



Management Discussion and Analysis

For the first quarter ended March 31, 2019

(Unreviewed)

This report discusses the principal changes in the unreviewed consolidated financial statement for the quarter ended March 31, 2019.

The Bank and Its Subsidiaries' overview performance for the quarter 1/2019

In 1Q19, KTB's consolidated net profit attributable to equity holders of the Bank was Baht 7,301 million, or a growth of 7.6% YoY, mainly due to interest income from loan in relation to partial payment from the auction of mortgaged guarantee assets and to an increase of other non-interest income whilst a continual impact of fee waiver via digital channel and higher expense on impairment loss of properties foreclosed. Furthermore, loan has a gradual growth of 0.4% YTD, which derived mainly from retail loans (both personal and housing loans) and from private corporate.

The Bank's consolidated total operating income registered at Baht 33,593 million, growing 13.8% YoY with key changes as shown below:

- Net interest income increased by 20.0% YoY while Net Interest Margin (NIM) excluding income received from the auction of mortgaged guarantee asset stood at 3.13%, increasing from 3.07% in 1Q2018 from the focus for portfolio management toward higher efficiency and risk management alignment. However, cost of fund remained stable as compared to same period last year.
- Non-interest income decreased by 0.3% YoY, which mainly due to the contraction of net fee and service income by 8.5% from continual impact of fee waiver via digital channel while other non-interest income grew 17.6% YoY from gains on properties foreclosed and on investment.

The Bank's consolidated operating expenses increased by 19.9% YoY as a result of higher expense on impairment loss of properties foreclosed in accordance with BOT's regulation on the holding period of properties foreclosed. Consolidated cost to income ratio stood at 48.28%, increasing from 45.82% in 1Q2018.

The Bank is consistently conforming to provision policy with prudent practice. As a consequence, the Bank's consolidated coverage ratio is gradually increasing from FY2018 of 125.74% to this 1Q2019 of 126.86%. The NPLs Ratio-Gross stood at 4.50%, decreasing from 4.53% and the NPL Ratio-Net was 1.94%, unchanged to end of 2018. The Bank's Tier 1 and Total Capital ratios were 14.29% and 18.12% respectively.

The Bank and Its Subsidiaries' performance for the Quarter Ended March 31, 2019

Overview operating income and net profit

Unit : Million Baht

	1/2019	4/2018	Change	1/2018	Change
			%		%
Net interest income	24,641	21,460	14.8	20,540	20.0
Net fee and service income	5,635	6,011	(6.3)	6,159	(8.5)
Other non-interest income	3,317	1,932	71.7	2,821	17.6
Total operating income	33,593	29,403	14.3	29,520	13.8
Total other operating expenses	16,217	14,633	10.8	13,525	19.9
Pre-provision profit ⁽¹⁾	17,376	14,770	17.6	15,995	8.6
Impairment loss of loans and debt securities	7,330	6,430	14.0	6,908	6.1
Operating profit before income tax expenses	10,046	8,340	20.5	9,087	10.6
Income tax expenses	1,941	1,560	24.4	1,689	14.9
Net Profit	8,105	6,780	19.5	7,398	9.6
Net profit (attributable to equity holders of the Bank)	7,301	6,159	18.6	6,787	7.6
ROA (%) ⁽²⁾	1.05	0.89		0.96	
ROE (%) ⁽²⁾	9.54	8.10		9.48	

⁽¹⁾Pre-provision profit before Impairment loss of loans and debt securities and income tax expense

⁽²⁾ ROA and ROE calculate from net income (attributable to equity holders of the bank) divided by average assets and average equity attributable to equity holders of the bank respectively

In 1Q2019, KTB's consolidated net profit attributable to equity holders of the Bank amounted to Baht 7,301 million, increased by 7.6% compared to 1Q2018 as a consequence from an improvement of net interest income and other non-interest income, despite higher provision expense for impairment of properties foreclosed and continual pressures from fee waiver via digital channel. Compared to 4Q2018, KTB's consolidated net profit attributable to equity holders of the Bank hiked by 18.6% due to an improvement in other non-interest income.

