The corporate segment was the key contributor with an increase of 9.5%, followed by SME and retail segments which grew 6.9% and 6.3%, respectively.

**Deposits** totaled Baht 837,556 million, an increase of Baht 73,506 million, or 9.6%, from December 2013, reflecting the successful launch of the "8-month Step Up Time Deposit" in June 2014 and sustained growth of our special savings products --"Mee Tae Dai" and "Jad Hai". "Mee Tae Dai" balances exceeded Baht 168,000 million, while "Jad Hai" increased more than 300,000 accounts from December 2013.

**Net fees and service income** increased 3.1%, supported by wealth, fund management & securities-related, auto hire purchase and Bancassurance fees.

**Non-performing loans** represented 2.79% of total loans, a satisfactory level despite strong headwinds during the first half of the year, reflecting prudent business undertaking together with continued resolution of legacy NPLs. The Group sold Baht 2,514 million of NPLs in 2014.

Our **total provision** was Baht 39,958 million, with an excess provision over Bank of Thailand's reserve requirements of Baht 13,504 million, representing 51.1% over the Bank of Thailand's reserving requirements. The loan loss coverage ratio was 133.2%.

**Earnings per share** (EPS) increased to Baht 2.33 in 2014.

On January 5th, 2015, the Bank of Tokyo-Mitsubishi UFJ (BTMU) Bangkok branch was integrated into Krungsri, in accordance with the One Presence Policy of the Bank of Thailand. MUFG's ownership in Krungsri through BTMU has been increased from 72.01% to 76.88% as a result of the issuance of 1,281,618,026 common shares by Krungsri to BTMU. After the integration, commercial lending comprising corporate and SME customers accounts for approximately 60% of our total loan portfolio, while retail lending, represents the remaining 40%.

In 2015, we expect the economy to regain its momentum, which should be more favorable for business expansion. With projected GDP growth of around 4.3% in 2015, we expect loan growth to be broad-based and exceed GDP growth. Yet, given the uncertainty surrounding both potential international and domestic developments, Krungsri will continue to grow our business prudently.

## *NIM: 4.32%*

## *Net Profit:*

***At Baht 14.3 billion***

## *Loan Growth: 7.3%*

## *Deposits grew:*

## 9.6%

## *Summary of Financial Performance and Status:*

**Key 2014 deliverables:**

- **Loan Growth:**

  *Increased 7.3%, or Baht 69,259 million, compared to December 2013, and 3.9%, or Baht 37,863 million, compared to September 2014.*

- **Deposit Growth:**

  *Increased 9.6%, or Baht 73,506 million, compared to December 2013.*

- **Net Profit:**

  *Increased to Baht 14,323 million, representing a 19.5% increase over 2013, driven by higher net interest income supported by loan growth, net fees and service income growth and disciplined expenses management, together with a lower loan loss provision.*

- **Net Interest Margin (NIM):**

  *Recorded at 4.32%, driven mainly by lower cost of funds in line with a lower policy rate and a higher mix of lower cost funds*.

- **Net Fees and Service Income:**

  *Increased 3.1% from 2013, supported by wealth, fund management & securities-related, auto hire purchase and Bancassurance fees.*

- **Cost to Income Ratio:**

  *Improved to 48.5% from 48.9% in 2013, reflecting disciplined expense management thruoughout the year.*

- **Non-Performing Loans (NPLs):**

  *Represented 2.79% of total loans.*

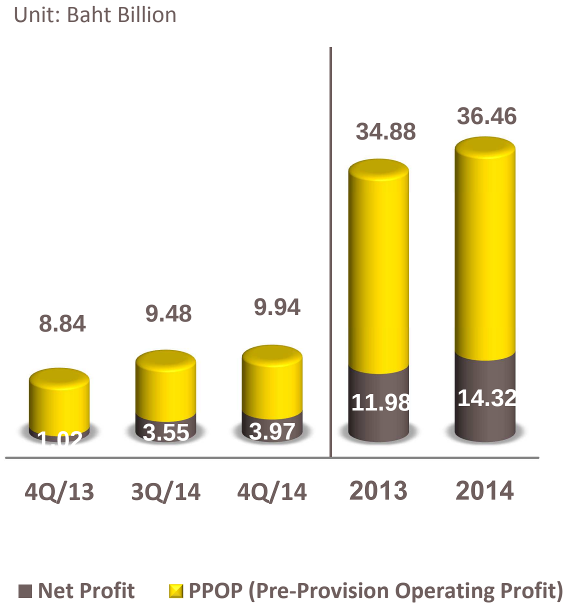
- **Coverage Ratio:**

  *Stood at 133.2%.*

- **Capital Adequacy Ratio:**

  *Recorded at 14.7 %, maintained at the same level as recorded in December 2013.*

## PPOP & Net Profit




**For the year ended December 31, 2014**

In 2014, operating profit was Baht 36,460 million, representing an increase of Baht 1,577 million, or 4.5%, from 2013, driven by growth in net interest income as a result of higher interest income from loans and net fees and service income.

In 2014, net profit rose to Baht 14,323 million, representing an increase of Baht 2,340 million, or 19.5% year-on-year, attributed to higher net interest income supported by lending growth and net fees and service income growth and disciplined expenses management, together with lower loan loss provision.

**For the fourth quarter ended December 31, 2014**

In 4Q/14, net profit totalled Baht 3,965 million, an increase of Baht 2,945 million, or 288.7% year-on-year, largely driven by a lower loan loss provisions, compared to 4Q/13.

On a quarter-on-quarter basis, net profit increased Baht 411 million, or 11.6%, driven by an increase in non-interest income and net fees and service income.

# 1. Statements *of Comprehensive Income*[1]/

| Consolidated Statements of Comprehensive Income | 4Q/14 | 3Q/14 | 4Q/13 Restated | Change QoQ Baht mn | Change QoQ % | Change YoY Baht mn | Change YoY % |
|---|---|---|---|---|---|---|---|
| Interest Income | 19,044 | 18,937 | 18,939 | 107 | 0.6 | 105 | 0.6 |
| Interest Expenses | 6,681 | 6,730 | 6,841 | (49) | (0.7) | (160) | (2.3) |
| **Interest Income, Net** | **12,363** | **12,207** | **12,098** | **156** | **1.3** | **265** | **2.2** |
| Fees and Service Income | 5,220 | 4,848 | 4,738 | 372 | 7.7 | 482 | 10.2 |
| Fees and Service Expense | 1,254 | 1,081 | 1,061 | 173 | 16.0 | 193 | 18.2 |
| **Fees and Service Income, Net** | **3,966** | **3,767** | **3,677** | **199** | **5.3** | **289** | **7.9** |
| Non-interest and Non-fees Income | 2,571 | 2,063 | 2,221 | 508 | 24.6 | 350 | 15.8 |
| Other Operating Expenses | 8,959 | 8,559 | 9,161 | 400 | 4.7 | (202) | (2.2) |
| **Pre-Provision Operating Profit (PPOP)** | **9,941** | **9,478** | **8,835** | **463** | **4.9** | **1,106** | **12.5** |
| Impairment Loss of Loan and Debt Securities | 4,879 | 4,889 | 6,822 | (10) | (0.2) | (1,943) | (28.5) |
| Income Tax Expense | 1,097 | 1,035 | 993 | 62 | 6.0 | 104 | 10.5 |
| **Net Profit** | **3,965** | **3,554** | **1,020** | **411** | **11.6** | **2,945** | **288.7** |
| Other Comprehensive income | (791) | 417 | 56 | (1,208) | (289.7) | (847) | (1,512.5) |
| **Total Comprehensive income** | **3,174** | **3,971** | **1,076** | **(797)** | **(20.1)** | **2,098** | **195.0** |
| Net Profit Attributable To | | | | | | | |
| Owners of the Bank | 3,936 | 3,507 | 1,002 | 429 | 12.2 | 2,934 | 292.8 |
| Non-Controlling Interest | 29 | 47 | 18 | (18) | (38.3) | 11 | 61.1 |
| **Net Profit** | **3,965** | **3,554** | **1,020** | **411** | **11.6** | **2,945** | **288.7** |
| Total Comprehensive Income Attributable To | | | | | | | |
| Owners of the Bank | 3,145 | 3,924 | 1,058 | (779) | (19.9) | 2,087 | 197.3 |
| Non-Controlling Interest | 29 | 47 | 18 | (18) | (38.3) | 11 | 61.1 |
| **Total Comprehensive income** | **3,174** | **3,971** | **1,076** | **(797)** | **(20.1)** | **2,098** | **195.0** |
| **Earning Per Share (Baht)** | **0.65** | **0.58** | **0.16** | **0.07** | **12.1** | **0.49** | **306.3** |

