krungsri
กรุงศรี

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"Make Life Simple
เรื่องเงิน เรื่องง่าย"

Management Discussion and Analysis

For the quarter and six-month period ended
June 30, 2016

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Executive Summary:

Notwithstanding moderate economic growth observed in 1H/16, Krungsri Net profit robustly recorded at Baht 10,419 million, representing a 20.1% increase over the same period of 2015. The solid financial results were attributed to notable increase in net interest income and non-interest income.

Total **loans** outstanding at the end of June 2016 were Baht 1,358,378 million, an increase of Baht 54,924 million, or 4.2%, from December 2015. Year to date, retail loans grew by 5.5%, driven by demand for mortgage and auto hire purchase. Meanwhile, corporate and SME loans grew by 3.5% and 2.5%, respectively.

Deposits totaled Baht 1,062,103 million, an increase of Baht 15,813 million, or 1.5%, from December 2015. The growth in deposits was driven by saving deposit and the sustained growth of our special saving product – "Mee Tae Dai".

Non-interest income increased 11.0% in the first half of 2016 compared to same period of 2015, driven by both non-interest and non-fees income and net fees and service income, which grew 25.1% and 4.0%, respectively.

Non-Performing Loans recorded a post Asian Financial Crisis low at 2.20%. In 2Q/16, Krungsri Group completed a NPL sale of Baht 1,152 million to a third party.

Meanwhile, our **total provision** stood at Baht 48,697 million, with an excess provision over Bank of Thailand's reserve requirements of Baht 14,932 million, representing 144.2% of the Bank of Thailand's reserve requirements. Concurrently, the loan loss coverage ratio increased from 142.9% at end of 1Q/16 to 146.4% at end of 2Q/16.

Corresponding to the higher net profit, **earnings per share** (EPS) rose to Baht 1.42 in 1H/16, compared to Baht 1.18 in 1H/15.

As for the outlook for 2H/16, Krungsri expects the growth momentum to continue, supported by continued robustness in tourism sector, acceleration in government spending and investment, low oil price, and continued recovery of the agriculture sector. Under the aforementioned stances, Krungsri maintains our full year loan growth target at 5-6%.

NIM: 3.82%

Net Profit:

At Baht 5.3 billion

Coverage: 146.4%

NPL: 2.20%

Summary of Financial Performance and Status:

Key 2Q/16 deliverables:

- **Loan Growth:**

  Increased by 4.2%, or Baht 54,924 million, compared to December 2015, and 4.3% increase or Baht 56,198 million compared to March 2016.

- **Deposit Growth:**

  Increased by 1.5%, or Baht 15,813 million, compared to December 2015, and 2.9% increase or Baht 29,630 million compared to March 2016.

- **Net Profit:**

  Increased to Baht 5,269 million, representing a 2.3% increase over 1Q/16, and a 21.2% increase from 2Q/15.

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

  Recorded at 3.82% compared to 3.81% in 1Q/16, owing to an improvement in cost of funds management which outweighed a moderation in yield on earning assets as a result of lending rate reduction.

- **Non-Interest Income:**

  Increased 9.0% from 2Q/15, owing to gain on investment and gains on trading and foreign exchange transaction and increase in net fees and service income.

- **Cost to Income Ratio:**

  Recorded at 46.3%, up slightly from 45.9% in 1Q/16.

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

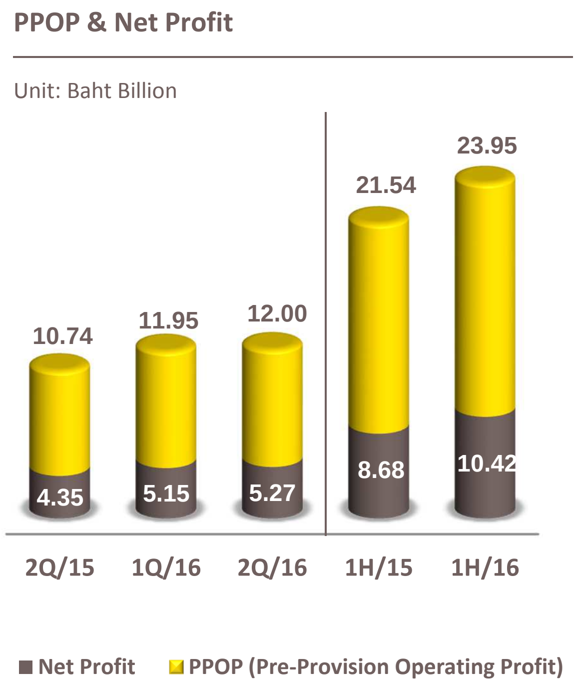
  Recorded at new low at 2.20%, compared to 2.28% in 1Q/16.

- **Coverage Ratio:**

  Strong at 146.4%.

- **Capital Adequacy Ratio:**

  Recorded at 13.8% compared to 13.6% in December 2015.



For the second quarter period ended June 30, 2016

In 2Q/16, operating profit was Baht 12,003 million, representing an increase of Baht 56 million, or 0.5%, when compared to 1Q/16, driven by higher net interest income and non-interest and non-fees income.

Net profit in 2Q/16 was Baht 5,269 million, representing an increase of Baht 119 million, or 2.3%, when compared to 1Q/16, and an increase of Baht 920 million, or 21.2%, on a year-on-year basis, driven largely by higher net interest income, net fees and service incomes as well as non-interest and non-fees income.

For the six-month period ended June 30, 2016

In the first half of 2016, net profit registered at Baht 10,419 million, an increase of Baht 1,744 million, or 20.1%, year-on-year, driven largely by higher net interest income, net fees and service incomes and non-interest and non-fees income together with effective expense management.