Net Interest Income

Unit : Million Baht

	1/2019	4/2018	Change %	1/2018	Change %
Interest income	33,377	30,394	9.8	29,505	13.1
- Interbank and money market items	2,199	2,119	3.8	2,708	(18.8)
- Investments and trading transactions	99	86	15.9	78	27.8
- Investment in debt securities	853	1,155	(26.2)	848	0.5
- Loans	30,085	26,818	12.2	25,552	17.7
- Hire purchase and financial lease	138	186	(26.2)	300	(54.1)
- Others	3	30	(89.8)	19	(84.1)
Less Interest expense	(8,736)	(8,934)	(2.2)	(8,965)	(2.6)
- Deposits	(4,668)	(4,880)	(4.3)	(4,831)	(3.4)
- Interbank and money market items	(640)	(610)	4.9	(668)	(4.3)
- Contributions to BOT and DPA	(2,484)	(2,463)	0.9	(2,441)	1.8
- Debts issued	(934)	(945)	(1.1)	(1,007)	(7.2)
- Others	(10)	(36)	(72.9)	(18)	(44.1)
Net interest income	24,641	21,460	14.8	20,540	20.0
Earning Asset Yiled (%)	4.44⁽¹⁾	4.58		4.40	
Cost of Fund (%)	1.52	1.55		1.51	
Net interest margin [based on earning assets](%)	3.13⁽¹⁾	3.23		3.07	

⁽¹⁾Excluding interest income due to the partial payment from the auction of mortgaged guarantee assets amounted Baht 3,899 million

KTB's consolidated net interest income in 1Q2019 amounted Baht 24,641 million, increased by 20.0% YoY from the interest income from loan in relation to partial payment from the auction of mortgaged guarantee assets amounted Baht 3,899 million. If excluding such item, net interest income grew slightly YoY while loans increased slightly compared to the end of last year. While the Bank could control cost of fund at an appropriate level, Net Interest Margin (NIM) registered at 3.13%, increasing from 3.07% in 1Q2018 yet declining from 3.23% in 4Q2018.

Change of interest rate

	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
Policy Interest Rate (%)	1.75%	1.75%	1.50%	1.50%	1.50%	1.50%
Deposit Rate (%)						
- Savings Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
- 3 Months Fixed Rate	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
- 6 Months Fixed Rate	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%
- 12 Months Fixed Rate	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Loan Rate (%)						
- MLR	6.275%	6.275%	6.275%	6.275%	6.275%	6.275%
- MOR	7.120%	7.120%	7.120%	7.120%	7.120%	7.120%
- MRR	7.120%	7.120%	7.120%	7.120%	7.120%	7.120%

Net Fee and Service Income

Unit : Million Baht					
	1/2019	4/2018	Change %	1/2018	Change %
Fee and service income	7,077	7,605	(6.9)	7,590	(6.8)
Less Fee and service expense	(1,442)	(1,594)	(9.5)	(1,431)	0.8
Net fee and service income	5,635	6,011	(6.3)	6,159	(8.5)

KTB's consolidated net fee and service income in 1Q2019 was Baht 5,635 million, a declined by 8.5% YoY from the impact of fee waiver via digital channel as well as from the decreased net fee from cross selling of affiliates' products. Compared to 4Q2018, KTB's consolidated net fee and service income reduced by 6.3% as the impact of fee waiver via digital channel remained.

Fee and service income breakdown

Unit : %			
	1/2019	4/2018	1/2018
Loan related fee	9%	8%	10%
Card Business and electronic services	51%	50%	49%
Cash management	6%	6%	6%
Bancassurance	8%	8%	11%
Other fees ⁽¹⁾	26%	28%	24%
Total Fee and service income	100%	100%	100%

⁽¹⁾Fees from Mutual fund, Global Market, and other services

Total Other Operating Income

Unit : Million Baht

	1/2019	4/2018	Change	1/2018	Change
			%		%
Gain (loss) on trading and foreign exchange transactions, net	995	449	121.8	910	9.4
Gain (loss) on investments, net	336	90	272.1	115	192.4
Share of profit (loss) from investments on equity method	318	81	292.4	584	(45.6)
Dividend income	116	64	81.2	101	15.0
Other income	1,552	1,248	24.4	1,111	39.7
Total other operating income	3,317	1,932	71.7	2,821	17.6

KTB's consolidated total other operating income in 1Q2019 was Baht 3,317 million, increased by 17.6% YoY, owing to gain from selling the properties foreclosed and gain on investments despite the contraction in share of profit from investments on equity method. Compared to 4Q2018, KTB's consolidated total other operating income rose by 71.7% due to gain on foreign exchange transaction, gain on investments and gain from selling properties foreclosed (other income).