[1] Starting January 2014, Krungsri Group adopted Thai Financial Reporting Interpretation No. 13 (TFRI 13): Customer Loyalty Programmes, as issued by the Federation of Accounting Professions. As a result of TFRI 13's adoption, Krungsri restated prior period financial statements. The key changes from TFRI 13's adoption is (1) the recognition of provision for customer loyalty credits (points) as a deduction item in fee income as opposed to the previous recognition of such provision as an operating expense and (2) the reflection of customer loyalty credits on a fair value rather than cost basis.

| Consolidated Statements of Comprehensive Income | 2014 | 2013 Restated | Change YoY Baht mn | % |
|---|---|---|---|---|
| Interest Income | 74,609 | 71,381 | 3,228 | 4.5 |
| Interest Expense | 26,665 | 26,442 | 223 | 0.8 |
| **Interest Income, Net** | **47,944** | **44,939** | **3,005** | **6.7** |
| Fees and Service Income | 19,191 | 18,541 | 650 | 3.5 |
| Fees and Service Expense | 4,421 | 4,214 | 207 | 4.9 |
| **Fees and Service Income, Net** | **14,770** | **14,327** | **443** | **3.1** |
| Non-interest and Non-fees Income | 8,046 | 9,009 | (963) | (10.7) |
| Other Operating Expenses | 34,300 | 33,392 | 908 | 2.7 |
| **Pre-Provision Operating Profit (PPOP)** | **36,460** | **34,883** | **1,577** | **4.5** |
| Impairment Loss of Loan and Debt Securities | 18,106 | 18,959 | (853) | (4.5) |
| Income Tax Expense | 4,031 | 3,941 | 90 | 2.3 |
| **Net Profit** | **14,323** | **11,983** | **2,340** | **19.5** |
| Other Comprehensive income | 626 | 1,040 | (414) | (39.8) |
| **Total Comprehensive income** | **14,949** | **13,023** | **1,926** | **14.8** |
| Net Profit Attributable To | | | | |
| Owners of the Bank | 14,169 | 11,864 | 2,305 | 19.4 |
| Non-Controlling Interest | 154 | 119 | 35 | 29.4 |
| **Net Profit** | **14,323** | **11,983** | **2,340** | **19.5** |
| Total Comprehensive Income Attributable To | | | | |
| Owners of the Bank | 14,796 | 12,904 | 1,892 | 14.7 |
| Non-Controlling Interest | 153 | 119 | 34 | 28.6 |
| **Total Comprehensive income** | **14,949** | **13,023** | **1,926** | **14.8** |
| **Earning Per Share (Baht)** | **2.33** | **1.95** | **0.38** | **19.5** |

# 2. Financial Performance

## 2.1 Net Interest Income

| Consolidated | 4Q/14 | 3Q/14 | 4Q/13 | Change QoQ | | Change YoY | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| INTEREST INCOME | | | | | | | |
| Interest on loans | 12,829 | 12,548 | 12,723 | 281 | 2.2 | 106 | 0.8 |
| Interest on interbank and money market items | 575 | 787 | 591 | (212) | (26.9) | (16) | (2.7) |
| Hire purchase and financial lease income | 5,124 | 5,082 | 5,021 | 42 | 0.8 | 103 | 2.1 |
| Investments and trading transactions | 61 | 40 | 32 | 21 | 52.5 | 29 | 90.6 |
| Investments in debt securities | 455 | 480 | 572 | (25) | (5.2) | (117) | (20.5) |
| **Total Interest Income** | **19,044** | **18,937** | **18,939** | **107** | **0.6** | **105** | **0.6** |
| INTEREST EXPENSE | | | | | | | |
| Interest on deposits | 3,987 | 3,879 | 4,018 | 108 | 2.8 | (31) | (0.8) |
| Interest on interbank and money market items | 354 | 447 | 378 | (93) | (20.8) | (24) | (6.3) |
| Interest on borrowings | 1,294 | 1,369 | 1,489 | (75) | (5.5) | (195) | (13.1) |
| Contribution to Financial Institution Development Fund and Deposit Protection Agency | 1,042 | 1,032 | 951 | 10 | 1.0 | 91 | 9.6 |
| Other interest expenses | 4 | 3 | 5 | 1 | 33.3 | (1) | (20.0) |
| **Total Interest Expenses** | **6,681** | **6,730** | **6,841** | **(49)** | **(0.7)** | **(160)** | **(2.3)** |
| **Interest Income, net** | **12,363** | **12,207** | **12,098** | **156** | **1.3** | **265** | **2.2** |
| Net Interest Margin | 4.34% | 4.33% | 4.53% | | | | |
| Yield on Earning Assets | 6.69% | 6.72% | 7.10% | | | | |
| Cost of Funds | 2.59% | 2.64% | 2.82% | | | | |

| Consolidated | 2014 | 2013 | Change YoY Baht mn | Change YoY % |
|---|---|---|---|---|
| INTEREST INCOME | | | | |
| Interest on loans | 49,688 | 46,751 | 2,937 | 6.3 |
| Interest on interbank and money market items | 2,598 | 2,709 | (111) | (4.1) |
| Hire purchase and financial lease income | 20,193 | 19,561 | 632 | 3.2 |
| Investments and trading transactions | 174 | 157 | 17 | 10.8 |
| Investments in debt securities | 1,956 | 2,203 | (247) | (11.2) |
| **Total Interest Income** | **74,609** | **71,381** | **3,228** | **4.5** |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 15,583 | 15,701 | (118) | (0.8) |
| Interest on interbank and money market items | 1,484 | 1,469 | 15 | 1.0 |
| Interest on borrowings | 5,504 | 5,583 | (79) | (1.4) |
| Contributions to Financial Institution Development | | | | |
| Fund and Deposit Protection Agency | 4,076 | 3,665 | 411 | 11.2 |
| Borrowing fee expenses | 4 | 5 | (1) | (20.0) |
| Other interest expenses | 14 | 19 | (5) | (26.3) |
| **Total Interest Expenses** | **26,665** | **26,442** | **223** | **0.8** |
| **Interest Income, net** | **47,944** | **44,939** | **3,005** | **6.7** |
| Net Interest Margin | 4.32% | 4.37% | | |
| Yield on Earning Assets | 6.72% | 6.93% | | |
| Cost of Funds | 2.64% | 2.82% | | |

**For the year ended December 31, 2014**

For 2014, net interest income reached Baht 47,944 million, an increase of Baht 3,005 million, or 6.7% compared to 2013, as interest income grew by a larger magnitude than interest expense, resulting primarily from loan growth and an improvement in funding costs, reflecting a lowered policy rate and a higher mix of lower cost funds.

