



Management Discussion and Analysis

For the third quarter ended September 30, 2018

(Reviewed)

This report discusses the principal changes in the reviewed consolidated financial statement for the quarter ended September 30, 2018.

The Thai economy continued to gain traction in 1Q2018 and 2Q2018, driven by merchandise exports and tourism in accordance with global economic growth. Merchandise exports remained strong in most product groups. Private consumption expanded well, supported by improvements in income and employment. The continued expansion in merchandise exports and private consumption contributed to the growth of manufacturing production. Public spending, both current and capital spending, continued to increase. Moreover, private investment continued to expand with additional support from public infrastructure investment projects, which have more visibility. However, the Thai economy still faces risks and uncertainties regarding the US trade protectionist policies that could be broadened and retaliatory measures from trading partners of the US. Nonetheless, the Thai economy as a whole was projected to gain traction compared to the previous year.

On September 21, 2018, the Federation of Accounting Professions of Thailand published the Thai Financial Reporting Standards 9 (TFRS 9): Financial Instruments on the Royal Thai Government Gazette. The Standard includes requirements for classification and measurement on financial assets and financial liabilities, impairment measurement on financial instruments, and hedge accounting. An entity shall apply in the annual periods beginning on or after 1 January 2020

Over the years, the Bank has been preparing itself to achieve TFRS 9 compliance.

The Bank and Its Subsidiaries' Overview for the nine-month of 2018

For the Bank and its subsidiaries' nine-month performance in 2018 compare to the same period of last year, KTB's consolidated net profit was Baht 24,310 million increasing by 29.1%. The net profit attributable to equity holders of the Bank was Baht 22,333 million, expanded by 26.7%. However, pre-provision profit was Baht 49,364 million, declined by 9.1%. In summary, the key changes of the Bank and its subsidiaries' financial result compared to the same period of last year are as shown below:

1) Net interest income reduced by 5.0% due to the impact of the lending rate cut on Minimum Retail Rate (MRR) at 0.50% since the mid of May 2017 as well as the gradual expansion of overall loan portfolio over the year, despite the Bank's has controlled its cost of fund at the appropriated level. Consequently, Net Interest Margin (NIM) decreased by 0.29% to 3.11%, compared to 3.40% on the same period of last year. Nevertheless, NIM in 3Q2018 marginally differenced from previous quarter.

2) Net fee and service income raised by 2.1%. Nevertheless, fee and service income growth slowed down due to the impact of fee waiver for inter-region and inter-bank money transfer, bill payment and top up made on internet banking platform (KTB Netbank).

3) Other operating expenses expanded by 4.7% as a result of an increase of the other expenses such as the allowance for impairment for its asset and marketing expenses, bringing about the acceleration of the cost-to-income from 40.36% to 43.79% compared to the same period of last year.

The Bank and its subsidiaries continued to maintain its coverage ratio at a prudent level. As at the end of September 2018, coverage ratio was 122.59% because the Bank set aside regular provision expenses along the year 2018. The gross and net NPLs ratios were 4.42% and 1.95% respectively, showing the slight increase from 4.19% and 1.77% accordingly as at December 31, 2017 by caused of the increase in NPLs from SMEs sector in some industries.

The Bank's consolidated total loans to customers (less deferred revenue) was Baht 1,980,974 million, increased by 2.2% from the end of 2017, supported by the loans from government and state enterprise and retail sectors.

The Bank and Its Subsidiaries' performance

Performance for the Quarter Ended September 30, 2018

Operating Profit before Tax and Net Profit

In 3Q2018, KTB's consolidated net profit and net profit attributable to equity holders of the Bank were Baht 8,544 million and Baht 7,838 million respectively, showed the increase of 35.6% and 33.5% compared to 3Q2017. Moreover, net profit and net profit attributable to equity holders of the Bank also expanded by 2.1% and 1.7% compared to 2Q2018 respectively.

KTB's consolidated pre-provision profit was Baht 16,149 million, reduced by 8.5% compared to 3Q2017. The impairment loss on loans and debt securities (further information was shown in part F) impairment loss on loans and debt securities) and income tax expenses in 3Q2018 were Baht 6,084 million and Baht 1,521 million respectively.

Unit : Million Baht					
	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Pre-provision profit ⁽¹⁾	16,149	17,219	(6.2)	17,657	(8.5)
Operating profit before tax	10,065	10,450	(3.7)	7,739	30.1
Income tax expense	(1,521)	(2,082)	(26.9)	(1,440)	5.6
Net profit	8,544	8,368	2.1	6,299	35.6
Net profit (attributable to equity holders of the Bank)	7,838	7,708	1.7	5,872	33.5

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

Net Interest Income

In 3Q2018, KTB's consolidated net interest income equaled to Baht 20,890 million, showing the decrease of 2.8% from 3Q2017 due to the gradual expansion of overall loan portfolio over the year, despite the Bank's has controlled its cost of fund at the appropriated level. Consequently, Net Interest Margin (NIM) decreased by 0.20% to 3.12%, compared to 3.32% on the same period of last year. Nevertheless, NIM in 3Q2018 marginally differenced from previous quarter.