1. Statements of Profit or Loss and Other Comprehensive Income

Consolidated Statements of Profit or Loss and Other Comprehensive Income	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
Interest Income	21,086	20,875	20,401	211	1.0	685	3.4
Interest Expenses	5,831	5,882	6,607	(51)	(0.9)	(776)	(11.7)
Interest Income, Net	**15,255**	**14,993**	**13,794**	**262**	**1.7**	**1,461**	**10.6**
Fees and Service Income	5,695	6,031	5,510	(336)	(5.6)	185	3.4
Fees and Service Expense	1,387	1,487	1,294	(100)	(6.7)	93	7.2
Fees and Service Income, Net	**4,308**	**4,544**	**4,216**	**(236)**	**(5.2)**	**92**	**2.2**
Non-interest and Non-fees Income	2,780	2,540	2,284	240	9.4	496	21.7
Other Operating Expenses	10,340	10,130	9,554	210	2.1	786	8.2
Pre-Provision Operating Profit (PPOP)	**12,003**	**11,947**	**10,740**	**56**	**0.5**	**1,263**	**11.8**
Impairment Loss of Loan and Debt Securities	5,255	5,414	5,217	(159)	(2.9)	38	0.7
Income Tax Expense	1,407	1,319	1,115	88	6.7	292	26.2
Net Profit	**5,341**	**5,214**	**4,408**	**127**	**2.4**	**933**	**21.2**
Other Comprehensive income, net	(531)	637	75	(1,168)	(183.4)	(606)	(808.0)
Total Comprehensive income	**4,810**	**5,851**	**4,483**	**(1,041)**	**(17.8)**	**327**	**7.3**
Net Profit Attributable To							
Owners of the Bank	5,269	5,150	4,349	119	2.3	920	21.2
Non-Controlling Interest	72	64	59	8	12.5	13	22.0
Net Profit	**5,341**	**5,214**	**4,408**	**127**	**2.4**	**933**	**21.2**
Total Comprehensive Income Attributable To							
Owners of the Bank	4,738	5,787	4,424	(1,049)	(18.1)	314	7.1
Non-Controlling Interest	72	64	59	8	12.5	13	22.0
Total Comprehensive income	**4,810**	**5,851**	**4,483**	**(1,041)**	**(17.8)**	**327**	**7.3**
Earning Per Share (Baht)	**0.72**	**0.70**	**0.59**	**0.02**	**2.9**	**0.13**	**22.0**

Consolidated Statements of Profit or Loss and Other Comprehensive Income	1H/16	1H/15	Change YoY	
			Baht mn	%
Interest Income	41,961	41,177	784	1.9
Interest Expense	11,713	13,526	(1,813)	(13.4)
Interest Income, Net	**30,248**	**27,651**	**2,597**	**9.4**
Fees and Service Income	11,725	11,081	644	5.8
Fees and Service Expense	2,874	2,573	301	11.7
Fees and Service Income, Net	**8,851**	**8,508**	**343**	**4.0**
Non-interest and Non-fees Income	5,320	4,254	1,066	25.1
Other Operating Expenses	20,469	18,875	1,594	8.4
Pre-Provision Operating Profit (PPOP)	**23,950**	**21,538**	**2,412**	**11.2**
Impairment Loss of Loan and Debt Securities	10,669	10,470	199	1.9
Income Tax Expense	2,726	2,281	445	19.5
Net Profit	**10,555**	**8,787**	**1,768**	**20.1**
Other Comprehensive income, net	107	174	(67)	(38.5)
Total Comprehensive income	**10,662**	**8,961**	**1,701**	**19.0**
Net Profit Attributable To				
Owners of the Bank	10,419	8,675	1,744	20.1
Non-Controlling Interest	136	112	24	21.4
Net Profit	**10,555**	**8,787**	**1,768**	**20.1**
Total Comprehensive Income Attributable To				
Owners of the Bank	10,526	8,849	1,677	19.0
Non-Controlling Interest	136	112	24	21.4
Total Comprehensive income	**10,662**	**8,961**	**1,701**	**19.0**
Earning Per Share (Baht)	**1.42**	**1.18**	**0.24**	**20.3**

2. Financial Performance

2.1 Net Interest Income

Consolidated	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
INTEREST INCOME							
Interest on loans	13,827	13,882	13,748	(55)	(0.4)	79	0.6
Interest on interbank and money market items	801	623	758	178	28.6	43	5.7
Hire purchase and financial lease income	5,949	5,785	5,255	164	2.8	694	13.2
Investments and trading transactions	25	30	16	(5)	(16.7)	9	56.3
Investments in debt securities	484	555	624	(71)	(12.8)	(140)	(22.4)
Total Interest Income	**21,086**	**20,875**	**20,401**	**211**	**1.0**	**685**	**3.4**
INTEREST EXPENSE							
Interest on deposits	3,105	3,213	3,932	(108)	(3.4)	(827)	(21.0)
Interest on interbank and money market items	775	719	406	56	7.8	369	90.9
Interest on borrowings	648	677	1,003	(29)	(4.3)	(355)	(35.4)
Contribution to Financial Institution Development							
Fund and Deposit Protection Agency	1,298	1,263	1,249	35	2.8	49	3.9
Borrowing fee expenses	1	7	13	(6)	(85.7)	(12)	(92.3)
Other interest expenses	4	3	4	1	33.3	0	0.0
Total Interest Expenses	**5,831**	**5,882**	**6,607**	**(51)**	**(0.9)**	**(776)**	**(11.7)**
Interest Income, net	**15,255**	**14,993**	**13,794**	**262**	**1.7**	**1,461**	**10.6**
Net Interest Margin	3.82%	3.81%	3.70%				
Yield on Earning Assets	5.28%	5.31%	5.48%				
Cost of Funds	1.60%	1.64%	1.95%				

Consolidated	1H/16	1H/15	Change YoY Baht mn	%
INTEREST INCOME				
Interest on loans	27,709	27,794	(85)	(0.3)
Interest on interbank and money market items	1,424	1,630	(206)	(12.6)
Hire purchase and financial lease income	11,735	10,439	1,296	12.4
Investments and trading transactions	55	44	11	25.0
Investments in debt securities	1,038	1,270	(232)	(18.3)
Total Interest Income	**41,961**	**41,177**	**784**	**1.9**
INTEREST EXPENSE				
Interest on deposits	6,318	8,091	(1,773)	(21.9)
Interest on interbank and money market items	1,494	722	772	106.9
Interest on borrowings	1,325	2,222	(897)	(40.4)
Contributions to Financial Institution Development				
Fund and Deposit Protection Agency	2,561	2,468	93	3.8
Borrowing fee expenses	8	16	(8)	(50.0)
Other interest expenses	7	7	0	0.0
Total Interest Expenses	**11,713**	**13,526**	**(1,813)**	**(13.4)**
Interest Income, net	**30,248**	**27,651**	**2,597**	**9.4**
Net Interest Margin	3.78%	4.23%		
Yield on Earning Assets	5.24%	6.30%		
Cost of Funds	1.62%	2.28%		