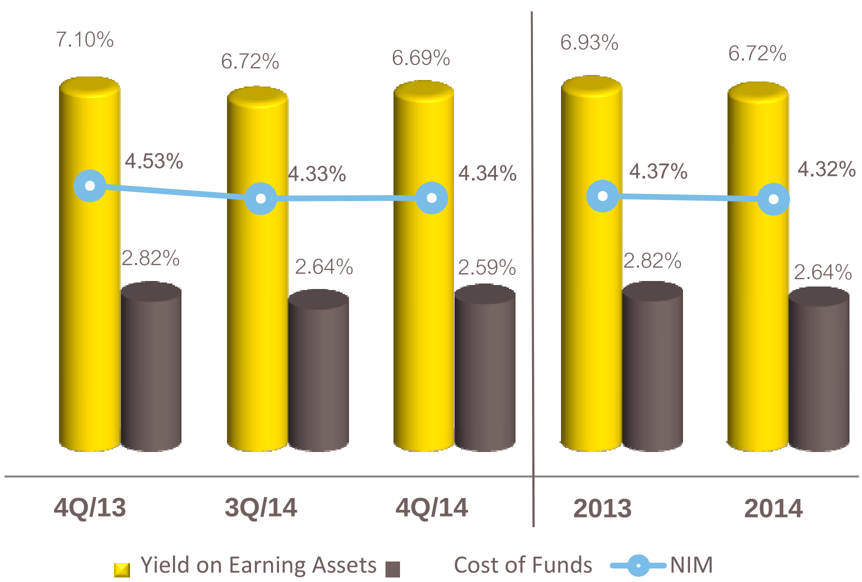
**For the fourth quarter ended December 31, 2014**

Net interest income in the fourth quarter was Baht 12,363 million, representing an increase of Baht 156 million, or 1.3% on a quarter-on-quarter basis driven by higher interest income while interest expense decreased. The interest expense decreased mainly from a decrease volume of interbank and money market outstanding.

On a year-on-year basis, net interest income increased by Baht 265 million, or 2.2% mainly driven by a loan growth in 4Q/14. Interest expense decreased mainly from a lower volume of borrowings and debt issued despite a higher volume of deposits.

NIM was recorded at 4.32% in 2014 exceeding the Bank's guidance of 4.2%, driven mainly by lower cost of funds in line with a lower policy rate and a higher mix of lower cost funds.

**Net Interest Margin (NIM)**



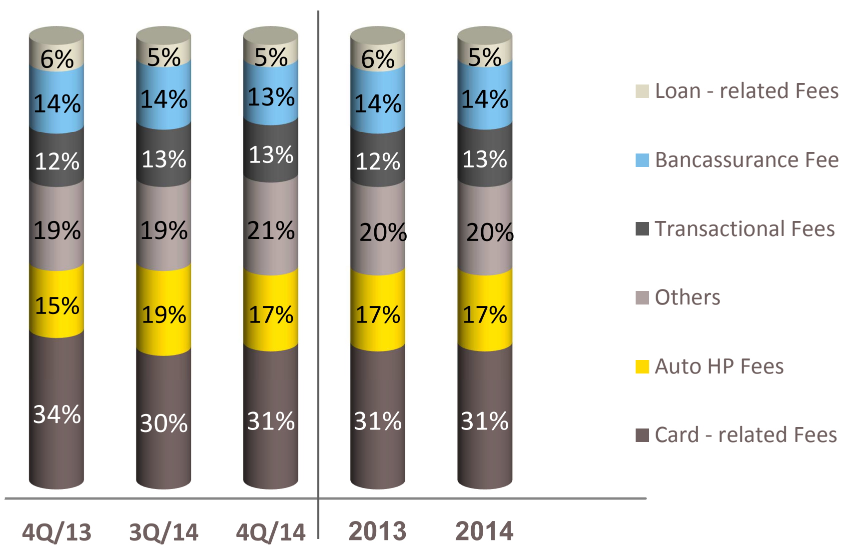

| | Dec-13 | Jan-14 | Feb-14 | Mar-14 | Apr-14 | Sep-14 | Dec-14 |
|---|---|---|---|---|---|---|---|
| Policy Rate | 2.25% | 2.25% | 2.25% | 2.00% | 2.00% | 2.00% | 2.00% |
| Krungsri Lending Rate | 7.25% | 7.25% | 7.25% | 7.125% | 7.125% | 7.125% | 7.125% |
| Saving Rate | 0.50% | 0.50% | 0.50% | 0.40% | 0.40% | 0.40% | 0.40% |
| 3 - month deposits | 1.60-2.00% | 1.50-1.75% | 1.45-1.70% | 1.25-1.55% | 1.10-1.30% | 1.10-1.30% | 1.10-1.30% |
| 6 - month deposits | 1.90-2.25% | 1.85-2.00% | 1.75-1.95% | 1.50-1.70% | 1.35-1.50% | 1.35-1.50% | 1.35-1.50% |
| 12 - month deposits | 2.25-2.35% | 2.25% | 2.15% | 1.95-2.05% | 1.50-1.75% | 1.50-1.75% | 1.50-1.75% |

## 2.2 Net Fees and Service Income

| Consolidated | 4Q/14 | 3Q/14 | 4Q/13 Restated | Change QoQ Baht mn | Change QoQ % | Change YoY Baht mn | Change YoY % |
|---|---|---|---|---|---|---|---|
| Acceptances, aval and guarantees | 131 | 126 | 129 | 5 | 4.0 | 2 | 1.6 |
| Other fees and service income | 5,089 | 4,722 | 4,609 | 367 | 7.8 | 480 | 10.4 |
| **Fees and service income** | **5,220** | **4,848** | **4,738** | **372** | **7.7** | **482** | **10.2** |
| Fees and service expense | 1,254 | 1,081 | 1,061 | 173 | 16.0 | 193 | 18.2 |
| **Fees and Service Income, net** | **3,966** | **3,767** | **3,677** | **199** | **5.3** | **289** | **7.9** |

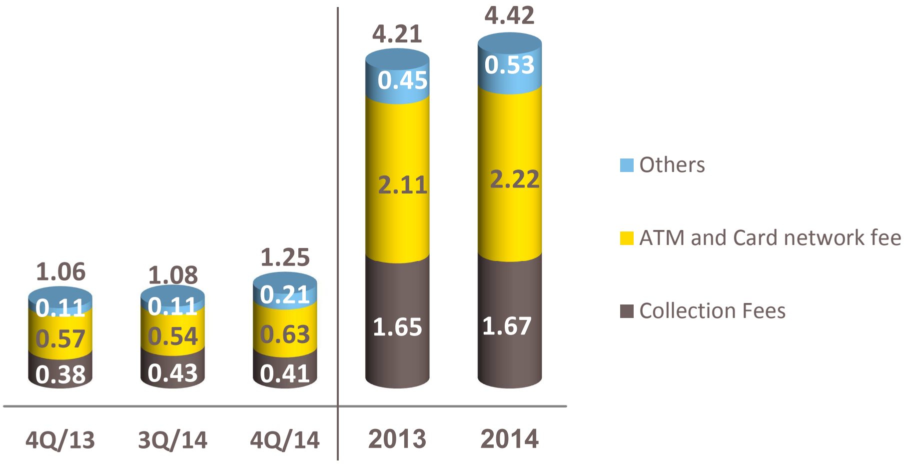
| Consolidated | 2014 | 2013 Restated | Change YoY Baht mn | Change YoY % |
|---|---|---|---|---|
| Acceptances, aval and guarantees | 512 | 505 | 7 | 1.4 |
| Other fees and service income | 18,679 | 18,036 | 643 | 3.6 |
| **Fees and service income** | **19,191** | **18,541** | **650** | **3.5** |
| Fees and service expense | 4,421 | 4,214 | 207 | 4.9 |
| **Fees and Service Income, net** | **14,770** | **14,327** | **443** | **3.1** |

### Fees & Service Income Breakdown



## Fees & Service Expense

Unit: Baht Billion




**For the year ended December 31, 2014**

Compared with 2013, net fees and service income increased by Baht 443 million, or 3.1%, driven by wealth, fund management & securities-related, auto hire purchase and Bancassurance fees. Wealth & fund management and security fees increased 14.4%. Fees from auto hire purchase increased 6.9%, while bancassurance fees grew 6.0% in 2014. Fees and service expense increased 4.9%.