Other Operating Expenses

Unit : Million Baht

	1/2019	4/2018	Change	1/2018	Change
			%		%
Personnel expenses	7,137	7,395	(3.5)	8,021	(11.0)
Premises and equipment expenses	2,195	2,380	(7.8)	2,170	1.1
Taxes and duties	1,117	1,083	3.1	1,047	6.7
Impairment loss of properties foreclosed	3,790	6	59,265.4	294	1,190.4
Others ⁽¹⁾	1,978	3,769	(47.5)	1,993	(0.8)
Total other operating expenses	16,217	14,633	10.8	13,525	19.9
Cost-to-income ratio (%)	48.28	49.77		45.82	

⁽¹⁾ including Directors' remuneration

KTB's consolidated other operating expenses in 1Q2019 was Baht 16,217 million, rose by 19.9% YoY and 10.8% QoQ due to impairment loss of properties foreclosed in accordance with BOT's regulation on the holding period of properties foreclosed despite other major operating expenses lowered.

Regarding the new Labor Protection Act (No. 7) B.E. 2562 that stipulated additional legal severance pay rates in the event of termination of an employee who has worked for 20 consecutive years or more will be entitled to receive compensation of no less than 400 days of the latest pay rate, the Bank's 1Q2019 financial statements has not

yet been obligated to provision on this matter as the Bank is under the State Enterprise Labor Relations Act B.E.2543, in which the Bank will comply upon any changes. However, the subsidiaries are under such new Act, in which some of them have set aside the provision with no significant impacts to the consolidated financial statements.

Impairment Loss of Loans

Unit : Million Baht					
	1/2019	4/2018	Change	1/2018	Change
			%		%
Impairment loss of loans ⁽¹⁾	7,330	6,430	14.0	6,908	6.1

⁽¹⁾ Impairment loss of loans and debt securities

In 1Q2019, the Bank and its subsidiaries set aside the expense for impairment loss of loans amounted Baht 7,330 million increased by 6.1% YoY pursuant to compliance of provision policy with prudent practice. The Bank's consolidated coverage ratio was gradually increased to 126.86% as at March 31, 2019 from 125.74% as at end 2018.

The Bank and Its Subsidiaries' Financial Status as at March 31, 2019

Loans to Customers

The Bank's consolidated loans to customers (less deferred revenue) was Baht 2,032,879 million, increased by 0.4% compared to the end of last year. Such growth was derived from the continual growth of retail loans (both personal and housing loans) as well as of private corporate.

Unit : Million Baht

The Bank's Financial Statements	31 Mar 2019		31 Dec 2018		Change
	Amount	(%)	Amount	(%)	(%)
Private Corporate	652,669	33.3	646,016	33.2	1.0
Government and State Enterprise	178,407	9.1	179,904	9.2	(0.8)
SMEs ⁽¹⁾	338,889	17.3	344,197	17.7	(1.5)
Retail	789,281	40.3	778,262	39.9	1.4
- Housing	381,003	19.5	376,734	19.3	1.1
- Personal	408,278	20.8	401,528	20.6	1.7
Others	370	0.0	370	0.0	0.1
Total loans	1,959,616	100.0	1,948,748	100.0	0.6
Less Deferred revenue	29		46		
Total	1,959,587		1,948,702		

⁽¹⁾SMEs were private companies that have employee no. less than/equal to 200 people and fixed asset (excluding land) less than/equal to Baht 200 million

