



Bangkok Bank Public Company Limited
Management Discussion and Analysis
for the Quarter and the Year Ended December 31, 2016

Management Discussion and Analysis

Overview of the Economy and Banking Industry

Thai Economy in 2016

Thailand's economy continued to grow steadily in 2016, despite external volatility. The major factors supporting this were government spending and investment, while private consumption began to show signs of recovery. Gross Domestic Product (GDP) growth was 3.2 percent, up from 2.9 percent in 2015, while the inflation rate turned positive in the second quarter of the year, as oil prices bottomed out. Consequently, headline inflation rose to 0.2 percent while core inflation, which excludes energy and food prices, rose to 0.7 percent.

The value of Thailand's exports rose by 0.5 percent in US dollars and 4.5 percent in Thai baht, which was due partly to economic conditions in major trading partners such as China's economic restructuring, and the slow economic recoveries of Japan and Europe. However, Thailand's exports started to improve from the second half of the year onwards. Global financial markets experienced dramatic fluctuations during the year due to concerns about the sharp downturn in China's economy in early 2016, British voters' decision to exit membership of the EU which was unexpected by investors, plus the long period of low interest rates which led to a "search for yield". Regional currencies strengthened during the first three quarters of the year in response to these factors.

The steady improvement in the US economy, especially in the labor market, led the Federal Reserve to increase the policy interest rate in December 2016. This, together with the new US president's policies, such as tax reductions, the acceleration of infrastructure investment and business deregulation, will help increase investors' confidence in the US economy. All these factors stimulated a rapid outflow of capital from Asian countries to the US. In 2016 the Thai baht averaged 35.30 THB/USD, a slight depreciation of 3.0 percent from 34.26 THB/USD in 2015, in line with the movement of other Asian currencies.

Uncertainties in the global economy were major factors that contributed to the continued low level of commodity and agricultural product prices, although prices increased slightly from the mid-year onwards. This suppressed both incomes and the purchasing power of farmers, the most populous group in Thailand, and inhibited Thailand's economic recovery. These factors, coupled with the continued high level of household debt despite debt maturity under the government's first-time car-buyer scheme, affected consumer confidence and household spending. Accordingly, private investment tepid.

However, the tourism sector continued to grow despite various disruptive factors in Thailand and abroad. Thailand was able to quickly regain confidence, resulting in an increase of 8.9 percent in foreign visitors from the previous year, including visitors from almost all regions of the world.

The Bank of Thailand's Monetary Policy Committee retained the policy interest rate at 1.5 percent for the whole year after reducing it twice in early 2015, on the assumption that the Thai economy would continue to gradually recover. The rate therefore remained at its lowest level since the global financial crisis in 2008.

The government implemented various measures to alleviate the negative environment for consumption and investment. These included measures to boost spending, investment in community infrastructure, the Baan Pracharath housing loan project for low-income earners, low-interest rate loans for SMEs, and projects to support the grassroots economy. Additional policies to leverage Thailand's long-term competitiveness included the Public-Private Collaboration project – a collaboration between the government, private and social sectors for developing industries of the future, the building of Food Innopolis (a cluster of "food for the future")

companies), encouragement of modern entrepreneurship, and acceleration of investment in infrastructure for railways, roads, seaports and airports. Bidding and construction is already underway for mass transport and seaport developments. These measures will eventually help lay a new foundation for the next stage of Thailand's economic development.

In 2017 the Thai economy is expected to grow by 3-4 percent although it will continue to face many challenges from external factors which are creating uncertainties in the global economic recovery. There are many risks emanating from major economies such as the possible redirection of US economic policy, which will affect international trade, the sluggish recovery of the European economy, and risks from political problems in Europe. Furthermore, the Chinese economy is expected to grow at a slow pace due to government efforts to rebalance the economy by placing more emphasis on domestic consumption and confronting risks and debts in the real estate sector and state enterprises.

There will also be flow-on effects from expected further increases in interest rates by the Federal Reserve. Meanwhile Europe and Japan continue to maintain zero or negative interest rates, and this is encouraging capital movements and high volatility in currency rates. These factors will negatively impact Thai exports and create more difficulties for businesses as they manage risks from currency movements and interest rates. At the same time, global agricultural prices are expected to increase but remain at a low level, and household debt levels remain high. Consequently, the buying power of Thai households will not recover as fast as expected.

Positive developments include the integration of AEC economies in late 2015, which is helping to build confidence and stimulate trade and investment in the region. This is evidenced by the continued expansion of trade among ASEAN member countries, particularly between Thailand and Cambodia, Laos, Myanmar and Vietnam (the CLMV countries), which is equivalent to the value of trade between Thailand and the US, making the CLMV one of the top trading partners for Thailand.

The ongoing integration of the economies of the AEC will help increase the growth potential of ASEAN, and attract investment from businesses in China, Japan, and Taiwan to the region. This will help ASEAN develop as a source of raw materials, new markets and as an export base for other countries. These developments, coupled with greater urbanization in Thailand and the region, will see the emergence of more households with moderate-to-high incomes. This in turn will stimulate demand for infrastructure, consumer goods and more sophisticated financial services, and create new markets for various products and services. Moreover, the development of transportation routes between ASEAN countries and those in nearby regions, such as the transportation network in the Greater Mekong Subregion (GMS) and China's Belt and Road Initiative, will provide better connections between ASEAN's logistics system and those of Asia and Europe, creating significant business opportunities.

Thailand's government is encouraging these trends by accelerating infrastructure development, which should see rapid progress from 2017 onwards, including intraregional connections. Moreover, the government also plans to leverage the Eastern Seaboard to become the Eastern Economic Corridor (EEC) to support Thailand's goal to be a terrestrial, nautical and aviation logistics hub for the region. as well as to support the development of the country's high-value-added industries.

Longer-term, these economic developments will reduce dependence on commodity exports by strengthening Thailand's domestic economy and encouraging investment in sectors which can provide a new engine of growth for the country. These include the ongoing development of 10 high-value-added industries comprising next-generation automotive; smart electronics; affluent, medical and wellness tourism; agriculture and biotechnology; food for the future; robotics; aviation and logistics; biofuels and biochemical; digital and medical hubs.

Although the global economic environment remains uncertain, ASEAN's strong economic foundations, regional infrastructure development and higher levels of regional connectivity will help bolster the Thai economy so it can overcome present and future challenges.

Thai Banking Industry in 2016

Commercial banks in Thailand faced many challenges during the year, especially as the recovery of the domestic economy was only gradual, requiring greater efforts from banks to acquire revenues and manage loan quality. Banks have had to adjust to many changes, such as new regulations that impacted business operations, preparations for PromptPay, FinTech, and innovative services, particularly the rapid adoption of digital banking by consumers. However, commercial banks in Thailand maintained their good performance with sufficient capital to support their business operations.