**For the fourth quarter period ended December 31, 2014**

Net fees and service income increased Baht 199 million, or 5.3% quarter-on-quarter, mainly driven by an 11.1% increase in fees from the card business and a 7.2% increase in wealth & fund management & securities-related fees, largely attributed to holiday spending and year-end purchases of Long Term Equity Funds (LTF), Retirement Mutual Funds (RMF) and life insurance products. Loan-related fees increased 5.3%. Fees and service expense increased 16.0%, mainly due to an increase in variable expenses relating to the fee growth in the card business and wealth & fund management & securities-related fees.

On a year-on-year basis, net fees and service income increased Baht 289 million, or 7.9%, largely driven by a significant increase of 46.9% in wealth, fund management & securities-related fees, fees from auto hire purchase increased 17.8%, bancassurance fees grew 6.0%. Meanwhile, card-related fees grew 2.0%.

### 2.3 Non-interest and Non-fees Income

| Consolidated | 4Q/14 | 3Q/14 | 4Q/13 | Change QoQ | | Change YoY | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| Gains (losses) on trading and foreign exchange transactions | 465 | 334 | 354 | 131 | 39.2 | 111 | 31.4 |
| Gains (losses) on investments | 659 | 438 | 244 | 221 | 50.5 | 415 | 170.1 |
| Share of profit (loss) from investment for using equity method | 6 | 33 | (42) | (27) | (81.8) | 48 | 114.3 |
| Bad debt recoveries | 921 | 734 | 824 | 187 | 25.5 | 97 | 11.8 |
| Other operating income | 520 | 524 | 841 | (4) | (0.8) | (321) | (38.2) |
| **Total Non-interest and Non-fees Income** | **2,571** | **2,063** | **2,221** | **508** | **24.6** | **350** | **15.8** |

| Consolidated | 2014 | 2013 | Change YoY | |
|---|---|---|---|---|
| | | | Baht mn | % |
| Gains (losses) on trading and foreign exchange transactions | 1,574 | 1,563 | 11 | 0.7 |
| Gains (losses) on investments | 1,237 | 633 | 604 | 95.4 |
| Share of profit (loss) from investment for using equity method | 159 | 112 | 47 | 42.0 |
| Bad debt recoveries | 3,054 | 3,879 | (825) | (21.3) |
| Other operating income | 2,022 | 2,822 | (800) | (28.3) |
| **Total Non-interest and Non-fees Income** | **8,046** | **9,009** | **(963)** | **(10.7)** |

**For the year ended December 31, 2014**

Non-interest and non-fees income decreased Baht 963 million, or 10.7%, compared to 2013, driven mainly by a decrease in bad debt recoveries income of Baht 825 million, or 21.3% and a decrease of other operating income of Baht 800 million, or 28.3% mainly from a decrease of gain on properties for sale of Baht 588 million and a decrease in dividend income of Baht 311 million. During the same period, the Bank recorded an increase in gains on investments of Baht 604 million, or 95.4% mainly driven by gains in Available For Sales (AFS) investments.

**For the fourth quarter period ended December 31, 2014**

On a quarter-on-quarter basis, non-interest and non-fees income increased by Baht 508 million, or 24.6%, mainly driven by gains in Available For Sale (AFS) investments of Baht 221 million, or 50.5%, reflecting improved capital market conditions during the period. Bad debt recoveries income increased of Baht 187 million, or 25.5%.

On a year-on-year basis, non-interest and non-fees income increased Baht 350 million, or 15.8%, driven primarily by gains in Available For Sale (AFS) investments, gains on trading and foreign exchange transactions and bad debt recoveries.

## 2.4 Other Operating Expenses

| Consolidated | 4Q/14 | 3Q/14 | 4Q/13 | Change QoQ | | Change YoY | |
|---|---|---|---|---|---|---|---|
| | | | Restated | Baht mn | % | Baht mn | % |
| Employee's expenses | 4,017 | 4,046 | 3,793 | (29) | (0.7) | 224 | 5.9 |
| Premises and equipment expenses | 1,649 | 1,632 | 1,479 | 17 | 1.0 | 170 | 11.5 |
| Taxes and duties | 392 | 577 | 606 | (185) | (32.1) | (214) | (35.3) |
| Directors' remuneration | 13 | 13 | 9 | 0 | 0.0 | 4 | 44.4 |
| Other expenses | 2,888 | 2,291 | 3,274 | 597 | 26.1 | (386) | (11.8) |
| **Total Other Operating Expenses** | **8,959** | **8,559** | **9,161** | **400** | **4.7** | **(202)** | **(2.2)** |

| Consolidated | 2014 | 2013 | Change YoY | |
|---|---|---|---|---|
| | | Restated | Baht mn | % |
| Employee's expenses | 16,102 | 15,156 | 946 | 6.2 |
| Premises and equipment expenses | 6,452 | 5,809 | 643 | 11.1 |
| Taxes and duties | 2,115 | 2,221 | (106) | (4.8) |
| Directors' remuneration | 48 | 35 | 13 | 37.1 |
| Other expenses | 9,583 | 10,171 | (588) | (5.8) |
| **Total Other Operating Expenses** | **34,300** | **33,392** | **908** | **2.7** |

**For the year ended December 31, 2014**

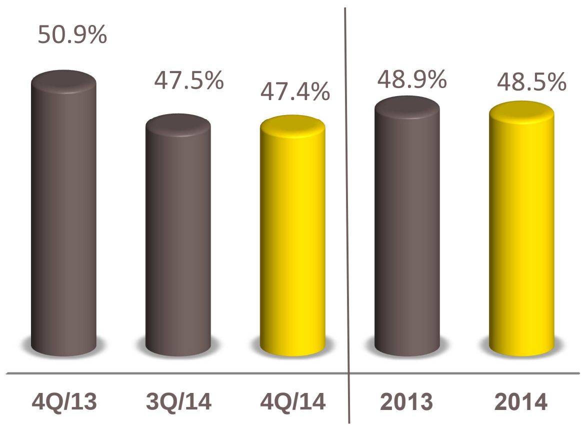
Operating expenses increased Baht 908 million, or 2.7%, driven by an increase in employee's expenses of Baht 946 million, or 6.2%, mainly due to annual merit increases, and an increase in premises and equipment expenses of Baht 643 million, or 11.1%. The increase in premises and equipment expenses was mainly driven by an increase in depreciation expenses of fixed assets of Baht 348 million. Meanwhile, other expenses decreased Baht 588 million, or 5.8%, driven by a decrease in reserve for contingent liabilities of Baht 968 million and impairment losses on other assets of Baht 505 million, offset by the reversal of a reserve on TAMC recorded in 2Q/13.

**For the fourth quarter period ended December 31, 2014**

On a quarter-on-quarter basis, operating expenses increased Baht 400 million, or 4.7%, driven by an increase in other expenses of Baht 597 million, mainly due to an increase in reserve for promotion expenses of Baht 397 million and a reserve for impairment loss on NPA of Baht 112 million, offset by a decrease in taxes and duties and employee expenses.

On a year-on-year basis, operating expenses decreased Baht 202 million, or 2.2%, driven by a decrease in other expenses of Baht 386 million, mainly as a result of a decrease in a reserve for impairment losses on other assets and contingent liabilities.