For the second quarter period ended June 30, 2016

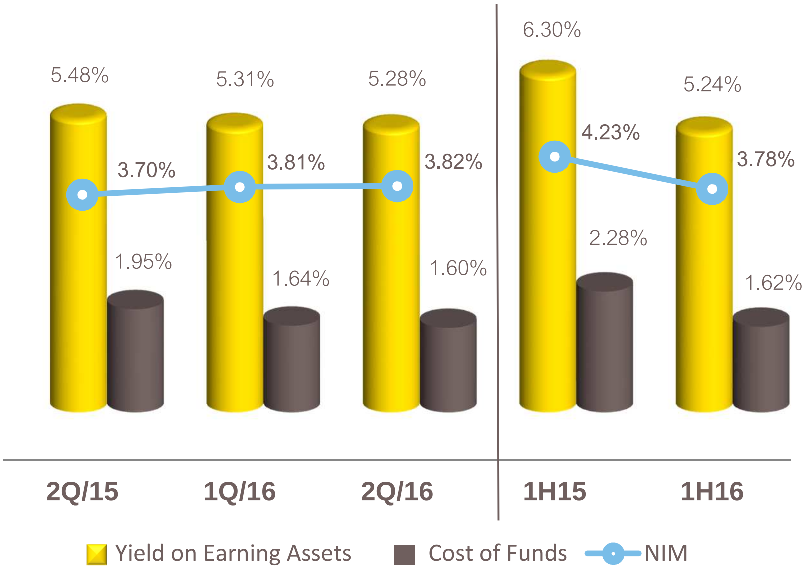
Net interest income in the second quarter was Baht 15,255 million, representing an increase of 1.7% on a quarter-on-quarter basis, driven by an increase in interest income from interbank and money market together with hire purchase and financial lease income. Meanwhile, interest on loan decreased reflecting a lending rate cut in the 2Q/16. Interest expense declined resulting from a lower interest rate on deposit.

For the six-month period ended June 30, 2016

In the first half of 2016, net interest income reached Baht 30,248 million, an increase of Baht 2,597 million, or 9.4%, compared to the same period last year, resulting primarily from higher hire purchase and financial lease income. Meanwhile, interest expenses decreased Baht 1,813 million owing to a decrease in interest on deposits together with lower cost of borrowings, mainly from maturity of debentures during the period.

In 2Q/16, NIM slightly improved to 3.82% compared to 3.81% in 1Q/16, mainly resulting from the improvement in cost of funds which recorded at 1.60%, a decrease from 1.64% in 1Q/16. Meanwhile, the overall yield moderated to 5.28% from 5.31% in 1Q/16 as a result of lending rate reduction. Year to date, NIM stood at 3.78%.

Net Interest Margin (NIM)

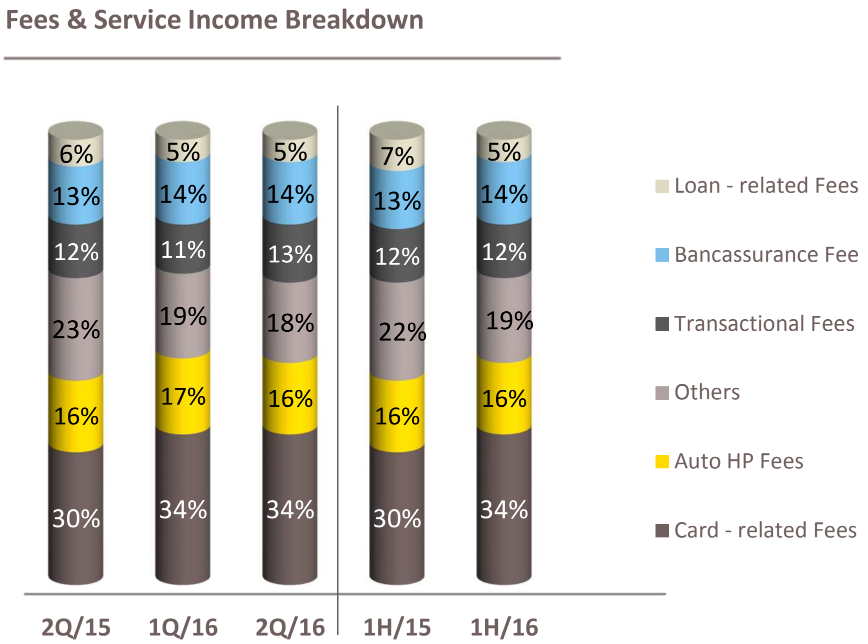


	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Policy Rate	2.00%	1.75%	1.50%	1.50%	1.50%	1.50%	1.50%
Krungsri Lending Rate	7.125%	6.975%	6.85%	6.85%	6.85%	6.85%	6.60%
Saving Rate	0.40%	0.40%	0.40%	0.30%	0.30%	0.30%	0.30%
3 - month deposits	1.10-1.30%	1.00-1.10%	0.80-1.00%	0.80-1.00%	0.80-1.00%	0.80-1.00%	0.80-1.00%
6 - month deposits	1.35-1.50%	1.25-1.30%	1.00-1.20%	0.90-1.20%	0.90-1.20%	0.90-1.20%	0.90-1.20%
12 - month deposits	1.50-1.75%	1.25-1.50%	1.10-1.50%	1.10-1.50%	1.10-1.35%	1.10-1.35%	1.10-1.30%

2.2 Net Fees and Service Income

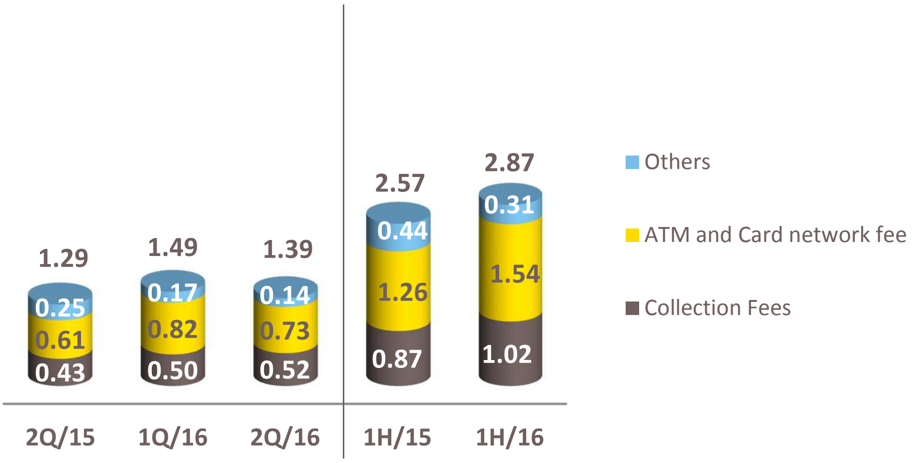
Consolidated	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
Acceptances, aval and guarantees	121	122	134	(1)	(0.8)	(13)	(9.7)
Other fees and service income	5,574	5,909	5,376	(335)	(5.7)	198	3.7
Fees and service income	**5,695**	**6,031**	**5,510**	**(336)**	**(5.6)**	**185**	**3.4**
Fees and service expense	1,387	1,487	1,294	(100)	(6.7)	93	7.2
Fees and Service Income, net	**4,308**	**4,544**	**4,216**	**(236)**	**(5.2)**	**92**	**2.2**

Consolidated	1H/16	1H/15	Change YoY	
			Baht mn	%
Acceptances, aval and guarantees	243	268	(25)	(9.3)
Other fees and service income	11,482	10,813	669	6.2
Fees and service income	**11,725**	**11,081**	**644**	**5.8**
Fees and service expense	2,874	2,573	301	11.7
Fees and Service Income, net	**8,851**	**8,508**	**343**	**4.0**



Fees & Service Expense

Unit: Baht Billion



For the second quarter period ended June 30, 2016

Net fees and service income decreased Baht 236 million or 5.2% quarter-on-quarter, mainly from a lower fees and service income during the quarter. A decrease in fees and service income attributed to a decrease in wealth, fund management and securities-related fees of 0.6%, card-related fee of 2.4%, bancassurance fees of 5.3%, the loan-related fees of 10.7%, auto hire purchase fee of 12.9%, respectively. Meanwhile, transactional fee increased by 3.9%.