In 2016 the combined net profit of the commercial banking system was Baht 199.0 billion, a 3.6 percent increase from last year, due to the effective management of deposit portfolios. As a result, net interest income rose by 6.5 percent and net interest margin (NIM) rose slightly by 2.6 percent from 2.5 percent in the previous year. Net fee and service income increased 2.9 percent. Meanwhile, more reserves were added to support an increase in provisioning expenses as a cushion against deteriorating loan quality. Loans and deposits continued to grow. Loans in the commercial banking system at the end of 2016 were 2.0 percent higher than at the end of 2015. Corporate loans fell by 1.1 percent while SME loans and consumer loans grew by 1.8 and 4.9 percent, respectively. Deposits grew by 2.7 percent from the end of 2015, resulting in increased liquidity as seen in the ratio of loans to deposits, which fell from 97.6 percent at the end of 2015 to 96.9 percent.

The ratio of gross non-performing loans (NPLs) to total loans stood at 2.8 percent, up from 2.6 percent at the end of 2015, reflecting a deterioration in loan quality. However, the level of capital reserves and loan loss reserves remained high, as the ratio of loan loss reserves to NPLs, or coverage ratio stood at 135.6 percent, while the overall financial status of the commercial banking system remained stable with the total capital adequacy ratio (or BIS ratio) stood at 18.0 percent.

During the year ahead, many factors will affect the commercial banking system's performance. Loans are likely to rise in line with economic growth which is expected to improve due to investment in the government's infrastructure projects, development of the Eastern Economic Corridor, recovery in the export sector, higher incomes for farmers, and higher wages. However, the significant increase in NPLs in 2016 means that commercial banks will be more cautious in their lending policies in 2017. Deposits will tend to grow. The commercial banking system has sufficient liquidity to support the growth of loans. For liquidity management, the Bank of Thailand requires commercial banks to comply with the Liquidity Coverage Ratio (LCR) guidelines under Basel III, which came into effect in January 2016.

The deterioration in the loan quality in the commercial banking system will be manageable, and the rate of increase in the ratio of gross NPLs to total loans will slow. The relatively high level of capital and increases in reserves will provide a cushion for loan quality in the system.

In 2017 fee income from fund transfers will be affected by the PromptPay system, which was launched in the first quarter of the year. Transaction fees via PromptPay services will be lower than transaction fees via existing services to attract more users and businesses; consequently, the fee income of commercial banks is likely to decline.

Factors Affecting Banking Industry Performance

The megatrends of regionalization, urbanization and digitalization will continue to shape Thailand's economy over the next few years. These trends are the driving factors behind the need for the public and private sectors to establish a framework and measures to cope with changes in the economic and financial sectors, as follows:

1. Establishing a new foundation for the future of Thailand. (1) Rebalancing the economy by strengthening the domestic sector, particularly at the local and SME level, to reduce Thailand's reliance on exports; (2) Restructuring the productive sector by increasing the value-add for existing industries and developing 10 high-value-added industries to serve as the new growth engine for the country; and (3) Upgrading transport infrastructure and the Eastern Economic Corridor development project.

2. Thailand 4.0 policy: structural economic change towards a value-based economy. The transformation will happen in four important areas: (1) From traditional to modern agriculture with a focus on management and technology; (2) From traditional SMEs to smart enterprises and startups with high potential; (3) From traditional services with relatively low value creation to high-value services; and (4) From low-skilled to high-skilled labor with expertise.

3. Digital disruption to banking. Rapid growth in the use of smartphones and tablets enables consumers to increase their everyday access to digital media, which is changing how consumers use financial services. In response to this, new technologies and innovations, including FinTech, are being developed for applications to perform financial transactions via smartphones and tablets, so transactions can be done more easily, quickly and conveniently. This includes payments, transfers, borrowing, fund raising and wealth management. Meanwhile, the development of blockchain technology – a database management system for personal identification – is helping make transactions more efficient, more transparent, and safer. The advent of FinTech has changed the competitive environment, with FinTech firms not limited to financial institutions but also including start-ups and businesses in other industries such as telecommunications. The fast-changing digital technology sector poses both a major opportunity and a major challenge to the commercial banking business.

4. National e-Payment Master Plan. This initiative aims to develop a full range of e-payment options which will increase the efficiency of the payment infrastructure and e-tax system, helping the government to proceed effectively with its policies of integrating the low-income earners' database with the social welfare payment system and promoting financial inclusion. This will support its objectives of moving towards a cashless society while enabling financial transactions and economic activities to be carried out more easily and quickly. E-payments are expected to support the business sector's competitiveness and enhance the quality of life as well as strengthening the stability of the financial system. The new PromptPay payment system is also a part of the master plan. Preparations for the introduction of PromptPay began in 2016, with consumer registrations invited in July. Transfers under the scheme are planned for early in 2017.

5. Financial Sector Master Plan III. This is a five-year development plan from 2016-2020 to enhance the Thai financial system in four areas: (1) Competitiveness. Support competitiveness using digital technology, improved efficiency, accelerated innovation in the financial system and reduced costs in the economic system; (2) Access. Increase financial accessibility for retail customers, small and medium-sized businesses and large corporates to facilitate long-term growth of the economy; (3) Connectivity. Increase the capability of the Thai financial system to support integrated regional trade and investment; (4) Sustainability. Develop financial infrastructure to increase the long-run capability of the Thai financial system.

The five factors above will underpin the transformation of Thailand's economy through a combination of government policies and changes in private-sector business conduct, as well as changes in consumer behaviour. Thai commercial banks must be ready to cope with these trends.

Overall Picture of the Bank and its Subsidiaries

Million Baht

Item	Quarter		Change (%)		Year		Change (%)	
	4/2016	3/2016	4/2015	3/2016	4/2015	2016		2015
Net profit *	8,267	8,061	7,681	2.6%	7.6%	31,815	34,181	(6.9)%
Earnings per share (Baht)	4.33	4.22	4.02	2.6%	7.6%	16.67	17.91	(6.9)%
Net interest margin	2.36%	2.33%	2.33%	0.03%	0.03%	2.34%	2.16%	0.18%
Net fees and service income to operating income ratio	22.9%	22.8%	23.6%	0.1%	(0.7)%	23.1%	23.4%	(0.3)%
Expense to operating income ratio	47.4%	44.9%	46.0%	2.5%	1.4%	47.7%	43.8%	3.9%
Return on average assets *	1.13%	1.10%	1.08%	0.03%	0.05%	1.09%	1.21%	(0.12)%
Return on average equity *	8.77%	8.67%	8.50%	0.10%	0.27%	8.59%	9.91%	(1.32)%

* Attributable to the Bank

Million Baht

Item	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Loans **	1,941,093	1,901,900	1,868,903	2.1%	3.9%
Deposits	2,178,141	2,106,870	2,090,965	3.4%	4.2%
Loan to deposit ratio	89.1%	90.3%	89.4%	(1.2)%	(0.3)%
Non-performing loans (NPLs)	68,841	73,187	56,226	(5.9)%	22.4%
Ratio of NPLs to total loans	3.2%	3.4%	2.8%	(0.2)%	0.4%
Ratio of loan loss reserves to NPLs	173.6%	159.5%	185.3%	14.1%	(11.7)%
Total capital adequacy ratio	18.32%	18.82%	17.87%	(0.50)%	0.45%