**Cost to Income Ratio**




The cost-to-income in 4Q/14 improved to 47.4% from 47.5% in 3Q/14. This was a result of a stronger growth in total income compared with growth in operating expenses. In 2014, the cost-to-income ratio improved to 48.5%, from 48.9% in 2013, reflecting our disciplined expenses management.

### 2.5 Impairment loss of loans and debt securities

| Consolidated | 4Q/14 | 3Q/14 | 4Q/13 | Change QoQ | | Change YoY | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| Bad Debt and Doubtful Accounts | 4,580 | 4,548 | 6,533 | 32 | 0.7 | (1,953) | (29.9) |
| Loss on Debt Restructuring | 299 | 341 | 289 | (42) | (12.3) | 10 | 3.5 |
| **Total impairment loss of loan and debt securities** | **4,879** | **4,889** | **6,822** | **(10)** | **(0.2)** | **(1,943)** | **(28.5)** |

| Consolidated | 2014 | 2013 | Change YoY | |
|---|---|---|---|---|
| | | | Baht mn | % |
| Impairment loss on debt instrument | 0 | (27) | 27 | 100.0 |
| Bad Debt and Doubtful Accounts | 16,739 | 17,407 | (668) | (3.8) |
| Loss on Debt Restructuring | 1,367 | 1,579 | (212) | (13.4) |
| **Total impairment loss of loan and debt securities** | **18,106** | **18,959** | **(853)** | **(4.5)** |

Loan loss provisions in 2014 amounted to Baht 18,106 million, a decrease of Baht 853 million, or 4.5%, from the prior year due to an absence of additional provisions as a countercyclical resource which were recorded in 2Q/13, but partially was offset by an increase in NPLs occurring in the SME and retail segments, which were impacted by unfavorable operating developments in the first half of the year.

On a quarter-on-quarter basis, loan loss provision in the fourth quarter amounted to Baht 4,879 million, in consistent with 3Q/14. The loan loss provision in 4Q/14 reflected an acceleration in loan growth booked during the quarter, offset by the resolution of one corporate account which was classified as NPL on a qualitative basis in the prior quarter.

As of December 31, 2014, our total provision stood at Baht 39,958 million, with an excess provision over Bank of Thailand's reserve requirements of Baht 13,504 million, representing 51.1% over the Bank of Thailand's reserving requirements. The loan loss coverage ratio was 133.2%.

## 3. Financial Status

### 3.1 Financial Position

| Consolidated | As at Dec. 31, 14 | As at Sep. 30, 14 | As at Dec. 31, 13 Restated | Change from Sep. 30, 14 Baht mn | Change from Sep. 30, 14 % | Change from Dec. 31, 13 Baht mn | Change from Dec. 31, 13 % |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash | 31,155 | 24,288 | 28,216 | 6,867 | 28.3 | 2,939 | 10.4 |
| Interbank and money market items, net | 80,364 | 103,242 | 87,027 | (22,878) | (22.2) | (6,663) | (7.7) |
| Investments, net | 60,573 | 75,900 | 73,274 | (15,327) | (20.2) | (12,701) | (17.3) |
| Investments in subsidiaries and associates, net | 1,217 | 1,212 | 1,059 | 5 | 0.4 | 158 | 14.9 |
| Loans to customers | 1,057,636 | 1,019,950 | 988,014 | 37,686 | 3.7 | 69,622 | 7.0 |
| Accrued interest receivable | 2,636 | 2,666 | 2,648 | (30) | (1.1) | (12) | (0.5) |
| Deferred revenue | (44,875) | (45,052) | (44,511) | 177 | 0.4 | (364) | (0.8) |
| Allowance for doubtful accounts | (38,159) | (40,413) | (37,466) | 2,254 | 5.6 | (693) | (1.8) |
| Revaluation allowance for debt restructuring | (1,617) | (1,636) | (1,520) | 19 | 1.2 | (97) | (6.4) |
| Properties for sale, net | 5,456 | 5,858 | 6,865 | (402) | (6.9) | (1,409) | (20.5) |
| Others | 59,882 | 91,159 | 76,000 | (31,277) | (34.3) | (16,118) | (21.2) |
| **TOTAL ASSETS** | **1,214,268** | **1,237,174** | **1,179,606** | **(22,906)** | **(1.9)** | **34,662** | **2.9** |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | |
| Deposits | 837,556 | 806,182 | 764,050 | 31,374 | 3.9 | 73,506 | 9.6 |
| Interbank and money market items, net | 46,612 | 75,590 | 55,497 | (28,978) | (38.3) | (8,885) | (16.0) |
| Debt issued and borrowings | 151,805 | 151,412 | 174,605 | 393 | 0.3 | (22,800) | (13.1) |
| Others | 46,625 | 75,521 | 63,901 | (28,896) | (38.3) | (17,276) | (27.0) |
| **TOTAL LIABILITIES** | **1,082,598** | **1,108,705** | **1,058,053** | **(26,107)** | **(2.4)** | **24,545** | **2.3** |
| Issued and paid-up share capital | 60,741 | 60,741 | 60,741 | 0 | 0.0 | 0 | 0.0 |
| Retained earning | 49,329 | 45,758 | 40,158 | 3,571 | 7.8 | 9,171 | 22.8 |
| Others | 21,600 | 21,970 | 20,654 | (370) | (1.7) | 946 | 4.6 |
| **TOTAL SHAREHOLDERS' EQUITY** | **131,670** | **128,469** | **121,553** | **3,201** | **2.5** | **10,117** | **8.3** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,214,268** | **1,237,174** | **1,179,606** | **(22,906)** | **(1.9)** | **34,662** | **2.9** |
| **Book value per share (Baht)** | 21.68 | 21.15 | 20.01 | **0.53** | **2.5** | **1.67** | **8.3** |

As of December 31, 2014, total assets stood at Baht 1,214,268 million, representing an increase of Baht 34,662 million, or 2.9% from December 2013, largely attributed to a higher net loan volume of Baht 69,259 million, or 7.3%, offset by a decrease in other assets of Baht 16,118 million, driven by a decrease in claims on securities from repurchase agreements of Baht 13,104 million, and a decrease in investment of Baht 12,701 million, driven by a decrease in securities Available For Sale (AFS).

On a quarter-on-quarter basis, total assets decreased of Baht 22,906 million, or 1.9%, driven by a decrease in other assets of Baht 31,277 million, mainly from a decrease in claims on securities from repurchase agreements of Baht 31,319 million, a decrease in interbank and money market items of Baht 22,878 million, and a decrease in investment of Baht 15,327 million, mainly from a decrease in securities. Meanwhile, net loan volume increased of by Baht 37,863 million, or 3.9%.

Liabilities grew 2.3%, or Baht 24,545 million. The growth in liabilities was driven by an increase in deposits of 9.6%, or Baht 73,506 million, reflecting the successful launch of the "8-month Step Up Time Deposit" in June 2014 and sustained growth of our special savings products --"Mee Tae Dai" and "Jad Hai". Meanwhile, debt issued and borrowings decreased 13.1%, or Baht 22,800 million, due mainly to a decrease in bills of exchange of Baht 12,699 million.

On a quarter-on-quarter basis, liabilities decreased 2.4%, or Baht 26,107 million, driven by a decrease in interbank and money market items of Baht 28,978 million, or 38.3%, largely driven by a decrease of repurchase agreements of Baht 33,005 million, and a decrease in other liabilities of Baht 28,896 million, mainly from a decrease in liabilities to deliver securities from repurchase agreement of Baht 31,319 million. Meanwhile, deposit increased 3.9%, or Baht 31,374 million, mainly driven by an increase in time deposits.