On a year-on-year basis, net fees and service income increased Baht 92 million or 2.2%, driven by an increase in card-related fees of 17.5%, transactional fees of 8.5%, bancassurance fees of 7.8%, auto hire purchase fees of 2.2%. Meanwhile, loan-related fees and wealth, fund management and securities-related fees decreased by 5.8% and 8.4%, respectively. Fees and service expenses increased by 7.2%.

For the six-month period ended June 30, 2016

Compared with 1H/15, net fees and service income increased Baht 343 million or 4.0% driven by an increase in card-related fees of 20.3%, bancassurance fees of 13.1%, auto hire purchase fees of 12.1%, transactional fees of 3.9%, respectively. Meanwhile, wealth, fund management and securities-related fees and loan related fees decreased by 4.5% and 20.8%, respectively. Fees and service expenses increased by 11.7%.

2.3 Non-interest and Non-fees Income

Consolidated	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
Gains (losses) on trading and foreign exchange transactions	945	851	749	94	11.0	196	26.2
Gains (losses) on investments	332	199	152	133	66.8	180	118.4
Share of profit (loss) from investment for using equity method	103	71	79	32	45.1	24	30.4
Bad debt recoveries	886	926	719	(40)	(4.3)	167	23.2
Other operating income	514	493	585	21	4.3	(71)	(12.1)
Total Non-interest and Non-fees Income	**2,780**	**2,540**	**2,284**	**240**	**9.4**	**496**	**21.7**

Consolidated	1H/16	1H/15	Change YoY	
			Baht mn	%
Gains (losses) on trading and foreign exchange transactions	1,796	1,190	606	50.9
Gains (losses) on investments	531	431	100	23.2
Share of profit (loss) from investment for using equity method	173	186	(13)	(7.0)
Bad debt recoveries	1,813	1,436	377	26.3
Other operating income	1,007	1,011	(4)	(0.4)
Total Non-interest and Non-fees Income	**5,320**	**4,254**	**1,066**	**25.1**

For the second quarter period ended June 30, 2016

On a quarter-on-quarter basis, non-interest and non-fees income increased Baht 240 million or 9.4%, driven primarily by a significant increase in gains on investments from Available for Sale (AFS) portfolio of 66.8%, and an increase in gains on trading and foreign exchange transactions of 11.0%. Other income increased 4.3% from an increase in gain on sales of properties for sale of 7.6% and dividend income of 2.6%. Meanwhile bad debt recoveries income decreased by 4.3%.

Compared to 2Q/15, non-interest and non-fees income increased Baht 496 million or 21.7%, driven primarily by gain on investment from Available for Sales (AFS) portfolio of 118.4%, an increase in gains on trading and foreign exchange transactions of 26.2%, bad debt recoveries of 23.2%. On the other hand, other income decreased by 12.1% from a decrease in gain on sales of properties for sale decrease of 25.4% while dividend income increased by 39.0%.

For the six-month period ended June 30, 2016

For the first half of 2016, non-interest and non-fees income increased Baht 1,066 million or 25.1%, driven primarily by Global Market Group's enhanced capabilities, resulting in an increase in gains on trading and foreign exchange transactions of 50.9%, and gains on investments from Available for Sales (AFS) of 23.2%. Meanwhile, bad debt recoveries increased 26.3%. Other income decreased by 0.4% from a decrease in dividend income of 19.1%, while gain on sales of property for sale increased 1.5%.

2.4 Other Operating Expenses

Consolidated	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
Employee's expenses	5,255	5,160	4,621	95	1.8	634	13.7
Premises and equipment expenses	1,767	1,749	1,687	18	1.0	80	4.7
Taxes and duties	640	631	649	9	1.4	(9)	(1.4)
Directors' remuneration	12	11	13	1	9.1	(1)	(7.7)
Other expenses	2,666	2,579	2,584	87	3.4	82	3.2
Total Other Operating Expenses	**10,340**	**10,130**	**9,554**	**210**	**2.1**	**786**	**8.2**

Consolidated	1H/16	1H/15	Change YoY	
			Baht mn	%
Employee's expenses	10,415	9,195	1,220	13.3
Premises and equipment expenses	3,515	3,383	132	3.9
Taxes and duties	1,271	1,284	(13)	(1.0)
Directors' remuneration	23	24	(1)	(4.2)
Other expenses	5,245	4,989	256	5.1
Total Other Operating Expenses	**20,469**	**18,875**	**1,594**	**8.4**

For the second quarter period ended June 30, 2016

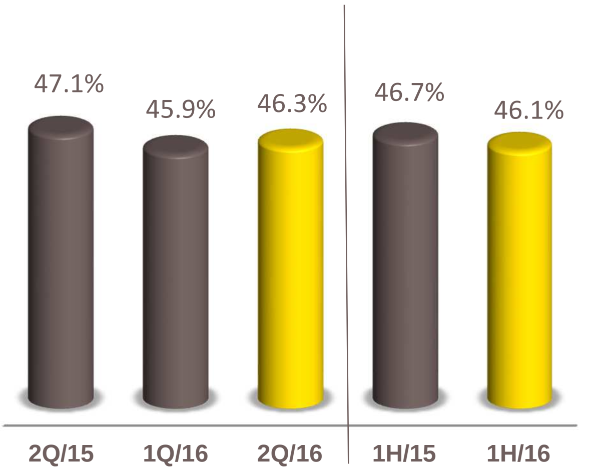
On a quarter-on-quarter basis, other operating expenses increased Baht 210 million, or 2.1%, largely driven by an increase in employee's expenses of Baht 95 million. Other expenses increased Baht 87 million or 3.4%.

Other operating expenses increased Baht 786 million, or 8.2%, compared to 2Q/15, driven by an increase in employee's expenses of Baht 634 million, or 13.7%, mainly due to annual merit increase and staff promotions.