Asset Quality

Loan Classification and Allowance for Doubtful Accounts

Unit : Million Baht

Consolidated Financial Statement	Loan and Accrued Interest Receivables	31 Mar 2019 Net Amount Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts	Loan and Accrued Interest Receivables	31 Dec 2018 Net Amount Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts
1. Loan Classification						
Normal	1,857,832	875,294	13,365	1,858,757	872,884	13,399
Special mention	71,150	31,366	11,437	64,465	25,555	11,585
Substandard	17,065	8,580	8,588	14,404	7,899	7,899
Doubtful	15,365	7,150	7,150	17,923	9,196	9,196
Doubtful of loss	77,221	35,276	36,771	74,080	31,511	33,008
Total	2,038,633	957,666	77,311	2,029,629	947,045	75,087
Excess allowance			61,733			58,668
Allowance for doubtful account			139,044			133,755
Revaluation allowance for debt restructuring			-			-
2. Actual provisioning for loan loss⁽¹⁾			139,044			133,755
1. Gross NPLs⁽²⁾	109,607		4.50%	106,370		4.53%
Net NPLs⁽²⁾	45,951		1.94%	44,396		1.94%
2. Coverage Ratio⁽³⁾			126.86%			125.74%

Bank's Financial Statement

Actual provisioning for loan loss ⁽⁴⁾		133,320			127,970
Gross NPLs ⁽²⁾	105,937	4.48%		102,634	4.52%
Net NPLs ⁽²⁾	45,638	1.98%		43,943	1.98%
Coverage Ratio ⁽³⁾		125.85%			124.69%

⁽¹⁾ Allowance for doubtful accounts and revaluation allowance for debt (accordind to the financial statement)⁽²⁾ NPLs Ratio-Gross and NPLs Ratio-Net were calculated according to BOT definition⁽³⁾ Coverage Ratio = Actual provisioning for loan loss / Gross NPLs⁽⁴⁾ Actual provisioning for loan loss (according to C.B.1.1)

The Bank's consolidated NPLs Ratio-Gross as at March 31, 2019 was 4.50%, reduced from 4.53% as at December 31, 2018. NPLs Ratio-Net was 1.94% unchanged to December 31, 2018.

However, the Bank and its subsidiaries consistently conform to provision policy with prudent practice. As at March 31, 2019, the Bank's consolidated coverage ratio was gradually increased to 126.86% from 125.74% as at December 31, 2018.

Deposits

The Bank's consolidated deposits was Baht 2,077,071 million, increased by 1.8% from December 31, 2018, mainly from saving deposits.

Given higher deposits growth than the loans growth as compared to the end of last year, the Bank's consolidated loans to customers (less deferred revenue)-to-deposits ratio (L/D ratio) as at March 31, 2019 of 97.87% decreased from 99.25% as at December 31, 2018. L/D ratio for the Bank Only at March 31, 2019 registered at 94.19%, decreased from 95.39% as at December 31, 2018.

Sources and Uses of Funds

Unit : Million Baht

	31 Mar 2019		31 Dec 2018		Change
	Amount	(%)	Amount	(%)	(%)
Net Interbank and money market items (Asset)	424,454	14.7	372,514	13.6	13.9
Net investments and net investments in subsidiaries and associates	286,868	9.9	240,167	8.8	19.5
Loans to customers (less deferred revenues)	2,032,879	70.5	2,024,205	73.9	0.4
<u>Less</u> Allowance for doubtful accounts and revaluation allowance for debt restructuring	(139,044)	(4.8)	(133,755)	(4.9)	4.0
Other assets	278,957	9.7	236,072	8.6	18.2
Total Asset	2,884,114	100.0	2,739,203	100.0	5.3
Deposits	2,077,071	72.0	2,039,602	74.5	1.8
Net Interbank and money market items (liabilities)	201,439	7.0	157,396	5.7	28.0
Debt issued and borrowings	96,854	3.4	95,205	3.5	1.7
Others	184,779	6.4	132,859	4.8	39.1
Total equity					
- Equity holders of the Bank	314,902	10.9	305,875	11.2	3.0
- Non-controlling interest	9,069	0.3	8,266	0.3	9.7
Total liabilities and equity	2,884,114	100.0	2,739,203	100.0	5.3
Loans to customers (less deferred revenue)-to-deposits ratio (%)	97.87		99.25		

As at March 31, 2019, the Bank's major source of funds was 72.0% deposits; and the other source of funds as equity, interbank borrowings, and debt issued and borrowings. The Bank's use of funds comprised of 70.5% loans to customers (less deferred revenue), 14.7% net interbank and money market items, and 9.9% net investments and net investments in associates.