Total shareholders' equity rose to Baht 131,670 million, an increase of Baht 10,117 million, or 8.3%, from December 2013. The increase was mainly due to equity holders' net income of Baht 14,323 million in 2014. This increase was partially offset by dividends paid of Baht 4,859 million.

Book value per share as of December, 2014 increased 8.3% to Baht 21.68 from Baht 20.01 at the end of 2013.

## 3.2 Loans to customers

### 3.2.1 Loans by segment[2/]

| Consolidated | Dec. 31, 14 | Sep. 30, 14 | Dec. 31, 13 Restated | Change from Sep. 30, 14 | | Change from Dec. 31, 13 | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| Corporate | 294,955 | 274,419 | 269,392 | 20,536 | 7.5 | 25,563 | 9.5 |
| SMEs | 220,651 | 218,597 | 206,452 | 2,054 | 0.9 | 14,199 | 6.9 |
| Retail | 497,155 | 481,882 | 467,658 | 15,273 | 3.2 | 29,497 | 6.3 |
| - Hire purchase | 241,008 | 237,305 | 232,472 | 3,703 | 1.6 | 8,536 | 3.7 |
| - Housing | 132,966 | 130,227 | 120,571 | 2,739 | 2.1 | 12,395 | 10.3 |
| - Credit cards and personal loans | 123,181 | 114,350 | 114,615 | 8,831 | 7.7 | 8,566 | 7.5 |
| **Total *** | **1,012,761** | **974,898** | **943,502** | **37,863** | **3.9** | 69,259 | 7.3 |

* Loans to customers net of deferred income

In 2014, total outstanding loans stood at Baht 1,012,761 million, an increase of Baht 69,259 million, or 7.3%, from the year earlier. Loan growth was broad-based across all customer segments. The corporate segment was the key contributor with an increase of 9.5%, followed by SME and retail segments which grew 6.9% and 6.3%, respectively. The moderation of retail lending growth in 2014, particularly in the auto hire purchase business mirrored slow domestic consumption and domestic car sales in 2014.

Under the retail segment**, housing loans** grew 10.3% in 2014, and 2.1% in 4Q/14, on the back of a recovery in demand for residential purchases following improved sentiments in the residential home markets, paired with continued success of Krungsri's Partnership Program with housing developers.

**Auto hire purchase** loans grew 3.7% from last year, and 1.6% in 4Q/14. The growth in auto hire purchase loan occurred despite slower domestic car sales highlighted Krungsri's strong business franchise and customers' brand preference.

Krungsri's **credit cards and personal loans** expanded 7.5% in 2014, largely attributed to a strong growth of 7.7% recorded in 4Q/14, due to seasonally high year-end spending pattern together with the year-end purchases of life insurance, LTF and RMF.

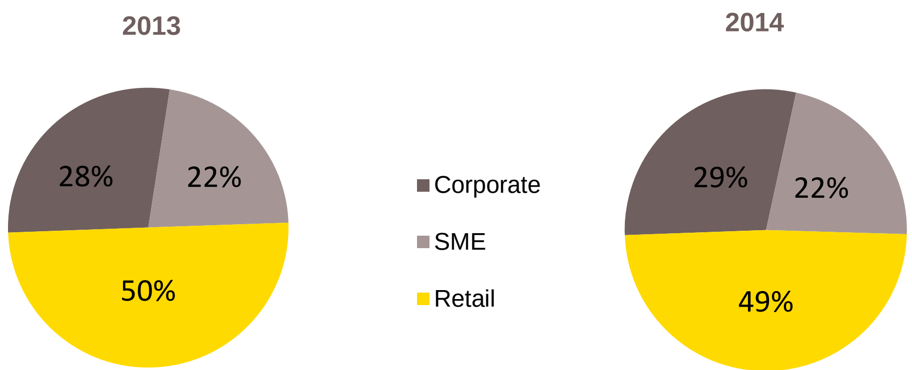
The **SME** portfolio grew 6.9% in 2014, and 0.9% in 4Q/14 with growth broadly observed in all SME segments reflecting continuing success in SME product programs and Krungsri value chain solutions.

[2]Krungsri reclassified a portion of SME loans into the Corporate loan segment as of December 2013, in line with our revised commercial lending growth strategy going forward. The reclassification resulted in approximately Baht 25,799 million in loans migrating from the SME segment to the Corporate segment.

**Corporate loans** growth picked up towards the end of 2014 due to seasonality and increased working capital loan demand. The 9.5% growth achieved in the corporate segment in 2014 was largely driven by the 7.5% growth recorded in 4Q/14.

For 2015, we expect the economy to regain its momentum, which should be more favorable for business expansion. With projected GDP growth of around 4.3% in 2015, we expect loan growth to be broad-based and exceed GDP growth. Yet, given the uncertainty surrounding both potential international and domestic developments, Krungsri will continue to grow our business prudently.

**Loan Composition (Restated)**




| | 2013 | | 2014 |
|---|---|---|---|
| Auto HP | 25% | Auto HP | 24% |
| Mortgage | 13% | Mortgage | 13% |
| Credit card and Personal Loans | 12% | Credit card and Personal Loans | 12% |