For the six-month period ended June 30, 2016

For the first half of 2016, other operating expenses increased Baht 1,594 million, or 8.4%, mainly driven by an increase in employee's expense of Baht 1,220 million, or 13.3%, mainly due to annual merit increase and staff promotions. Moreover, other expenses increased Baht 256 million, or 5.1%.

Cost to Income Ratio



In 2Q/16, the cost-to-income ratio stood at 46.3%, compared to 45.9% in 1Q/16.

In 1H/16, the cost-to-income ratio improved to 46.1% compared to 46.7% in 1H/15.

2.5 Impairment loss of loans and debt securities

Consolidated	2Q/16	1Q/16	2Q/15	Change QoQ		Change YoY	
				Baht mn	%	Baht mn	%
Bad Debt and Doubtful Accounts	4,941	5,355	4,911	(414)	(7.7)	30	0.6
Loss on Debt Restructuring	314	59	306	255	432.2	8	2.6
Total impairment loss of loan and debt securities	**5,255**	**5,414**	**5,217**	**(159)**	**(2.9)**	**38**	**0.7**

Consolidated	1H/16	1H/15	Change YoY	
			Baht mn	%
Bad Debt and Doubtful Accounts	10,296	9,891	405	4.1
Loss on Debt Restructuring	373	579	(206)	(35.6)
Total impairment loss of loan and debt securities	**10,669**	**10,470**	**199**	**1.9**

Loan loss provisions in 2Q/16 amounted to Baht 5,255 million, a decrease of Baht 159 million, or 2.9%, from 1Q/16.

As of June 30, 2016, total provision was Baht 48,697 million, with an excess provision over Bank of Thailand's reserve requirements of Baht 14,932 million, representing 144.2% of the Bank of Thailand's reserve requirements. The coverage ratio was 146.4%.

3. Financial Status

3.1 Statement of Financial Position

Consolidated	As at Jun. 30, 16	As at Mar. 31, 16	As at Dec. 31, 15	Change from Mar. 31, 16		Change from Dec. 31, 15	
				Baht mn	%	Baht mn	%
ASSETS							
Cash	29,528	31,197	33,690	(1,669)	(5.3)	(4,162)	(12.4)
Interbank and money market items, net	197,405	220,833	194,094	(23,428)	(10.6)	3,311	1.7
Investments, net	103,996	103,251	110,027	745	0.7	(6,031)	(5.5)
Investments in subsidiaries, associates and joint ventures, net	1,749	1,646	1,576	103	6.3	173	11.0
Loans to customers	1,411,779	1,354,076	1,353,559	57,703	4.3	58,220	4.3
Accrued interest receivable	3,602	3,758	3,572	(156)	(4.2)	30	0.8
Deferred revenue	(53,401)	(51,896)	(50,105)	(1,505)	(2.9)	(3,296)	(6.6)
Allowance for doubtful accounts	(46,895)	(45,381)	(43,218)	(1,514)	(3.3)	(3,677)	(8.5)
Revaluation allowance for debt restructuring	(1,431)	(1,445)	(1,726)	14	1.0	295	17.1
Properties for sale, net	4,624	4,871	5,050	(247)	(5.1)	(426)	(8.4)
Others	127,845	132,946	98,998	(5,101)	(3.8)	28,847	29.1
TOTAL ASSETS	**1,778,801**	**1,753,856**	**1,705,517**	**24,945**	**1.4**	**73,284**	**4.3**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits	1,062,103	1,032,473	1,046,290	29,630	2.9	15,813	1.5
Interbank and money market items, net	299,099	303,162	275,059	(4,063)	(1.3)	24,040	8.7
Debt issued and borrowings	112,622	109,315	108,121	3,307	3.0	4,501	4.2
Others	106,592	112,307	85,299	(5,715)	(5.1)	21,293	25.0
TOTAL LIABILITIES	**1,580,416**	**1,557,257**	**1,514,769**	**23,159**	**1.5**	**65,647**	**4.3**
Issued and paid-up share capital	73,558	73,558	73,558	0	0.0	0	0.0
Retained earning	69,502	67,122	61,938	2,380	3.5	7,564	12.2
Others	55,325	55,919	55,252	(594)	(1.1)	73	0.1
TOTAL SHAREHOLDERS' EQUITY	**198,385**	**196,599**	**190,748**	**1,786**	**0.9**	**7,637**	**4.0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,778,801**	**1,753,856**	**1,705,517**	**24,945**	**1.4**	**73,284**	**4.3**
Book value per share (Baht)	**26.97**	**26.73**	**25.93**	**0.24**	**0.9**	**1.04**	**4.0**

As of June 30, 2016, assets stood at Baht 1,778,801 million, representing an increase of Baht 73,284 million, or 4.3% from December 2015, largely attributed to a higher net loan volume of Baht 54,924 million, or 4.2%, and an increase in other assets of Baht 28,847 million, or 29.1%, mainly from an increase in claim on securities.

Compared to 1Q/16, total assets increased Baht 24,945 million, or 1.4%, driven by an increase in net loan volume of Baht 56,198 million, or 4.3%. Meanwhile, interbank and money market items decreased Baht 23,428 million, or 10.6%, mainly from a decrease in loan to interbank and money market of Baht 18,502 million, deposit to financial institution of Baht 15,667 million, and foreign currency deposits at financial institution of Baht 14,300 million, offset by an increase in repurchase agreements of Baht 25,071 million.

On a year-to-date basis, liabilities grew 4.3%, or Baht 65,647 million. The growth in liabilities was driven by an increase in interbank and money market items of Baht 24,040 million, largely driven by an increase in loans from financial institutions, and an increase in other liabilities of Baht 21,293 million, mainly from an increase in liabilities to deliver securities. Meanwhile, deposits increased Baht 15,813 million, or 1.5%, mainly resulting from an increase in savings deposit and special saving deposit "Mee Tae Dai" which increased approximately Baht 20,000 million in 1H/16, offset by a decrease in time deposits with maturity less than one year.

Compared to 1Q/16, liabilities increased 1.5%, or Baht 23,159 million, driven by an increase in deposits of Baht 29,630 million, or 2.9%, mainly from time deposits with maturity more than one year. Meanwhile, other liabilities decreased Baht 5,715 million, mainly driven by a decrease in liabilities to deliver securities and liabilities payable on demand.

Total shareholders' equity rose to Baht 198,385 million, reflecting an increase of Baht 7,367 million, or 4.0%, from December 2015. The increase was mainly due to an increase in equity holders' net income of Baht 10,419 in 1H/16. These increase was partially offset by dividends paid of Baht 2,942 million.