Equity

The total equity (equity holders of the Bank) as at March 31, 2019 was Baht 314,902 million, increased by 3.0% compared to December 31, 2018.

Book value per share (equity holders of the Bank) was Baht 22.52 per share increased from Baht 21.88 per share at December 31, 2018.

Statutory Capital Fund

Statutory Capital Fund (The Bank's Financial Statements)

Unit : Million Baht

The Bank's Financial Statements	31 Mar 2019		The minimum rate required by the BOT for 2019 (%) ⁽¹⁾	31 Dec 2018 (Restated)		The minimum rate required by the BOT for 2018 (%) ⁽¹⁾
	Amount	(%)		Amount	(%)	
Common Equity Tier 1 capital	272,605	14.29	>7.500	272,015	14.35	>6.375
Tier 1 capital	272,605	14.29	>9.000	272,015	14.35	>7.875
Tier 2 capital	72,950			72,856		
Total capital fund	345,555	18.12	>11.500	344,871	18.19	>10.375
Risk-weighted assets	1,907,236			1,895,879		

⁽¹⁾ According to BOT's regulation, the minimum capital ratios of Commercial Banks in Thailand will be increased to absorb Capital conversation buffer more than 0.625% a year starting from January 1, 2016 until the capital buffer ratio of more than 2.5% is reached on January 1, 2019. Moreover, KTB was named as the one of the Domestic Systemically Important Banks (D-SIBs) requiring to hold all capital ratios to absorb higher loss absorbency of additional 0.5% of risk-weight assets from January 1, 2019 and 1% of risk-weight assets from January 1, 2020 onwards (reference to the BOT Notification Sor.Nor.Sor. 16/2560 and 17/2560)

As at March 31, 2019, the Bank's Common Equity Tier 1 and Tier 1 capital were Baht 272,605 million (14.29% of its RWA). Total capital was Baht 345,555 million (18.12% of its RWA).

The Bank possesses healthy capital ratios compared to BOT's requirement. Moreover, the bank regularly reassesses the capital level to be in accordance with the BOT's requirement as well as any foreseeable risk to ensure the adequate capital.

Credit Ratings

Bank's credit ratings rated by S&P Global Ratings, Moody's Investors Service and Fitch Ratings were as follows:

■ S&P Global Ratings		March 2019	December 2018
■ Long-term/ Short-term		BBB / A-2	BBB / A-2
■ Outlook		Stable	Stable
■ Stand-Alone Credit Profile(SACP)		bb+	bb+
■ Moody's Investors Service		March 2019	December 2018
■ Long-term/ Short-term		Baa1 / P-2	Baa1 / P-2
■ Outlook		Stable	Stable
■ Baseline Credit Assessment (BCA)		ba1	ba1
■ Fitch Ratings		March 2019	December 2018
Foreign Currency Credit Ratings			
■ Long-term/ Short-term		BBB / F2	BBB / F2
■ Outlook		Stable	Stable
■ Viability Rating		bbb-	bbb-
■ Subordinated Debt (USD)		BBB-	BBB-
National Credit Ratings			
■ Long-term/ Short-term		AA+(tha) / F1+ (tha)	AA+(tha) / F1+ (tha)
■ Outlook		Stable	Stable
■ US dollar-denominated Senior unsecured debentures ⁽¹⁾		AA+(tha)	AA+(tha)
■ Subordinated Debt (Baht)		AA(tha)	AA(tha)

⁽¹⁾ The Bank was first assigned the US dollar-denominated Senior unsecured debentures rating by Fitch Rating on May 23, 2018

Note :The percentage change stated in this document was calculated from the financial statement figures.

Disclaimer

This document contained information regarding the Bank's financial performance and business operations, macro-economic data and other relevant information which some parts of such information are forward-looking statements based on the view or assumptions of the Bank on current information. In case of changing in such information, the Bank reserves the right to change any information herein without prior notice. As the actual results in the future may differ materially from those anticipated in this document and this document shall not be deemed to be a guarantee of the Bank's financial performance and business operations in the future, investors, therefore, should exercise individual judgment when considering the Bank's information for any purpose.