** Less deferred revenue

Bangkok Bank and its subsidiaries have reported a net profit for 2016 of Baht 31.8 billion, compared with Baht 34.2 billion in the previous year. At the end of December 2016, the Bank's loans amounted to Baht 1,941.1 billion, a rise of Baht 72.2 billion or 3.9 percent from the end of 2015, due to the increase in loans to large corporates and medium-sized businesses, consumer sector, and loans made through the Bank's international network. Despite the increase in loans, the Bank continued to maintain its loan-to-deposit ratio at 89.1 percent, a similar level to last year. In terms of non-performing loans (NPLs), NPLs at the end of 2016 were Baht 68.8 billion or 3.2 percent of total loans. Meanwhile, the Bank continues to closely monitor its loan quality and set aside appropriate provisioning expenses. Total allowances for doubtful accounts at the end of December 2016 were at a high level of Baht 119.5 billion or 6.2 percent of loans, with provisioning expenses of Baht 15.7 billion.

Net profit in 2016 was Baht 31.8 billion, a decrease of Baht 2.4 billion or 6.9 percent from 2015. Net interest income rose by Baht 6.5 billion or 11.3 percent from 2015 to Baht 64.0 billion, and the net interest margin increased to 2.34 percent as a result of managing the low-cost of deposits. Non-interest income was Baht 41.9 billion, a decrease of Baht 3.4 billion or 7.4 percent, due largely to a decline in gains on disposal of assets and gains on investments. Net fees and service income rose by Baht 421 million, due mainly to an increase in fee income from electronic services and remittances, the securities business, loan-related services and securities

services. Operating expenses were Baht 50.5 billion, an increase of Baht 5.5 billion or 12.1 percent, with significant items including an increase in other expenses from provisions for contingencies and personnel expenses.

The Bank maintained its capital reserves at a good level to support future business expansion. After the inclusion of net profit from July to December 2016, the total capital adequacy ratio, Tier 1 capital ratio and Common Equity Tier 1 ratio of the Bank and its subsidiaries would be 19.09 percent, 17.17 percent and 17.17 percent, respectively. Shareholders' equity as of December 31, 2016 amounted to Baht 379.0 billion or 12.9 percent of total assets. The book value per share was Baht 198.56, an increase of Baht 9.00 from the end of 2015.

Operating Income and Expenses of the Bank and its Subsidiaries

Item	Million Baht							
	Quarter		Change (%)		Year		Change (%)	
	4/2016	3/2016	4/2015	3/2016	4/2015	2016		2015
Net interest income	16,303	16,066	15,617	1.5%	4.4%	63,998	57,510	11.3%
Non-interest income	11,063	10,887	10,793	1.6%	2.5%	41,860	45,219	(7.4)%
Operating expenses	12,968	12,095	12,146	7.2%	6.8%	50,505	45,045	12.1%
Impairment loss of loans and debt securities	3,596	4,946	3,880	(27.3)%	(7.3)%	15,728	14,654	7.3%
Operating profit before tax	10,802	9,912	10,384	9.0%	4.0%	39,625	43,030	(7.9)%
Income tax expenses	2,469	1,786	2,643	38.2%	(6.6)%	7,556	8,630	(12.4)%
Net profit	8,333	8,126	7,741	2.5%	7.6%	32,069	34,400	(6.8)%
Net profit *	8,267	8,061	7,681	2.6%	7.6%	31,815	34,181	(6.9)%
Total comprehensive income *	8,128	5,502	6,784	47.7%	19.8%	29,205	50,749	(42.5)%

* Attributable to the Bank

Net profit in the fourth quarter of 2016 amounted to Baht 8.3 billion, an increase of Baht 206 million or 2.6 percent from the third quarter of 2016. Significant items included an increase of Baht 237 million or 1.5 percent in net interest income due to a decrease in cost of fixed deposits, an increase of Baht 176 million in non-interest income due mainly to gains on disposal of assets, and a decrease of Baht 1.4 billion in impairment loss of loans and debt securities. Operating expenses rose by Baht 873 million due to an increase in provisions for contingencies.

Compared with the fourth quarter of 2015, net profit increased by Baht 587 million or 7.6 percent. Significant items included an increase of Baht 686 million or 4.4 percent in net interest income, in line with a decline in costs of fixed deposits, and an increase of Baht 270 million or 2.5 percent in non-interest income due mainly to gains on disposal of assets and gains on investments. Operating expenses rose by Baht 822 million due mainly to provisions for contingencies and personnel expenses.

In 2016, net profit amounted to Baht 31.8 billion, a decrease of Baht 2.4 billion or 6.9 percent from the previous year. Significant items included an increase of Baht 5.5 billion or 12.1 percent in operating expenses, mainly from provisions for contingencies, and a decrease of Baht 3.4 billion or 7.4 percent in non-interest income, resulting from a decrease in gains on disposal of assets and gains on investments. Net interest income rose by Baht 6.5 billion or 11.3 percent due to an expansion of low-cost deposits in savings and current accounts and the lower costs of fixed deposits. Impairment losses on loans and debt securities rose by Baht 1.1 billion. Total comprehensive income decreased by Baht 21.5 billion which was largely attributable to a surplus from the revaluation of lands and premises in 2015.

Net Interest Income

Million Baht

Item	Quarter			Change (%)		Year		Change (%)
	4/2016	3/2016	4/2015	3/2016	4/2015	2016	2015	
Interest Income								
Loans	21,967	21,940	22,200	0.1%	(1.0)%	88,079	87,458	0.7%
Interbank and money market items	1,499	1,578	1,604	(5.0)%	(6.5)%	6,122	9,515	(35.7)%
Investments	2,055	1,983	1,870	3.6%	9.9%	8,242	6,841	20.5%
Total interest income	25,521	25,501	25,674	0.1%	(0.6)%	102,443	103,814	(1.3)%
Interest expenses								
Deposits	4,992	5,225	5,819	(4.5)%	(14.2)%	21,410	28,905	(25.9)%
Interbank and money market items	235	266	271	(11.7)%	(13.3)%	1,104	1,374	(19.7)%
Contributions to the Deposit Protection Agency and Financial Institutions Development Fund	2,277	2,265	2,223	0.5%	2.4%	9,127	9,060	0.7%
Debt issued and borrowings	1,714	1,679	1,744	2.1%	(1.7)%	6,804	6,965	(2.3)%
Total interest expenses	9,218	9,435	10,057	(2.3)%	(8.3)%	38,445	46,304	(17.0)%
Net interest income	16,303	16,066	15,617	1.5%	4.4%	63,998	57,510	11.3%
Yield on earning assets	3.69%	3.70%	3.83%	(0.01)%	(0.14)%	3.74%	3.90%	(0.16)%
Cost of funds	1.52%	1.56%	1.70%	(0.04)%	(0.18)%	1.59%	1.96%	(0.37)%
Net interest margin	2.36%	2.33%	2.33%	0.03%	0.03%	2.34%	2.16%	0.18%

Net interest income in the fourth quarter of 2016 amounted to Baht 16.3 billion, an increase of Baht 237 million or 1.5 percent from the third quarter of 2016, due to a decrease of Baht 233 million or 4.5 percent in interest expenses from deposits as a result of the reduced costs of fixed deposits, and an increase of Baht 72 million or 3.6 percent in interest income from investments. Interest income from interbank and money market items fell by Baht 79 million or 5.0 percent, from the decrease in transaction volume. The net interest margin increased by 0.03 percent from the previous quarter to 2.36 percent.