### 3.2.2 Loan classification and provision

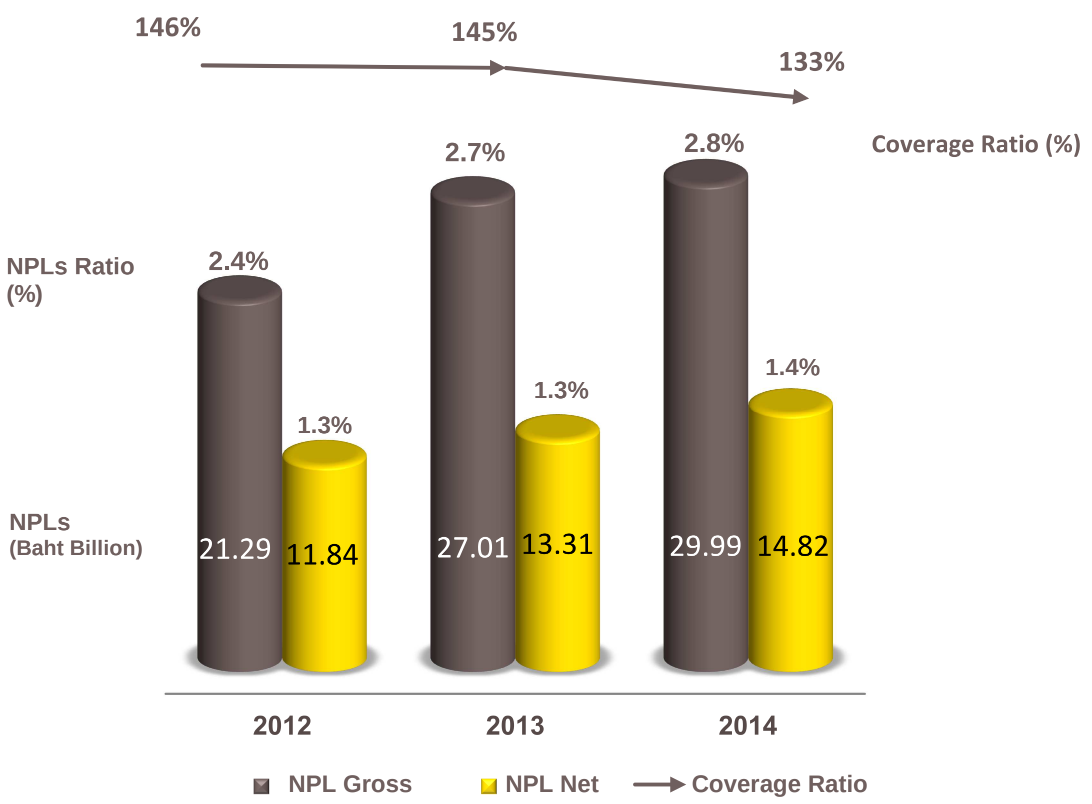
Unit : Baht mn

| Consolidated | Dec. 31, 14 | | Dec. 31, 13 | | Change | |
|---|---|---|---|---|---|---|
| | Loans and Accrued Interest Receivable | Provision | Loans and Accrued Interest Receivable | Provision | Loans and Accrued Interest Receivable | Provision |
| Normal | 952,203 | 6,665 | 883,380 | 5,713 | 68,823 | 952 |
| Special mention | 33,202 | 3,239 | 35,747 | 3,664 | (2,545) | (425) |
| Substandard | 10,031 | 4,969 | 9,207 | 4,419 | 824 | 550 |
| Doubtful | 8,601 | 3,341 | 11,014 | 5,706 | (2,413) | (2,365) |
| Doubtful of loss | 11,360 | 6,441 | 6,802 | 3,197 | 4,558 | 3,244 |
| Total | 1,015,397 | 24,655 | 946,150 | 22,699 | 69,247 | 1,956 |
| Surplus Reserve | | 13,504 | | 14,767 | | (1,263) |
| **Total** | **1,015,397** | **38,159** | **946,150** | **37,466** | **69,247** | **693** |

### 3.2.3 Non-performing loans

| Consolidated | Dec 31, 14 | Sep 30, 14 | Dec 31, 13 | Change from Sep 30, 14 | | Change from Dec 31, 13 | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| Non-Performing Loans (Net) | 14,818 | 16,974 | 13,308 | (2,156) | (12.7) | 1,510 | 11.3 |
| Non-Performing Loans (Gross) | 29,988 | 34,505 | 27,014 | (4,517) | (13.1) | 2,974 | 11.0 |
| Loans loss reserves (LLR) | 39,958 | 42,470 | 39,185 | (2,512) | (5.9) | 773 | 2.0 |
| **Coverage Ratio** | **133.2%** | **123.1%** | **145.1%** | **10.1%** | **8.2** | **(11.9%)** | **(8.2)** |
| BOT Requirement | 26,453 | 28,323 | 24,418 | (1,870) | (6.6) | 2,035 | 8.3 |
| **Actual / Required LLR** | **151.1%** | **149.9%** | **160.5%** | **1.2%** | **0.8** | **(9.4%)** | **(5.9)** |

## NPLs and Coverage Ratio




Asset quality was satisfactorily maintained in 2014 despite the adverse pressures from political and economic headwinds. As of December 31, 2014, gross NPLs stood at Baht 29,988 million, an increase of Baht 2,974 million from Baht 27,014 million at the end of 2013. The increase in NPLs during the year was mainly due to the impacts from deteriorating economic conditions on SME and retail segments. The ratio of gross NPLs to total loans stood at 2.79% at the end of 2014, compared to 2.67% at the end of 2013.

In 4Q/14 gross NPLs decreased Baht 4,517 million from September 2014, driven largely by the resolution of one corporate account which classified as NPLs on a qualitative basis in the third quarter and Baht 1,255 million in NPL sales to a third party in 4Q/14.

In 2014, the Bank sold tranches of NPLs in 2Q/14 and 4Q/14, reducing outstanding NPLs by Baht 2,514 million.

As of December 31, 2014 our total provisions stood at Baht 39,958 million, with an excess provision over Bank of Thailand requirements of Baht 13,504 million. Correspondingly, the actual provisioning ratio when compared to Bank of Thailand requirements stood at 151.1%, while the Group’s coverage ratio was 133.2%.

### 3.3 Funding Structure

| Consolidated | Dec. 31, 14 | Sep. 30, 14 | Dec. 31, 13 | Change from Sep. 30, 14 | | Change from Dec. 31, 13 | |
|---|---|---|---|---|---|---|---|
| | | | | Baht mn | % | Baht mn | % |
| Current | 20,234 | 22,095 | 19,470 | (1,861) | (8.4) | 764 | 3.9 |
| Savings | 404,466 | 386,086 | 383,471 | 18,380 | 4.8 | 20,995 | 5.5 |
| Time | 412,856 | 398,001 | 361,109 | 14,855 | 3.7 | 51,747 | 14.3 |
| < 6 momths | 75,815 | 74,316 | 133,061 | 1,499 | 2.0 | (57,246) | (43.0) |
| 6M - 1 Year | 246,144 | 205,192 | 127,010 | 40,952 | 20.0 | 119,134 | 93.8 |
| > 1 Year | 90,897 | 118,493 | 101,038 | (27,596) | (23.3) | (10,141) | (10.0) |
| **Total Deposit** | **837,556** | **806,182** | **764,050** | **31,374** | **3.9** | **73,506** | **9.6** |
| **B/E** | **25,950** | **25,726** | **38,649** | **224** | **0.9** | **(12,699)** | **(32.9)** |
| **Debenture** | **90,983** | **90,812** | **101,053** | **171** | **0.2** | **(10,070)** | **(10.0)** |
| **Total Funding** | **954,489** | **922,720** | **903,752** | **31,769** | **3.4** | **50,737** | **5.6** |

As of December 31, 2014, overall funding for the Bank, including deposits, bills of exchange and debentures, increased Baht 50,737 million, or 5.6%, from December 2013.

Deposits totaled Baht 837,556 million, an increase of Baht 73,506 million, or 9.6%, from December 2013, reflecting the successful launch of the "8-month Step Up Time Deposit" in June 2014 and sustained growth of our special savings products --"Mee Tae Dai" and "Jad Hai". "MeeTae Dai" balances exceeded Baht 168,000 million, while "Jad Hai" increased more than 300,000 accounts from December 2013.

As a result of the strong success of the "8-month Step Up Time Deposit", the proportion of current and savings deposits (CASA) as a percentage of total deposits decreased to 50.7%, compared to 52.7% as of December 2013.

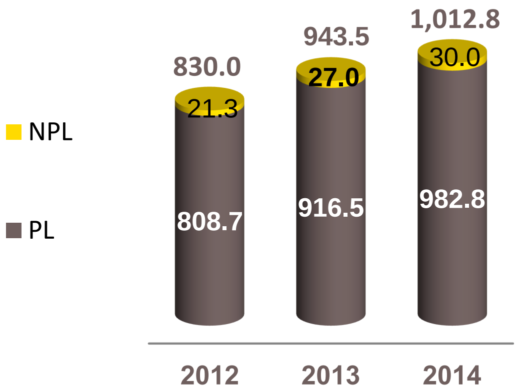
Bills of exchange (B/E) totaled Baht 25,950 million, a decrease of Baht 12,699 million, or 32.9%, from December 2013.

Debentures stood at Baht 90,983 million as of December 2014. The decrease of Baht 10,070 million, or 10.0%, from December 2013, resulted from debenture maturities.

Consequently, the loan to deposit ratio improved to 121% from 123% last year, while the loan to deposit plus bills of exchange and debentures ratio increased to 106% from 104% at the end of last year.

