



Bangkok Bank
ธนาคารกรุงเทพ



Overview – Japanese Economy & Investment from Thailand

February 1, 2018

Macroeconomic Outlook

Economic Forecast	2015	2016	2017 (E)	2018 (F)	2019 (F)	2020 (F)
GDP Growth (%)	1.1	1.0	1.4	1.0	0.9	0.6
Import Growth (%)	-8.7	-15.8	12.1	4.2	1.9	0.5
Export Growth (%)	3.4	-7.4	7.5	2.6	0.3	2.1
Balance of Trade (USD Billion)	-23.1	36.7	20.0	10.0	-1.8	3.5
Unemployment Rate (%)	3.4	3.1	2.8	2.6	2.5	3.0
Inflation Rate (%)	0.8	-0.1	0.3	0.5	1.1	0.9
Average Lending Interest Rate (%) (3-month TIBOR)	0.17	0.08	0.06	0.08	0.1	0.1
Average Exchange Rate (USD=1)	120.61	108.83	109.90	110.30	108.60	113.00

Source: MOF, MIC, Cabinet Office, Mitsubishi UFJ Research and Consulting

Impact of Economic Trend on Branch's Business

- Domestic demand will likely be firm against the background of continued improvement in employment and income environments reflecting labor shortages, and an increase in demand for construction related to the 2020 Tokyo Olympic and Paralympic Games.
- Japan's exports will likely continue their rising trend, as an acceleration in the pace of overseas economic growth is predicted, mainly led by the solid US economy.
- BOJ continue QQE + YCC monetary policy for the time being as inflation rate is expected to move below 2%, which is lower than BOJ's target. The abundant yen liquidity in market push down borrowing rate in interbank market and causes customer loan rate to be highly competitive in banking business.

- PM Abe announced “**Abenomics**” with 3 Arrows (1. QQE by BOJ, 2. Massive fiscal stimulus measures, 3. Growth Strategy) in December 2012. After 3 years, he further announced **New “3 Arrows”** in September 2015



In June 2016, more concrete Governmental Plan was released with the slogan of “Promoting Dynamic Engagement of All Citizens”

- 1) The first new arrow is a strong economy that will create hope. More specifically, the nation’s GDP, which stood at ¥490 trillion in fiscal 2014, will be boosted to ¥600 trillion by fiscal 2020, e.g. by reinforcing tourism: increment of inbound tourist and expenditure (40 million tourists with JPY8tn expenditure as of 2020 year), by modernizing SMEs IT, etc.
- 2) The second is the support for child-rearing so that families will have bigger dreams. Specifically, the current total fertility rate of 1.4, the average number of children a woman gives birth to in her lifetime, will be raised to 1.8, e.g. by securing additional childcare, by encouraging recurrent education for woman after birth, etc.
- 3) The third arrow calls for social security measures that would give a greater sense of security to citizens, e.g. by securing additional care facilities to make “0%” turnover ratio, by introducing a nursing robot, etc.

Business Outlook

- BOJ, in order to achieve the price stability target of 2%, has expanded its large-scale monetary easing policy “Quantitative and Qualitative Monetary Easing (QQE)” several times, such as;
 - I. QQE Introduction: monetary base control and asset purchasing (JGB, ETF and J-REIT), etc. (April 2013~)
 - II. QQE with Negative Interest Rate: minus 0.1% to current accounts that Fis hold at BOJ (February 2016 ~)
 - III. YCC (Yield Curve Control): new framework for its bond-buying program to keep the yield of the bellwether 10-year Japanese government debt at around zero percent (September 2016 ~)

Business & Regulatory Environment

Business and Regulatory Environment

Progress of Abenomics

- It is said that Abenomics has achieved a certain progress, especially in the economic indicators as below;

	Pre-Abenomics	Post-Abenomics (as of Dec.2016)
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- | | | |
|------------------------|-------------|--------------|
| • Normal GDP | (JPY495tn) | -> JPY537tn |
| • Nikkei stock average | (JPY8,803) | -> JPY19,687 |
| • Unemployment rate | (4.5%) | -> 2.8% |
| • Tax revenue | (JPY42.3tn) | -> JPY57.7tn |

- Nevertheless, the economic activities of the private sector, such as investment and consumption, are not strong enough yet. This is because the private sector has been struggling to increase productivity, while also struggling to generate new demand.