Compared with the fourth quarter of 2015, net interest income rose by Baht 686 million or 4.4 percent; as a result, the net interest margin rose by 0.03 percent to 2.36 percent, mainly due to a decrease of Baht 827 million or 14.2 percent in interest expenses on deposits as high-rate fixed deposits are gradually maturing, while interest income from lending fell by Baht 233 million or 1.0 percent due to the decrease in yield resulting from the Bank's loan interest rate being cut by 0.25 percent in April 2016.

In 2016, net interest income amounted to Baht 64.0 billion, an increase of Baht 6.5 billion or 11.3 percent from 2015, due predominantly to a decrease of Baht 7.5 billion or 25.9 percent in interest expenses on deposits, resulting from an expansion of low-cost deposits in savings and current accounts and a decrease in the cost of fixed deposits, and interest income from investments increased by Baht 1.4 billion or 20.5 percent. Interest income from interbank and money market items fell by Baht 3.4 billion or 35.7 percent, due to the decrease in business volume and yield, in line with market yield. The net interest margin rose by 0.18 percent from the previous year to 2.34 percent.

Bangkok Bank Interest Rates	Apr 25, '16	Apr 6, '16	May 26, '15	May 12, '15	Mar 16, '15	Sep 22, '14
Loans (%)						
MOR	7.375	7.375	7.375	7.500	7.500	7.500
MRR	7.625	7.875	7.875	8.125	8.125	8.125
MLR	6.250	6.250	6.500	6.625	6.625	6.750
Deposits (%)						
Savings	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.750	0.500-1.250
Fixed 3 months	1.000	1.000	1.000	1.000	1.000	1.125-1.250
Fixed 6 months	1.250	1.250	1.250	1.250	1.250	1.375
Fixed 12 months	1.500	1.500	1.500	1.500	1.500	1.750
		Apr 29, '15		Mar 11, '15		Mar 12, '14
Bank of Thailand Policy Rates (%)		1.500		1.750		2.000

Non-Interest Income

Item	Quarter		Change (%)		Year		Change (%)	
	4/2016	3/2016	4/2015	3/2016	4/2015	2016		2015
Fees and service income	8,478	8,227	8,292	3.1%	2.3%	32,936	32,083	2.7%
<u>Less</u> fees and service expenses	2,223	2,070	2,055	7.4%	8.2%	8,444	8,012	5.4%
Net fees and service income	6,255	6,157	6,237	1.6%	0.3%	24,492	24,071	1.7%
Gains on tradings and foreign exchange transactions	2,026	1,924	1,978	5.3%	2.4%	7,459	7,774	(4.1)%
Gains on investments	1,222	1,468	1,070	(16.8)%	14.2%	4,272	5,836	(26.8)%
Share of profit from investment for using equity method	41	50	38	(18.0)%	7.9%	97	192	(49.5)%
Gains on disposal of assets	542	136	373	298.5%	45.3%	999	3,008	(66.8)%
Dividend income	784	1,014	920	(22.7)%	(14.8)%	3,966	3,737	6.1%
Other operating income	193	138	177	39.9%	9.0%	575	601	(4.3)%
Total other operating income	4,808	4,730	4,556	1.6%	5.5%	17,368	21,148	(17.9)%
Total non-interest income	11,063	10,887	10,793	1.6%	2.5%	41,860	45,219	(7.4)%
Net fees and service income to operating income ratio	22.9%	22.8%	23.6%	0.1%	(0.7)%	23.1%	23.4%	(0.3)%

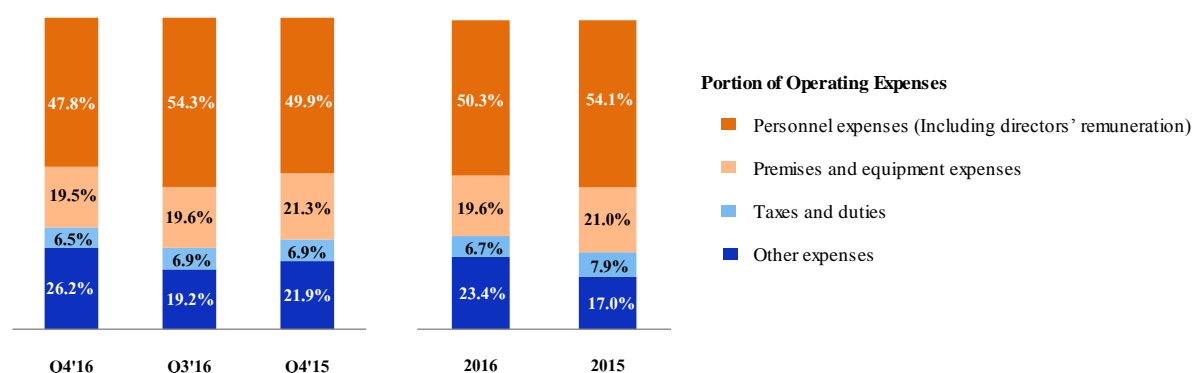
Non-interest income in the fourth quarter of 2016 amounted to Baht 11.1 billion, an increase of Baht 176 million or 1.6 percent from the third quarter of 2016 mainly due to an increase of Baht 406 million in gains on disposal of assets, an increase of Baht 102 million in gains on tradings and foreign exchange transactions, and an increase of Baht 98 million in net fees and service income partly due to fee income from investment banking transactions, credit card transactions, international trade transactions and loan-related services. While gains on investments fell by 246 million, and dividend income decreased by Baht 230 million. Consequently, the ratio of net fees and service income to operating income stood at 22.9 percent, slightly higher than the previous quarter.

Compared with the fourth quarter of 2015, non-interest income rose by Baht 270 million or 2.5 percent. Significant items included an increase of Baht 169 million in gains on disposal of assets and an increase of Baht 152 million in gains on investments. Net fees and service income rose slightly from the same period last year due to an increase in fee income from the securities business, and electronic services and remittances.