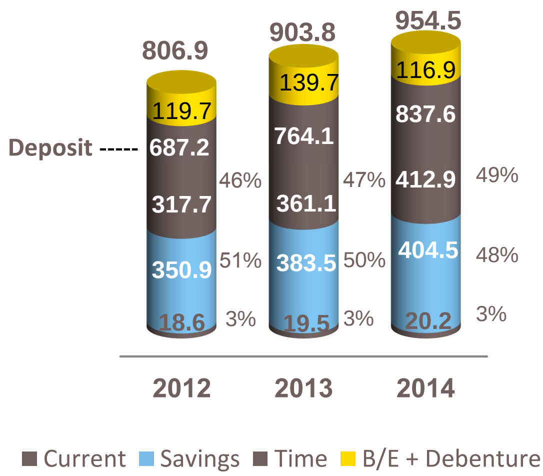
## Loans

Unit: Baht Billion




## Deposits + B/E + Debenture

Unit: Baht Billion




| | 2012 | 2013 | 2014 |
|---|---|---|---|
| L/D | 121% | 123% | 121% |
| L/D+B/E+Debentures | 103% | 104% | 106% |

### 3.4 Contingencies

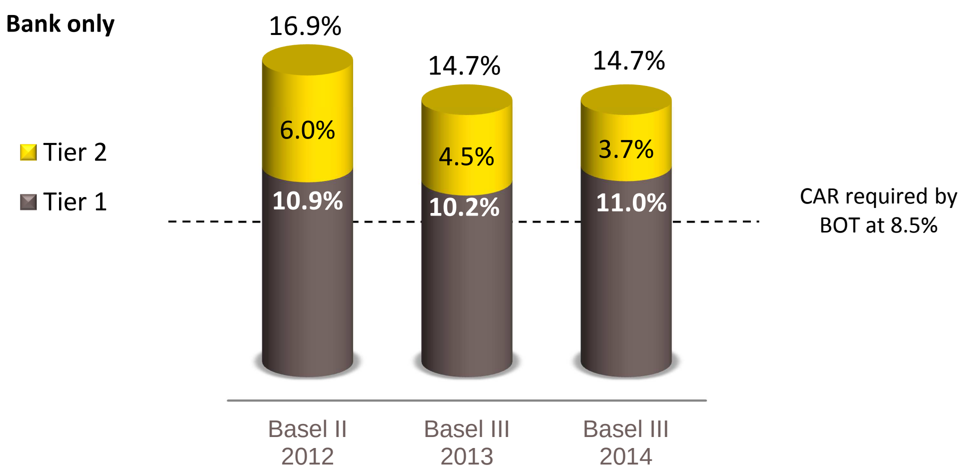
| Consolidated | Dec. 31, 14 | Sep. 30, 14 | Dec. 31, 13 | Change from Sep. 30, 14 Baht mn | % | Change from Dec. 31, 13 Baht mn | % |
|---|---|---|---|---|---|---|---|
| Avals to bills and Guarantees of loans | 1,947 | 1,785 | 1,315 | 162 | 9.1 | 632 | 48.1 |
| Liability under unmatured import bills | 7,688 | 6,779 | 1,559 | 909 | 13.4 | 6,129 | 393.1 |
| Letters of credit | 5,701 | 7,413 | 9,335 | (1,712) | (23.1) | (3,634) | (38.9) |
| Other contingencies | 108,119 | 108,348 | 102,337 | (229) | (0.2) | 5,782 | 5.6 |
| **Total** | **123,455** | **124,325** | **114,546** | **(870)** | **(0.7)** | **8,909** | **7.8** |

The Krungsri Group's contingencies as of December 31, 2014, totaled Baht 123,455 million, an increase of Baht 8,909 million, or 7.8%, from December 31, 2013. This increase was driven mainly by an increase in liability under unmatured import bills of Baht 6,129 million and other contingencies of Baht 5,782 million, offset by a decrease in letter of credit of Baht 3,634 million.

### 3.5 Statutory Capital

As of December 31, 2014, the Bank's capital remained strong at Baht 132,425 million, equivalent to 14.7% of risk-weighted assets with 11.0% in Tier 1 capital. The Bank's capital ratio maintained at the same level as recorded in December 2013, while Tier 1 capital ratio improved from 10.2% in December 2013. The current solid capital position is sufficient for Krungsri to continue growing our business prudently in 2015.

**Capital Adequacy Ratio**




| Baht Billion | 2012 | 2013 | 2014 |
|---|---|---|---|
| | Basel II | Basel III | Basel III |
| Tier 1 | 81.75 | 84.73 | 98.99 |
| Tier 2 | 44.80 | 37.60 | 33.44 |
| Total Capital | 126.55 | 122.33 | 132.43 |

## 4. Credit Ratings

The Bank's credit ratings assigned by 1. Moody's Investors Service, 2. Standard & Poor's, 3. Fitch Ratings and 4. TRIS Rating as at December 31, 2014 are shown in the table below.

| | |
|---|---|
| **1. Moody's Investors Service** | |
| **Bank Deposits** | |
| - Long Term | **Baa1** |
| - Short Term | **Prime-2** |
| **Debt** | |
| - Long Term -Senior Debt | **Baa1** |
| **Debt and Deposit Rating Outlook** | **Stable** |
| **Bank Financial Strength Ratings** | **D+** |
| Outlook | **Stable** |
| **2. Standard and Poor's** | |
| **Issuer Credit Rating (ICR)** | |
| - Long Term | **BBB+** |
| - Short Term | **A-2** |
| **Foreign Currency** | |
| - Long Term - Senior Debt | **BBB+** |
| - Short Term | **A-2** |
| **Stand-alone Credit Profile (SACP)** | **bb+** |
| Outlook | **Stable** |
| **3. Fitch Ratings** | |
| **International Ratings (Foreign Currency)** | |
| - Long Term | **A-** |
| - Subordinated Debt | **BBB+** |
| - Short Term | **F2** |
| - Viability Rating | **bbb** |
| - Support | **1** |
| - Support Rating Floor | **BB+** |
| - Outlook | **Stable** |

| | |
|---|---|
| **3. Fitch Ratings** | |
| **National Ratings** | |
| - Long Term – Debenture | **AAA (tha)** |
| - Subordinated Debt | **AA+ (tha)** |
| - Short Term | **F1+ (tha)** |
| - Outlook | **Stable** |
| **4. TRIS Rating** | |
| **National Ratings** | |
| - Company Rating | **AAA** |
| - Issue Rating (subordinated) | **AA+** |
| - Outlook | **Stable** |

## *5. 2014 Key Performance Targets*

| Consolidated | 4Q/13 | 4Q/14 | 2013 | 2014 | 2014 Targets | |
|---|---|---|---|---|---|---|
| Loan Growth (Net) | +54.3 bn<br>+6.1% | +37.9 bn<br>+3.9% | +113.5 bn<br>+13.7% | +69.3 bn<br>+7.3% | 7% | ✓ |
| NPLs Ratio | 2.67% | 2.79% | 2.67% | 2.79% | ~ 2.9% | ✓ |
| Deposit Mix: Savings and Current | 53% | 51% | 53% | 51% | ~ 50% | ✓ |
| Loan Mix : Retail | 50% | 49% | 50% | 49% | n.d. | ✓ |
| L/D Ratio | 123% | 121% | 123% | 121% | n.d. | ✓ |
| L/Deposit+Debentures+B/E | 104% | 106% | 104% | 106% | 100% | ~ |
| NIM | 4.53% | 4.34% | 4.37% | 4.32% | ~ 4.2% | ✓ |
| Fee income growth (YoY) | 8.1% | 10.2% | 12.8% | 3.5% | 5% | ~ |
| Cost to Income Ratio | 50.91% | 47.40% | 48.91% | 48.47% | < 49% | ✓ |
| Provisions | 289 bps | 202 bps | 200 bps* | 179 bps | ~ 170 bps | ~ |
| Loan Loss Coverage | 145% | 133% | 145% | 133% | 125-130% | ✓ |
| CAR *(Bank Only)* | 14.7% | 14.7% | 14.7% | 14.7% | n.d. | ✓ |

* *Revised target*

** *Excluding one-time prudential surplus reserve of THB 2,552 mn. booked in 2Q/13 and a prudential reserve for one corporate loan restructured in 4Q/13, provision/loan = 172bps.*