- The BOJ's negative interest rates, as well as its asset purchases, have continued into 2017, causing some economists to warn that these low rates will decrease banks' profit and damage the banking system, and can lead to speculative bubbles.

Prediction - Business Environment and Outlook

- Japan's economic activity will continue its recovery trend and achieve real GDP growth of 1.4 % in FY2017

- An increase in industrial production in order to build up a necessary level of inventory again
- A rise in exports
- Buoyant domestic construction investment in non-manufacturing (e.g. redevelopment projects in the metropolitan areas for 2020 Tokyo Olympic and Paralympic Games, and accommodations for the rising number of foreign tourists to Japan)

- Pickup in public investment

- With respect to Japan's economic activity, the trend of recovery will be sustained.

- Japan's exports will likely continue their rising trend, as an acceleration in the pace of overseas economic growth is predicted, mainly led by the solid US economy.
- Domestic demand will likely be firm against the background of continued improvement in employment and income environments reflecting labor shortages, and an increase in demand for construction related to the 2020 Tokyo Olympic and Paralympic Games.

Business & Regulatory Environment

Upside

- Due to remarkable rise of East / South Asian economies, more Asian corporations / capital are very active to invest into Japanese market. We have more chance to finance for investment in Japan, such as energy projects like solar / biomass power and property projects or M & A.
- The business sentiment in general, remains quite positive with continuous interest from Japanese corporates and SMEs to expand their business and operation to Thailand, which may present us more opportunities

Neutral

- (i) June 2016: Japanese government postponed the increment of consumption tax (8% \Rightarrow 10%) from April 2017 to October 2019.
 - (ii) September 2017 : Abe administration deferred the target year of achieving a surplus in the Primary Balance in fiscal 2020.
 - (iii) September 2017 : PM Abe has dissolved the Diet and held up a promise of allocation change of consumption tax (ca.JPY5tn), shifting partly from payment for debts to educational expenditure
- S&P and Moody's have not downgrade the JGBs, because they have good feelings toward the above, which will contribute to the source of "Human Cultivation"

Impact on business in 2017 (both upside and downside)

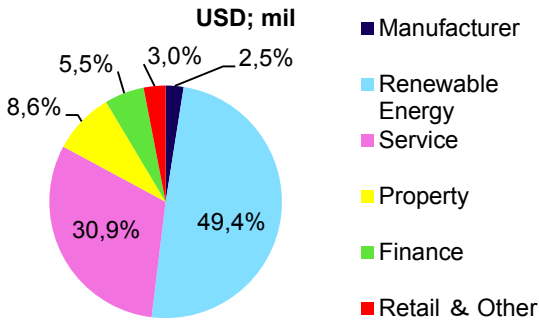
Downside

- The monetary relaxation policy by BOJ, not only limits us from increasing our loan spread but it also creates high pricing competition to attract new lending.
- In view of the (i) recent volatility in JPY against USD, stock markets and commodities prices etc. and (ii) recent anxiety about slowdown of Chinese economy, we have to focus more carefully on the impact of the market volatility on the credit / quasi-credit exposures, impact on the asset quality and our liquidity position

Client Segmentation and Profile

Client Segmentation and Profile

By sector (December 2018)

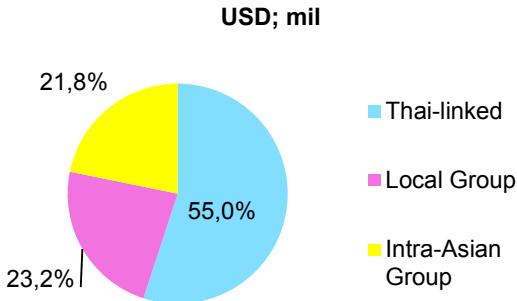


Implications

By Sector:

- Service Sector at 30.9%: JOL CLIPs loans and Yamasa at 20.9%, Rinsen-ji and Oukei-ji (temple transactions arranged by local parties) at 9.0%, etc.
- Renewable Sector at 49.4%: Banpu's SPCs (Syndication, Hino PJ, Awaji PJ and Yamagata PJ) at 33.0%, PDI's SPC (Green Brilliant) at 10.2%, Thai Solar Energy's SPC at 3.2%, Sun Partner Japan at 1.6%, etc.
- Retail & Other Sector at 3.0%: K. Somporn at 1.2%, etc.
- Finance at 5.5%: ACOM 1.9%, Eiwa 1.9%, Japan Plum 1.3%, etc.
- Property Sector at 8.6%: Perfect Snow at 5.5%, Tokyo Socks at 3.1%.

By client origination (December 2018)



Implications

By Client Origination:

- Thai-linked at 55.0%: Banpu SPCs (above 4 loans) at 33.0%, PDI SPC at 10.2%, Perfect Snow at 5.5%, Thai Solar Energy SPC at 3.2%, etc.
- Intra-Asian at 21.8%: JOL CLIPs and Yamasa at 20.9%.
- Local at 23.2%: Rinsen-ji and Oukei-ji at 9.0% and Tokyo Socks 3.1% and Acom at 1.9%, Eiwa 1.9%, Japan Plum 1.3%, Five RSTL manufacturers 1.8%, etc.