Book value per share as of June 30, 2016 increased 4.0% to Baht 26.97 from Baht 25.93 at the end of 2015.

3.2 Loans to customers

3.2.1 Loans by segment

Consolidated	Jun. 30, 16	Mar. 31, 16	Dec. 31, 15	Change from Mar. 31, 16		Change from Dec. 31, 15	
				Baht mn	%	Baht mn	%
Corporate	**563,711**	**530,466**	**544,413**	**33,245**	**6.3**	**19,298**	**3.5**
- Thai Corporate	390,127	361,230	374,232	28,897	8.0	15,895	4.2
- International Corporate (JPC/MNC)	173,584	169,236	170,181	4,348	2.6	3,403	2.0
SMEs	**207,469**	**203,575**	**202,469**	**3,894**	**1.9**	**5,000**	**2.5**
Retail	**587,198**	**568,139**	**556,572**	**19,059**	**3.4**	**30,626**	**5.5**
- Hire purchase	278,399	272,477	264,820	5,922	2.2	13,579	5.1
- Mortgage	180,479	170,654	160,157	9,825	5.8	20,322	12.7
- Credit cards and personal loans	128,320	125,008	131,595	3,312	2.6	(3,275)	(2.5)
Total *	**1,358,378**	**1,302,180**	**1,303,454**	**56,198**	**4.3**	**54,924**	**4.2**

* Loans to customers net of deferred revenue

As of June 30, 2016, total outstanding loans stood at Baht 1,358,378 million, an increase of Baht 54,924 million, or 4.2%, from December 2015 balance. Year to date, retail loans grew by 5.5%, driven by demand for mortgage and auto hire purchase. Meanwhile, corporate and SME loans grew by 3.5% and 2.5%, respectively.

As at June 30, 2016, commercial lending, comprising corporate and SME customers accounted for 57% of our total loan portfolio, while retail lending represented the remaining 43%.

Corporate loans grew 6.3% during the second quarter, driven from both Thai corporate and International corporate loan demand. Year-to-date, corporate loans grew 3.5%. In 2Q/16, Thai corporate loan picked up, driven by both an increase in term loan and working capital demand. Meanwhile, a pick up in international corporate loan mirrored an improvement of global economic sentiment.

The **SME's** portfolio increased 2.5% year-to-date and 1.9% during the second quarter. The growth in SME loan was driven by medium and small-sized SMEs.

Retail segment loan recorded growth of Baht 30,626 million, or 5.5% on a year-to-date basis, and 3.4% during the second quarter, compared to a 2.1% growth in the first quarter.

Auto hire purchase loan recorded 5.1% growth year-to-date and 2.2% growth during the second quarter. The robust growth in auto hire purchase loan demand amid a contraction in domestic car sales was underpinned by both new and used car volumes, underlying our well-balanced portfolio, an increase in volume from partners and a strong business franchise, supported by campaigns launched during the period.

Year to date, **mortgage loan** grew strongly at 12.7%, and 5.8% in 2Q/16. This notable growth in mortgage loans was fuelled by consumers speeding up their purchase and transfer of housing during January - April 2016 prior to an expiration of government's assistance measure together with Krungsri's strategies in partnering with key top developers and top local developers in the key economic provinces.

Credit cards and personal loans contracted 2.5% year-to-date. During the second quarter, credit cards and personal loans grew 2.6%. The improvement in 2Q/16 was attributed to seasonality attribute as reflected by industry transactions and volume growth.

As for the outlook for 2H/16, Krungsri expects the growth momentum to continue, supported by continued robustness in tourism sector, acceleration in government spending and investment, low oil price, and continued recovery of the agriculture sector. Under the aforementioned stances, Krungsri maintains our full year loan growth target at 5-6%.