In 2016, non-interest income amounted to Baht 41.9 billion, a decrease of Baht 3.4 billion or 7.4 percent from 2015, with gains on disposal of assets declining by Baht 2.0 billion and gains on investments declining by Baht 1.6 billion. Net fees and service income rose by Baht 421 million, due mainly to increases in fee income from electronic services and remittances, the securities business, loan-related services and securities services.

Operating Expenses

Item	Quarter		Change (%)		Year		Change (%)	
	4/2016	3/2016	4/2015	3/2016	4/2015	2016		2015
Personnel expenses	6,157	6,552	6,015	(6.0)%	2.4%	25,247	24,227	4.2%
Directors' remuneration	43	20	43	115.0%	-	125	138	(9.4)%
Premises and equipment expenses	2,535	2,368	2,588	7.1%	(2.0)%	9,909	9,458	4.8%
Taxes and duties	838	832	836	0.7%	0.2%	3,388	3,555	(4.7)%
Other expenses	3,395	2,323	2,664	46.1%	27.4%	11,836	7,667	54.4%
Total operating expenses	12,968	12,095	12,146	7.2%	6.8%	50,505	45,045	12.1%
Expense to operating income ratio	47.4%	44.9%	46.0%	2.5%	1.4%	47.7%	43.8%	3.9%



Operating expenses in the fourth quarter of 2016 amounted to Baht 13.0 billion, an increase of Baht 873 million or 7.2 percent from the third quarter of 2016. Significant items included other expenses, which increased by Baht 1.1 billion due to provisions for contingencies, and expenses on premises and equipment, which increased by Baht 167 million, while personnel expenses, which decreased by Baht 395 million.

Compared with the fourth quarter of 2015, operating expenses rose by Baht 822 million or 6.8 percent. Significant items included other expenses, which increased by Baht 731 million due to provisions for contingencies and personnel expenses which rose by Baht 142 million.

In 2016, operating expenses amounted to Baht 50.5 billion, an increase of Baht 5.5 billion or 12.1 percent from 2015. Significant items included an increase of Baht 4.2 billion in other expenses due predominantly to provisions for contingencies, an increase of Baht 1.0 billion in personnel expenses due to annual salary adjustments, and an increase in the number of employees.

Impairment Loss of Loans and Debt Securities

Million Baht

Item	Quarter		Change (%)		Year		Change (%)	
	4/2016	3/2016	4/2015	3/2016	4/2015	2016		2015
Bad debt and doubtful accounts	2,792	5,023	3,423	(44.4)%	(18.4)%	15,351	14,716	4.3%
Loss on debt restructuring (reversal)	804	(77)	457	1,144.2%	75.9%	377	(62)	708.1%
Total	3,596	4,946	3,880	(27.3)%	(7.3)%	15,728	14,654	7.3%

In the fourth quarter of 2016, impairment loss of loans and debt securities was Baht 3.6 billion, compared with Baht 4.9 billion in the third quarter of 2016 and Baht 3.9 billion in the fourth quarter of 2015. In 2016, impairment loss of loans and debt securities amounted to Baht 15.7 billion, compared with Baht 14.7 billion in 2015.

Significant Items in the Financial Position

Assets

Million Baht

Item	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Net interbank and money market items	394,612	421,451	372,007	(6.4)%	6.1%
Net investments	546,614	497,645	519,525	9.8%	5.2%
Net investments in associates	1,327	1,286	1,280	3.2%	3.7%
Loans *	1,941,093	1,901,900	1,868,903	2.1%	3.9%
Net properties for sale	12,262	13,079	13,579	(6.2)%	(9.7)%
Total assets	2,944,230	2,875,539	2,835,852	2.4%	3.8%

* Less deferred revenue

Total assets, as of December 31, 2016, amounted to Baht 2,944.2 billion, an increase of Baht 68.7 billion from the end of September 2016. Significant items included net investments of Baht 546.6 billion, an increase of Baht 49.0 billion or 9.8 percent mainly from available-for-sale securities and trading securities, and an increase of Baht 39.2 billion or 2.1 percent in loans. Net interbank and money market items amounted to Baht 394.6 billion, a decrease of Baht 26.8 billion or 6.4 percent.

Compared with the end of December 2015, total assets rose by Baht 108.4 billion. Significant items included an increase of Baht 72.2 billion or 3.9 percent in loans, an increase of Baht 27.1 billion or 5.2 percent in net investments mainly from available-for-sale securities, and an increase of Baht 22.6 billion or 6.1 percent in net interbank and money market items.

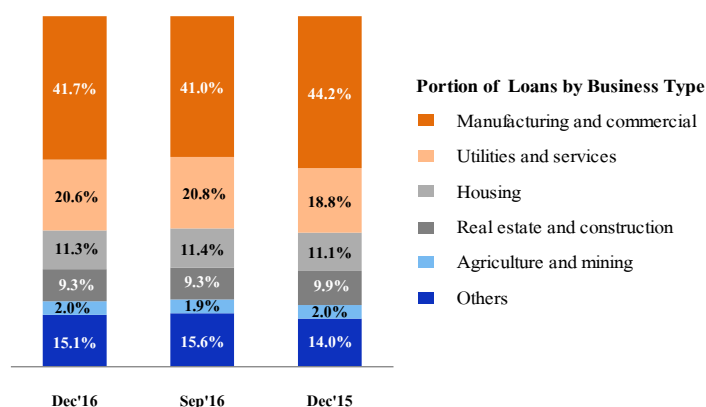
Loans

Loans, as of December 31, 2016, amounted to Baht 1,941.1 billion, an increase of Baht 39.2 billion or 2.1 percent from the end of September 2016, due to an increase in loans to medium-sized businesses, consumer sector and loans made through the Bank's international network. Compared with the end of December 2015, loans rose by Baht 72.2 billion or 3.9 percent, due to an increase in loans to large corporates and medium-sized businesses, consumer sector and loans made through the Bank's international network.

Million Baht

Loans by Business Type *	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Manufacturing and commercial	810,335	778,952	825,913	4.0%	(1.9)%
Utilities and services	399,372	395,881	351,791	0.9%	13.5%
Housing	219,365	216,539	207,847	1.3%	5.5%
Real estate and construction	179,973	177,592	184,058	1.3%	(2.2)%
Agriculture and mining	38,541	36,575	38,013	5.4%	1.4%
Others	293,507	296,361	261,281	(1.0)%	12.3%
Total	1,941,093	1,901,900	1,868,903	2.1%	3.9%

* Less deferred revenue



The highest portion of lending was to various industries in the manufacturing and commercial sectors, at 41.7 percent, followed by 20.6 percent to utilities and services, 11.3 percent to housing, and 9.3 percent to real estate and construction. The main increase in loans from the end of September 2016 was to the manufacturing and commercial sector, while the increase from the end of December 2015 was to the utilities and services sector, and to 'others'.