Existing & New Customers in 2017

Unit: Million USD

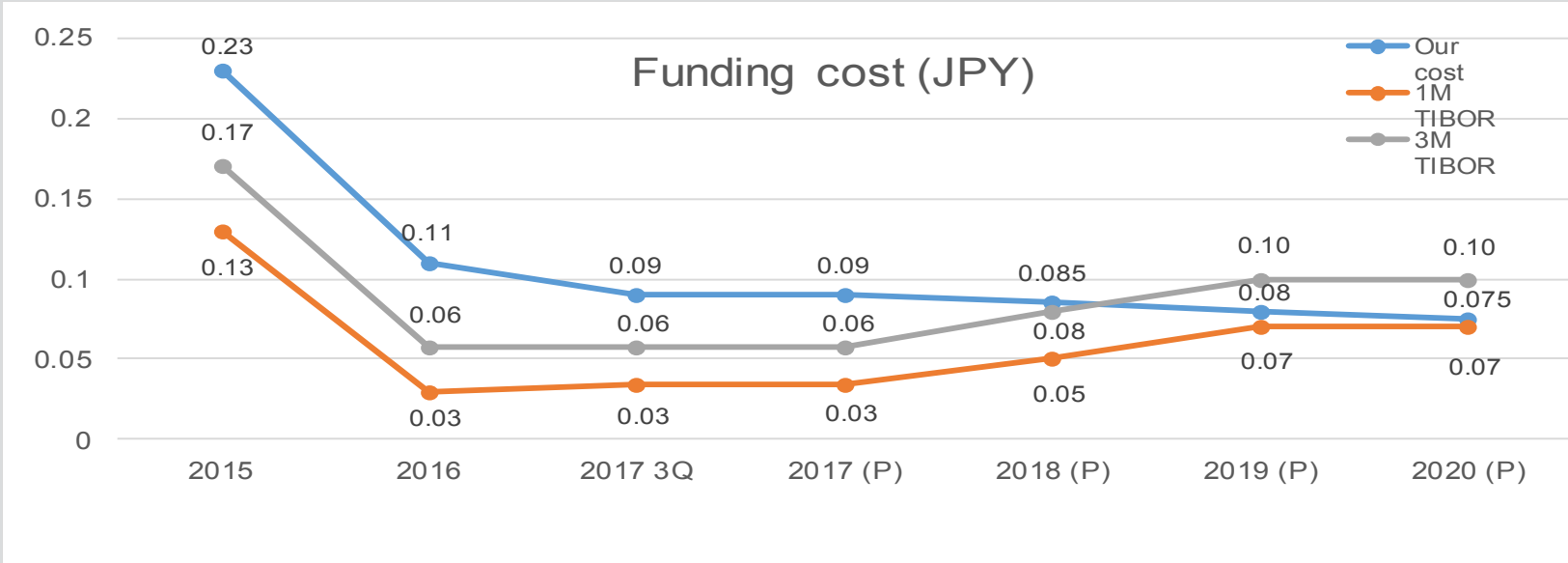
No.	New customers	Business Line	Facility Type	Drawdown in 2017	Remarks
1.	Company A	Solar power	18-year TL with TIBOR+2.25% p.a.	USD 19m	Drawdown in Feb & Apr-17
2.	Company B	Local temple	6.3-year TL with TIBOR+4.00% p.a.	USD 16m	Drawdown in Jun & Sep-17
3.	Company C	Solar power	17-year TL with TIBOR+2.85% p.a.	USD 14m (Approved by HO)	Expected drawdown in 4Q (negotiating)
4.	Company D	Property consul. & dev.	1. Commitment Line 2. 2-year TL with TIBOR+3.00% p.a.	1. USD 6m 2. USD 11m	1. Drawdown in Jan & Jul-17 2. Drawdown in Oct-17
5.	Company E	Condo in Niseko	2.7-year TL with TIBOR+3.50% p.a.	USD 5m	Drawdown in Jun-17 & expecting 4Q-17 (Planned USD 15 in 2018)
6.	Company F	Trading pet foods	W/C with RSTL with TIBOR+1.90% p.a.	USD 2m	Drawdown in Feb-'17
7.	Company G	Retail of cosmetic	3-year TL with TIBOR+2.50% p.a.	USD 0.2m	Drawdown in Jul-'17
8.	Company H	Solar power	19-year TL with TIBOR+2.25% p.a.	USD 40m	Expected drawdown in 1Q-18
9.	Company I	Individual	1. 3-year TL with 2.25% p.a. 2. USD285 mil. STL	1. USD 5m 2. (repaid)	1. nil. 2. USD0.6 mil. fee income
10.	Company J	Solar power	17.5-year TL with TIBOR+ 3.0% p.a.	USD 4m	Drawdown in Mar-17

Existing & New Customers in 2017

Unit: Million USD

No.	New customers	Business Line	Facility Type	Drawdown in 2017	Remarks
11.	Company K	Finance	2-year TL with TIBOR +3.25% p.a.	USD 5m	Drawdown in Jun-17
12.	Company L	Manufacturer	RSTL with TIBOR + 0.30% p.a.	USD 3m	Expected drawdown in 4Q (customer agreed)
13.	Company M	Manufacturer	RSTL with TIBOR + 0.75% p.a.	USD 1m	Expected drawdown in 4Q (customer agreed)
14.	Company N	Manufacturer	RSTL with TIBOR + 0.60% p.a.	USD 1m	Expected drawdown in 4Q (customer agreed)
15.	Company O	Finance	2-year TL with TIBOR +2.40% p.a	USD 5m	Expected drawdown in 4Q
16.	Company P	Solar power	17.5-year TL with TIBOR+2.00% p.a.	USD 32m	Expected drawdown in Apr-18
Total				USD 200 m	

Cost of Funds (Japanese Yen)



- The declining trend in cost of fund is due to Bank of Japan's zero and negative interest rate policy.
- JPY funding cost has dropped from 0.11% in 2016 to 0.09% in Q3/2017, which meet with our target and lower than 6-month TIBOR at 0.11%.
- To set a goal for JPY funding cost at 0.085% in 2018, 0.08% in 2019 and 0.075% in 2020, or lower than 6-month TIBOR.