Loan Composition

Auto HP	21%
Mortgage	12%
Credit card and Personal Loans	10%

Auto HP	21%
Mortgage	13%
Credit card and Personal Loans	9%

3.2.2 Loan classification and provision

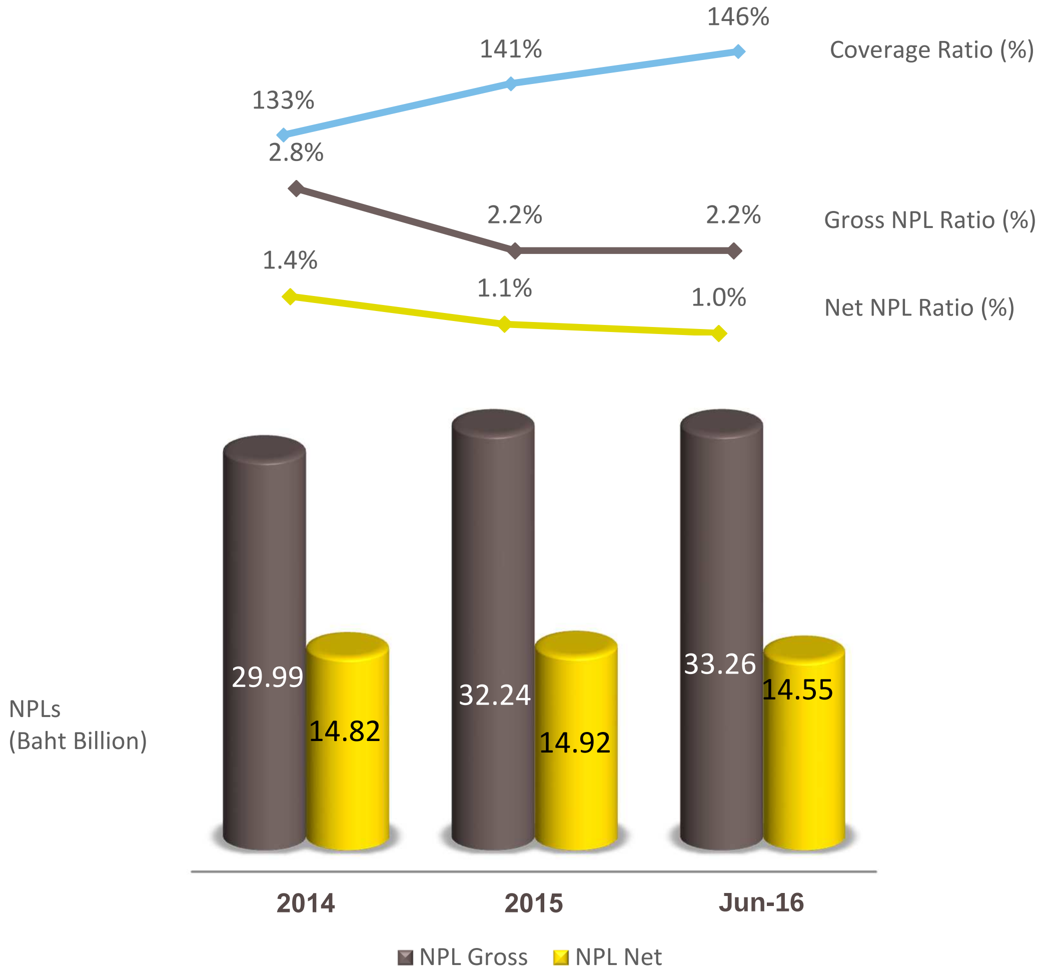
Unit : Baht mn

Consolidated	Jun. 30, 16		Dec. 31, 15		Change	
	Loans and Accrued Interest Receivable	Provision	Loans and Accrued Interest Receivable	Provision	Loans and Accrued Interest Receivable	Provision
Normal	1,275,649	9,628	1,226,187	9,204	49,462	424
Special mention	53,066	4,070	48,598	3,802	4,468	268
Substandard	10,429	6,077	10,824	6,255	(395)	(178)
Doubtful	6,502	3,169	8,412	4,271	(1,910)	(1,102)
Doubtful of loss	16,334	9,019	13,006	6,346	3,328	2,673
Total	1,361,980	31,963	1,307,027	29,878	54,953	2,085
Surplus Reserve		14,932		13,340		1,592
Total	**1,361,980**	**46,895**	**1,307,027**	**43,218**	**54,953**	**3,677**

3.2.3 Non-performing loans

Consolidated	Jun. 30, 16	Mar. 31, 16	Dec. 31, 15	Change from Mar. 31, 16		Change from Dec. 31, 15	
				Baht mn	%	Baht mn	%
Non-Performing Loans (Net)	14,545	14,729	14,919	(184)	(1.2)	(374)	(2.5)
Non-Performing Loans (Gross)	33,263	33,022	32,239	241	0.7	1,024	3.2
Loans loss reserves (LLR)	48,697	47,174	45,313	1,523	3.2	3,384	7.5
Coverage Ratio	**146.4%**	**142.9%**	**140.6%**	**3.5%**	**2.4**	**5.8%**	**4.1**
BOT Requirement	33,765	32,844	31,973	921	2.8	1,792	5.6
Actual / Required LLR	**144.2%**	**143.6%**	**141.7%**	**0.6%**	**0.4**	**2.5%**	**1.8**

NPLs and Coverage Ratio



As of June 30, 2016, gross NPLs increased Baht 1,024 million from December 2015 to Baht 33,263 million. During 2Q/16, gross NPLs increased by Baht 241 million. The gross NPLs ratio at 2Q/16 recorded a new low at 2.20%, compared to 2.28% in 1Q/16. In 2Q/16, Krungsri Group completed a NPL sale of Baht 1,152 million to a third party.

As of June 30, 2016, total provision was Baht 48,697 million, with an excess provision over Bank of Thailand's reserve requirements of Baht 14,932 million. Correspondingly, the actual provisioning ratio when compared to Bank of Thailand requirements representing 144.2% of the Bank of Thailand's reserve requirements. The coverage ratio was 146.4%.

3.3 Funding Structure

Consolidated	Jun. 30, 16	Mar. 31, 16	Dec. 31, 15	Change from Mar. 31, 16		Change from Dec. 31, 15	
				Baht mn	%	Baht mn	%
Current	29,598	30,579	29,615	(981)	(3.2)	(17)	(0.1)
Savings	542,765	535,174	509,428	7,591	1.4	33,337	6.5
Time	489,740	466,720	507,247	23,020	4.9	(17,507)	(3.5)
< 6 Months	150,390	141,602	164,737	8,788	6.2	(14,347)	(8.7)
6 Months - 1 Year	290,799	290,119	315,806	680	0.2	(25,007)	(7.9)
> 1 Year	48,551	34,999	26,704	13,552	38.7	21,847	81.8
Total Deposit	**1,062,103**	**1,032,473**	**1,046,290**	**29,630**	**2.9**	**15,813**	**1.5**
B/E	**27,346**	**26,118**	**37,421**	**1,228**	**4.7**	**(10,075)**	**(26.9)**
Debenture	**70,423**	**68,343**	**55,843**	**2,080**	**3.0**	**14,580**	**26.1**
Total Funding	**1,159,872**	**1,126,934**	**1,139,554**	**32,938**	**2.9**	**20,318**	**1.8**

As of June 30, 2016, overall funding for the Bank, including deposits, bills of exchange and debentures, increased Baht 20,318 million, or 1.8%, from December 2015.

Deposits totaled Baht 1,062,103 million, an increase of Baht 15,813 million, or 1.5%, from December 2015. The growth in deposits mainly resulted from savings deposit and the sustained growth of our special savings product –"Mee Tae Dai" which increased approximately Baht 20,000 million, offset by a decrease in time deposits with maturity less than one year.

As a result, the proportion of current and savings deposits (CASA) as a percentage of total deposits increased to 53.9%, compared to 51.5% as of December 2015.

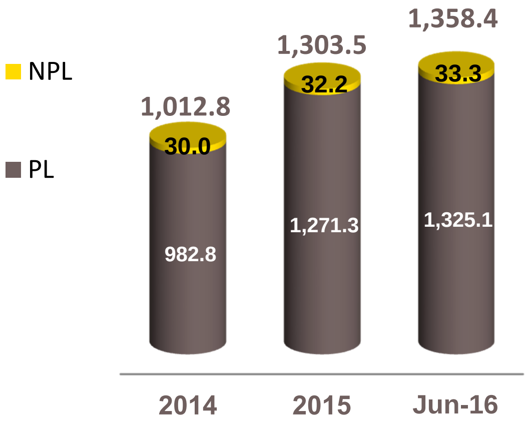
Bills of exchange (B/E) totaled Baht 27,346 million, a decrease of Baht 10,075 million, or 26.9%, from December 2015.

Debentures stood at Baht 70,423 million as of June 2016. The increase of Baht 14,580 million or 26.1% from December 2015 was driven by the new issuance of long term debentures in the amount of Baht 25,800 million, offseting the maturity of debentures totaling Baht 11,220 million.

Consequently, the loan to deposit ratio increased to 128%, and the loan to deposit plus bill of exchange and debentures ratio increased to 117%.