Classified Loans and Allowance for Doubtful Accounts

Million Baht

Item	Loans & Accrued Interest Receivables *			Allowance for Doubtful Accounts Classified to Bank of Thailand Criteria		
	December 2016	September 2016	December 2015	December 2016	September 2016	December 2015
Normal	1,830,827	1,779,332	1,773,357	14,502	13,795	13,788
Special mentioned	46,058	53,065	43,504	548	623	501
Substandard	9,495	8,315	9,650	2,589	1,842	3,975
Doubtful	16,050	21,460	13,725	10,140	12,767	7,197
Doubtful of loss	43,316	43,439	32,946	27,815	27,069	20,935
Total	1,945,746	1,905,611	1,873,182	55,594	56,096	46,396
<u>Plus</u> excess allowance for doubtful accounts				61,214	58,756	55,379
Total allowance for doubtful accounts from loan classification				116,808	114,852	101,775
<u>Plus</u> revaluation allowance for debt restructuring				2,710	1,905	2,412
Total allowance for doubtful accounts				119,518	116,757	104,187

* Less deferred revenue

Million Baht

Item	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
NPLs before allowance for doubtful accounts	68,841	73,187	56,226	(5.9)%	22.4%
Ratio of NPLs to total loans	3.2%	3.4%	2.8%	(0.2)%	0.4%
Net NPLs after allowance for doubtful accounts	19,156	22,149	16,622	(13.5)%	15.2%
Ratio of net NPLs to net total loans	0.9%	1.1%	0.8%	(0.2)%	0.1%
Ratio of loan loss reserves to minimum required provisioning	205.0%	201.3%	213.5%	3.7%	(8.5)%
Ratio of loan loss reserves to NPLs	173.6%	159.5%	185.3%	14.1%	(11.7)%

Non-performing loans (NPLs) at the end of December 2016 amounted to Baht 68.8 billion and the ratio of NPLs to total loans was 3.2 percent.

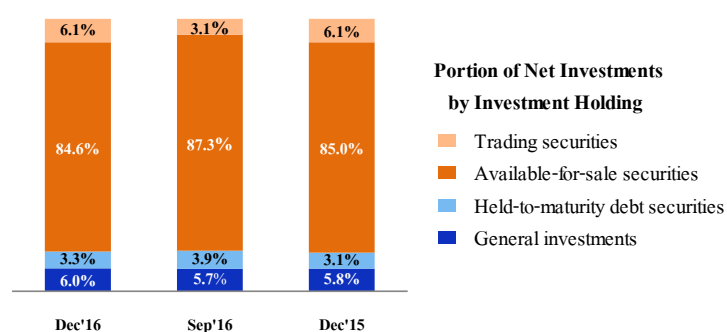
Total allowance for doubtful accounts at the end of December 2016 was Baht 119.5 billion, 205.0 percent of the minimum required by the Bank of Thailand (BOT) of Baht 58.3 billion. The ratio of loan loss reserves to NPLs was 173.6 percent.

Net Investments

Net investments as of December 31, 2016 amounted to Baht 546.6 billion, an increase of Baht 49.0 billion or 9.8 percent from the end of September 2016, due mainly to an increase in investment from available-for-sale securities and trading securities, while net investments increased by Baht 27.1 billion or 5.2 percent from the end of December 2015, due mainly to available-for-sale securities.

Million Baht

Investments by Investment Holding	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Trading securities	33,148	15,513	31,685	113.7%	4.6%
Available-for-sale securities	462,742	434,348	441,497	6.5%	4.8%
Held-to-maturity debt securities	18,121	19,404	16,213	(6.6)%	11.8%
General investments	32,603	28,380	30,130	14.9%	8.2%
Total net investments	546,614	497,645	519,525	9.8%	5.2%



Most of the net investments were in government and state-enterprise securities. As of December 31, 2016, these amounted to Baht 339.5 billion, accounting for 62.1 percent of total investments. Foreign debt securities were Baht 82.8 billion, private enterprise debt securities Baht 18.9 billion, and net equity securities Baht 104.7 billion.

Million Baht

Investments by Maturity *	December 2016		September 2016 **		December 2015 **		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2016	December 2015
Up to one year	87,347	15.9%	70,673	14.2%	101,774	19.5%	23.6%	(14.2)%
Between one and five years	317,650	58.0%	283,366	56.8%	302,433	58.1%	12.1%	5.0%
Over five years	37,631	6.9%	45,913	9.2%	16,942	3.3%	(18.0)%	122.1%
No maturity	105,313	19.2%	98,979	19.8%	99,656	19.1%	6.4%	5.7%
Total net investments	547,941	100.0%	498,931	100.0%	520,805	100.0%	9.8%	5.2%

* Including net investments in associates

** The Bank had made changes the presentation comparison to be in accordance with the current end of year presentations

The remaining terms of the net investments (including net investments in associates) as of December 31, 2016 were categorized into securities with less than one year to maturity of Baht 87.3 billion, securities with one-to-five years to maturity of Baht 317.7 billion, securities with remaining maturities of more than five years of Baht 37.6 billion, and securities with no maturity of Baht 105.3 billion.

Liabilities and Shareholders' Equity

Million Baht

Item	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Deposits	2,178,141	2,106,870	2,090,965	3.4%	4.2%
Interbank and money market items	130,928	144,797	128,681	(9.6)%	1.7%
Debt issued and borrowings	137,815	133,678	138,402	3.1%	(0.4)%
Total liabilities	2,564,985	2,504,482	2,473,821	2.4%	3.7%
Shareholders' equity *	379,016	370,887	361,832	2.2%	4.7%

* Attributable to the Bank

Total liabilities as of December 31, 2016 amounted to Baht 2,565.0 billion, an increase of Baht 60.5 billion or 2.4 percent from the end of September 2016, due mainly to an increase of Baht 71.3 billion in deposits. Interbank and money market items fell by Baht 13.9 billion or 9.6 percent due to the reduction in repurchase agreements.

Compared with the end of December 2015, total liabilities rose by Baht 91.2 billion or 3.7 percent, mostly from deposits which rose by Baht 87.2 billion or 4.2 percent. Interbank and money market items rose by Baht 2.2 billion or 1.7 percent, due mainly to borrowing transactions.

Deposits

Million Baht

Deposits Classified by Product Type	December 2016		September 2016		December 2015		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2016	December 2015
Current	95,810	4.4%	92,254	4.4%	86,797	4.1%	3.9%	10.4%
Savings	958,150	44.0%	928,554	44.1%	850,689	40.7%	3.2%	12.6%
Fixed *	1,124,181	51.6%	1,086,062	51.5%	1,153,479	55.2%	3.5%	(2.5)%
Total	2,178,141	100.0%	2,106,870	100.0%	2,090,965	100.0%	3.4%	4.2%
Loan to deposit ratio		89.1%		90.3%		89.4%	(1.2)%	(0.3)%

* Including negotiable certificates of deposit

Total deposits, as of December 31, 2016, amounted to Baht 2,178.1 billion, an increase of Baht 71.3 billion or 3.4 percent due to the increase in all types of deposits.