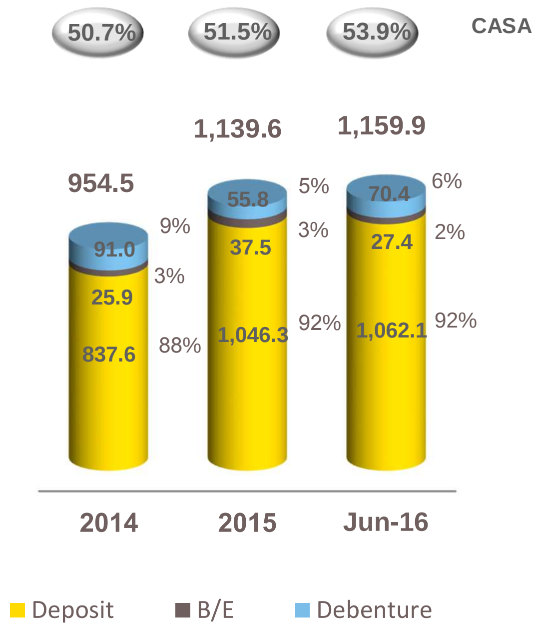
Loans

Unit: Baht Billion



Deposits + B/E + Debenture

Unit: Baht Billion



	2014	2015	Jun-16
L/D	121%	125%	128%
L/D+B/E+Debenture	106%	114%	117%

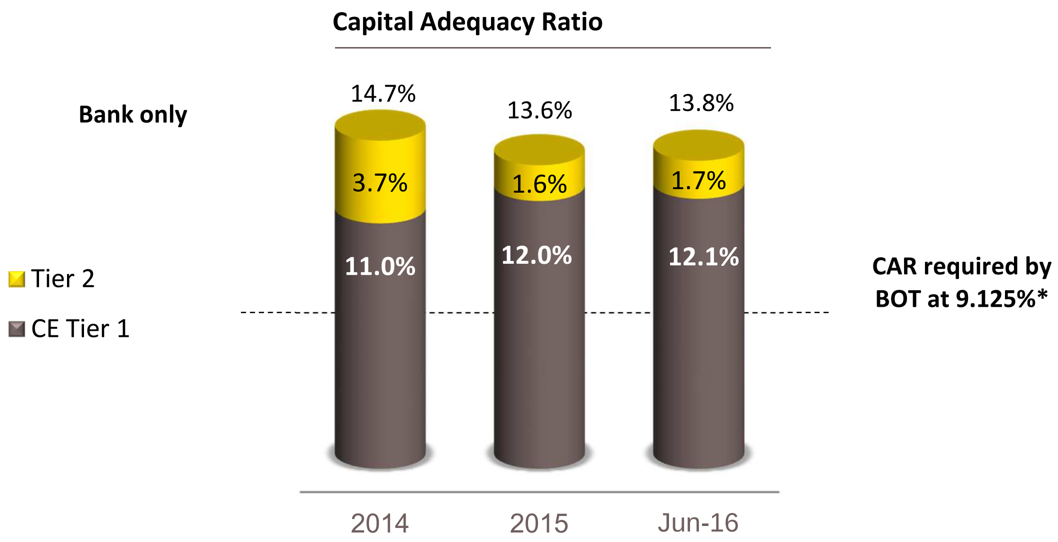
3.4 Contingencies

Consolidated	Jun. 30, 16	Mar. 31, 16	Dec. 31, 15	Change from Mar. 31, 16		Change from Dec. 31, 15	
				Baht mn	%	Baht mn	%
Avals to bills and Guarantees of loans	632	909	2,266	(277)	(30.5)	(1,634)	(72.1)
Liability under unmatured import bills	1,503	1,499	2,560	4	0.3	(1,057)	(41.3)
Letters of credit	6,274	6,885	4,727	(611)	(8.9)	1,547	32.7
Other contingencies	126,924	134,489	138,421	(7,565)	(5.6)	(11,497)	(8.3)
Total	**135,333**	**143,782**	**147,974**	**(8,449)**	**(5.9)**	**(12,641)**	**(8.5)**

The Krungsri Group's contingencies as of June 30, 2016 totaled Baht 135,333 million, a decrease of Baht 12,641 million, or 8.5%, from December 31, 2015. This decrease was driven mainly by a decrease in other contingencies of Baht 11,497.

3.5 Statutory Capital

As of June 30, 2016, The Bank's capital remained strong at Baht 174,580 million, equivalent to 13.8% of risk-weighted assets, with 12.1% in common equity tier 1 capital. The current level of capital is sufficient to provide Krungsri with flexibility to continue growing our business.



* CAR required by BOT at 8.5% for 2014 - 2015 and at 9.125% for 2016

Baht Billion	2014	2015	Jun-16
CE Tier 1	98.99	146.18	153.4
Tier 2	33.44	20.08	21.2
Total Capital	132.43	166.26	174.6

4. Credit Ratings

In June 2016, Fitch Ratings revised the rating outlook for the Bank's credit ratings to negative from stable. This outlook revision reflected revision of BTMU's credit rating outlook, which came after the outlook of the Japanese sovereign was revised to Negative from Stable on 13 June 2016. Nevertheless, Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) and National Long-Term rating of the Bank at A- and AAA(tha) respectively.

The Bank's credit ratings assigned by 1. Moody's Investors Service, 2. Standard & Poor's, 3.Fitch Ratings and 4. TRIS Rating as of June 30, 2016 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**
Baseline Credit Assessment (BCA)	**Ba1**
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**
- Outlook	**Negative**

3. Fitch Ratings

National Ratings

- Long Term – Debenture	**AAA (tha)**
- Subordinated Debt	**AA+ (tha)**
- Short Term	**F1+ (tha)**
- Outlook	**Negative**

4. TRIS Rating

National Ratings

- Company Rating	**AAA**
- Issue Rating (subordinated)	**AA+**
- Outlook	**Stable**

5. 2016 Key Performance Targets

Consolidated	2015	1Q/16	2Q/16	1H/16	2016 Targets	
Loan Growth (Net)	+290.7 bn +28.7%	-1.3 bn -0.1%	+56.2 bn +4.3%	+113.5 bn +9.1%	5-6%	~
NPLs Ratio	2.24%	2.28%	2.20%	2.20%	< 2.5%	✓
Deposit Mix: Savings and Current	52%	55%	54%	54%	> 50%	✓
Loan Mix : Retail	43%	44%	43%	43%	~ 40%	✓
L/Deposit+Debenture+B/E	114%	116%	117%	117%	n.d.	~
NIM	4.15%	3.81%	3.82%	3.78%	~ 3.7%	✓
Non-interest income growth (YoY)	18.1%	13.1%	9.0%	11.0%	7.0%+	✓
Cost to Income Ratio	47.1%	45.9%	46.3%	46.1%	< 50%	✓
Provisions	153 bps	167 bps	154 bps	157 bps	~ 145 bps	~
Loan Loss Coverage	141%	143%	146%	146%	135%+	✓
CAR *(Bank Only)*	13.6%	13.5%	13.8%	13.8%	n.d.	~