Compared with the end of December 2015, total deposits rose by Baht 87.2 billion or 4.2 percent, mostly from savings deposits which rose by 12.6 percent, while fixed deposits fell by 2.5 percent as a result of managing the cost of deposits by increasing the proportion of low-cost deposits.

Debt Issued and Borrowings

Million Baht

Debt Issued and Borrowings Classified by Type of Instruments	December 2016		September 2016		December 2015		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2016	December 2015
Senior unsecured notes	107,556	74.7%	104,085	74.4%	108,335	74.8%	3.3%	(0.7)%
Unsecured subordinated notes	36,123	25.1%	35,602	25.4%	36,238	25.0%	1.5%	(0.3)%
Bills of exchange	74	0.1%	74	0.1%	74	0.1%	-	-
Others	213	0.1%	115	0.1%	107	0.1%	85.2%	99.1%
Total (before less discount on borrowings)	143,966	100.0%	139,876	100.0%	144,754	100.0%	2.9%	(0.5)%
Less discount on borrowings	6,151		6,198		6,352		(0.8)%	(3.2)%
Total	137,815		133,678		138,402		3.1%	(0.4)%

Total debt issued and borrowings as of December 31, 2016 amounted to Baht 137.8 billion, an increase of Baht 4.1 billion from the end of September 2016 due to an increase in the value of foreign-denominated debentures worth USD 3.5 billion as a result of the Baht's depreciation, and a slight decrease of Baht 587 million from the end of December 2015.

Shareholders' Equity

Shareholders' equity as of December 31, 2016 amounted to Baht 379.0 billion, an increase of Baht 17.2 billion or 4.7 percent from the end of 2015, due mainly to the net profit for 2016 of Baht 31.8 billion, net of two dividend payments during 2016 totaling Baht 12.0 billion. These consisted of the final dividend payment for 2015 performance of Baht 8.3 billion (Baht 4.50 per share) following the resolution of the shareholders' meeting dated April 12, 2016, the interim dividend payment made from the net profit from operations in the first half of 2016 (January to June) of Baht 3.7 billion (Baht 2.00 per share), and appropriation of the profit as legal reserves and

as other reserves amounting to Baht 6.0 billion in total. Loss on translation of the financial statements of foreign operations rose by Baht 2.1 billion due to the Baht's appreciation, surplus on revaluation of premises decreased by Baht 947 million, and unrealized gains on available-for-sales investments decreased by Baht 620 million.

Contingent Liabilities

Million Baht

Item	December 2016	September 2016	December 2015	Change (%)	
				September 2016	December 2015
Avals to bills	5,529	5,860	6,808	(5.6)%	(18.8)%
Guarantees of loans	18,001	13,378	11,788	34.6%	52.7%
Liability under unmatured import bills	17,921	16,179	18,487	10.8%	(3.1)%
Letters of credit	35,623	27,802	29,192	28.1%	22.0%
Other commitments					
Amount of unused bank overdrafts	175,893	175,576	178,698	0.2%	(1.6)%
Other guarantees	267,989	262,153	220,602	2.2%	21.5%
Others	82,088	102,892	90,449	(20.2)%	(9.2)%
Total	603,044	603,840	556,024	(0.1)%	8.5%

Contingent liabilities, as of December 31, 2016, amounted to Baht 603.0 billion, similar to the end of September 2016 with a decrease in other commitments and an increase in letters of credit and other guarantees.

Compared with the end of December 2015, contingent liabilities rose by Baht 47.0 billion, due predominantly to an increase in other guarantees.

Sources and Utilization of Funds

The primary sources of funds, as of December 31, 2016, were Baht 2,178.1 billion or 74.0 percent in deposits, Baht 379.0 billion or 12.9 percent in shareholders' equity, Baht 137.8 billion or 4.7 percent in debt issued and borrowings, and Baht 130.9 billion or 4.4 percent in interbank and money market liabilities.

The utilization of funds comprised Baht 1,941.1 billion or 65.9 percent in loans, Baht 547.9 billion or 18.6 percent in net investments (including net investments in associates), and Baht 394.6 billion or 13.4 percent in net interbank and money market assets.

Capital Reserves and Capital Adequacy Ratio

Consolidated

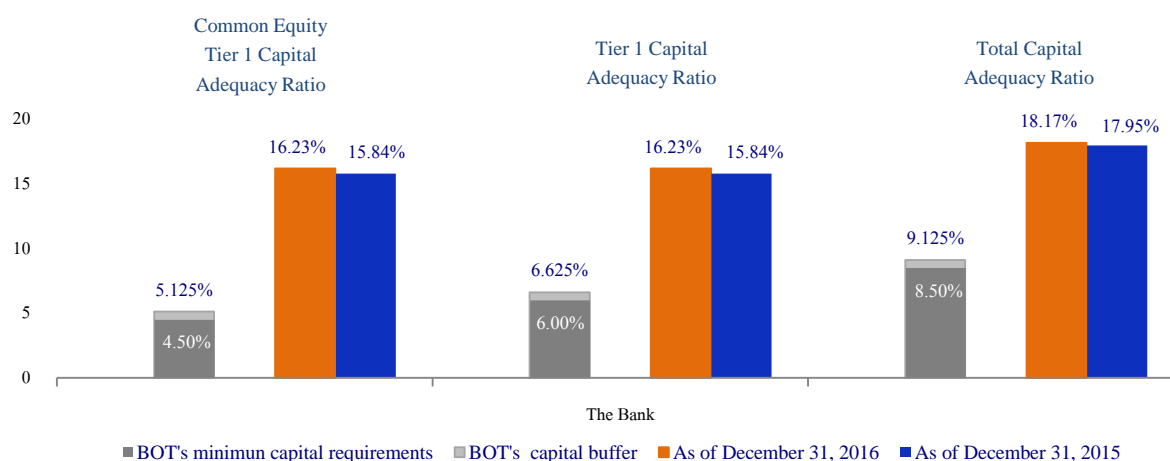
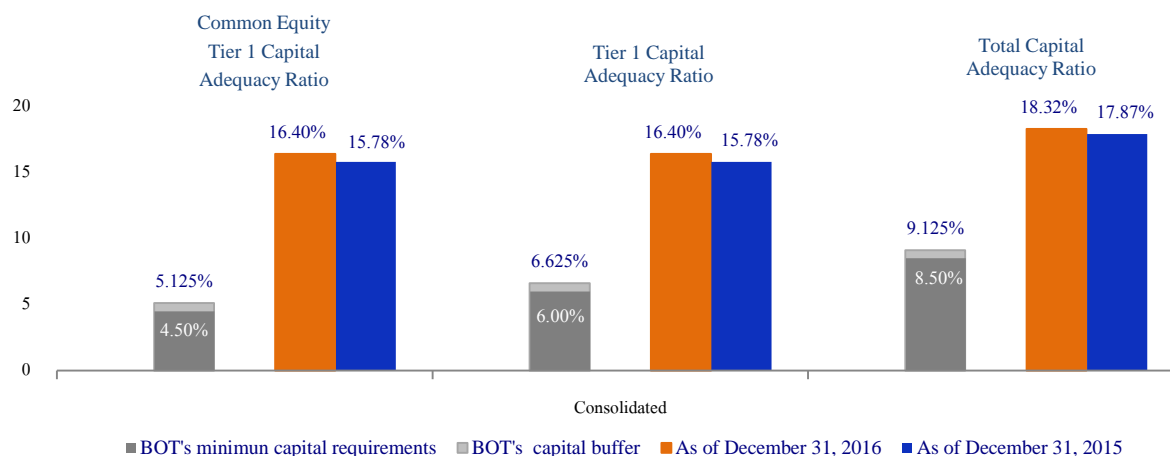
Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2016	September 2016	December 2015	December 2016	September 2016	December 2015
Total capital	403,068	402,835	386,653	18.32%	18.82%	17.87%
Tier 1 capital	360,818	360,987	341,564	16.40%	16.87%	15.78%
Common equity Tier 1 capital	360,702	360,898	341,431	16.40%	16.86%	15.78%

The Bank

Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2016	September 2016	December 2015	December 2016	September 2016	December 2015
Total capital	388,788	388,511	376,265	18.17%	18.64%	17.95%
Tier 1 capital	347,373	347,174	332,058	16.23%	16.66%	15.84%
Common equity Tier 1 capital	347,373	347,174	332,058	16.23%	16.66%	15.84%



Remark: The Bank of Thailand requires commercial banks to maintain an additional capital conservation buffer. The buffer will gradually increase by more than 0.625% each year from January 1, 2016 until it reaches more than 2.5% on January 1, 2019.

Under the principles of Basel III, the Bank of Thailand (BOT) requires commercial banks registered in Thailand and their groups to maintain a capital conservation buffer in addition to minimum capital adequacy ratios, phasing in an additional capital ratio of more than 0.625 percent p.a. starting January 1, 2016 until completion of the increment to more than 2.50 percent on January 1, 2019. For the minimum requirements and capital buffer, in 2016, the Bank is required to maintain the Common Equity Tier 1 ratio at more than 5.125 percent, the requirement for the Tier 1 ratio at more than 6.625 percent, and the requirement for the total capital ratio at more than 9.125 percent – measured as percentages of total risk-weighted assets.

As of December 31, 2016, legal capital funds were Baht 403.1 billion, common equity Tier 1 capital Baht 360.7 billion, and Tier 1 capital Baht 360.8 billion. The total capital adequacy ratio was 18.32 percent, while the common equity Tier 1 capital adequacy ratio was 16.40 percent and the Tier 1 capital adequacy ratio was 16.40 percent. With the inclusion of net profit for the six months from July to December 2016, the total capital adequacy ratio, the common equity Tier 1 capital adequacy ratio and the Tier 1 capital adequacy ratio would be 19.09 percent, 17.17 percent and 17.17 percent, respectively. The Bank maintained capital reserves at a good level to support future business expansion.

Liquid Assets

Item	December 2016	September 2016	December 2015
Liquid assets (Million Baht)	956,847	921,249	906,648
Liquid assets/total assets (%)	32.5	32.0	32.0
Liquid assets/deposits (%)	43.9	43.7	43.4

Liquid assets consisted of cash, interbank and money market items, claims on securities, trading securities and available-for-sale securities. As of December 31, 2016, liquid assets totaled Baht 956.8 billion, an increase of Baht 35.6 billion or 3.9 percent from the end of September 2016, due predominantly to an increase of Baht 28.4 billion in available-for-sale securities and an increase of Baht 17.6 billion in trading securities, while interbank and money market items decreased by Baht 26.8 billion.

Compared with the end of December 2015, liquid assets rose by Baht 50.2 billion or 5.5 percent. Significant items included an increase of Baht 22.6 billion in interbank and money market items and an increase of Baht 21.2 billion in available-for-sale securities.

Credit Ratings

At the end of December 2016, Moody's Investors Service and Standard & Poor's maintained the Bank's credit ratings from the end of 2015 and the end of September 2016. Fitch Ratings, in August 2016, announced the upgrade of the Bank's national long-term credit ratings from AA(th) to AA+(th) and its subordinated debt instruments rating from AA-(th) to AA(th), while the outlook for the Bank's rating remained at Stable. Details of the Bank's credit ratings are as follows:

Credit Rating Agency *	December 31, 2016	September 30, 2016	December 31, 2015
Moody's Investors Service			
Long term - Deposits	Baa1	Baa1	Baa1
Short term - Debt instruments / deposits	P-2 / P-2	P-2 / P-2	P-2 / P-2
Senior unsecured debt instruments	Baa1	Baa1	Baa1
Subordinated debt instruments	Baa3	Baa3	Baa3
Outlook	Stable	Stable	Stable
Financial strength (BCA)	baa2	baa2	baa2
Financial strength outlook	Stable	Stable	Stable

Credit Rating Agency *	December 31, 2016	September 30, 2016	December 31, 2015
Standard & Poor's			
Long term - Debt instruments	BBB+	BBB+	BBB+
- Deposits	BBB+	BBB+	BBB+
Short term - Debt instruments / deposits	A-2 / A-2	A-2 / A-2	A-2 / A-2
Senior unsecured debt instruments	BBB+	BBB+	BBB+
Subordinated debt instruments	BBB	BBB	BBB
Financial strength (SACP)	bbb	bbb	bbb
Support	+1	+1	+1
Outlook	Stable	Stable	Stable
ASEAN Regional Ratings (Long term / Short term)	axA+ / axA-1	axA+ / axA-1	axA+ / axA-1
Fitch Ratings			
International ratings			
Long term - Debt instruments	BBB+	BBB+	BBB+
Short term - Debt instruments	F2	F2	F2
Senior unsecured debt instruments	BBB+	BBB+	BBB+
Subordinated debt instruments	BBB	BBB	BBB
Financial strength (Viability)	bbb+	bbb+	bbb+
Support	2	2	2
Outlook	Stable	Stable	Stable
National ratings			
Long term - Debt instruments	AA+(tha)	AA+(tha)	AA(th)
Short term - Debt instruments	F1+(tha)	F1+(tha)	F1+(tha)
Subordinated debt instruments	AA(th)	AA(th)	AA-(th)
Outlook	Stable	Stable	Stable

* Long-term credit ratings classified as investment grade by Moody's Investors Service, Standard & Poor's and Fitch Ratings are Baa3, BBB- and BBB-, or higher, respectively. Short-term credit ratings classified as investment grade by Moody's Investors Service, Standard & Poor's and Fitch Ratings are P-3, A-3 and F3, or higher, respectively.