Unit : Million Baht

	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Interest income	29,994	29,878	0.4	30,449	(1.5)
- Interbank and money market items	2,384	2,671	(10.7)	2,597	(8.2)
- Investments and trading transactions	78	83	(6.5)	67	17.2
- Investment in debt securities	956	848	12.7	943	1.4
- Loans	26,328	25,984	1.3	26,420	(0.4)
- Hire purchase and financial lease	197	253	(22.2)	406	(51.6)
- Others	51	39	33.8	16	217.7
Less Interest expense	(9,104)	(9,079)	0.3	(8,953)	1.7
- Deposits	(4,890)	(4,844)	0.9	(4,896)	(0.1)
- Interbank and money market items	(720)	(709)	1.5	(680)	5.8
- Contributions to BOT and DPA	(2,386)	(2,415)	(1.2)	(2,301)	3.7
- Debts issued	(1,065)	(1,077)	(1.1)	(1,062)	0.2
- Others	(43)	(34)	25.8	(14)	215.4
Net interest income	20,890	20,799	0.4	21,496	(2.8)
Net interest margin [based on earning assets](%)	3.12	3.10		3.32	

The Bank re-categorized some items in the Statements of Comprehensive Income – interest income, interest expense, and net gain on trading and foreign exchange transactions items since 1Q2018 by reporting the gain/loss from derivatives in banking book for hedging purpose together with the interest income and interest expenses instead of the net gain on trading and foreign exchange transactions item. Related data of 3Q2017 was restated accordingly

	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017
Policy Interest Rate (%)	1.50%	1.50%	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% ⁽¹⁾

⁽¹⁾ Minimum Retail Rate (MRR) was cut at 0.50% effective May 16, 2017 onwards.

Net Fee and Service Income

KTB's consolidated net fee and service income in 3Q2018 amounted to Baht 5,657 million, compressed by 2.6% and 3.0% from 3Q2017 and previous quarter respectively, by cause of the impact from fee waiver for inter-region and inter-bank money transfer, bill payment and top up made on internet banking platform (KTB Netbank) as well as the decrease in loan related fee.

Unit : Million Baht

	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Fee and service income	7,027	7,270	(3.3)	7,067	(0.6)
Less Fee and service expense	(1,370)	(1,435)	(4.5)	(1,259)	8.8
Net fee and service income	5,657	5,835	(3.0)	5,808	(2.6)

■ Fee and service income breakdown

Unit : %

	3Q2018	2Q2018	3Q2017	9M2018	9M2017
Loan related fee	9%	8%	9%	9%	9%
Card Business and electronic services	53%	50%	51%	50%	52%
Cash management	6%	7%	7%	7%	7%
Bancassurance	8%	10%	9%	10%	9%
Other fees ⁽¹⁾	24%	25%	24%	24%	23%
Fee and service income	100%	100%	100%	100%	100%

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

Total Other Operating Income

In 3Q2018, KTB's consolidated total other operating income amounted to Baht 2,340 million, contracted by 17.6% from 3Q2017 owing to the decline of gain on investments and the share of profit from investments on equity method from the Bank's associated company in insurance sector.

Unit : Million Baht					
	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Gain (loss) on trading and foreign exchange transactions, net ⁽¹⁾	920	1,222	(24.8)	952	(3.3)
Gain (loss) on investments, net	40	189	(78.8)	469	(91.4)
Share of profit (loss) from investments on equity method	141	324	(56.3)	449	(68.5)
Dividend income	141	147	(4.2)	135	4.3
Other income	1,098	962	14.2	836	31.3
Total other operating income	2,340	2,844	(17.7)	2,841	(17.6)

⁽¹⁾ The Bank re-categorized some items in the Statements of Comprehensive Income – interest income, interest expense, and net gain on trading and foreign exchange transactions items since 1Q2018 by reporting the gain/loss from derivatives in banking book for hedging purpose together with the interest income and interest expenses instead of the net gain on trading and foreign exchange transactions item. Related data of 3Q2017 was restated accordingly

Other Operating Expenses

In 3Q2018, the Bank's consolidated other operating expenses was Baht 12,738 million, raised by 2.0% from the same period of last year and 3.9% from previous quarter, because of the expansion of its personnel expenses.

Unit : Million Baht

	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Personnel expenses	7,082	6,729	5.2	6,807	4.0
Directors' remuneration	10	62	(82.8)	10	10.2
Premises and equipment expenses	2,109	2,133	(1.1)	2,179	(3.2)
Taxes and duties	1,053	1,121	(6.1)	1,065	(1.1)
Others	2,484	2,214	12.2	2,427	2.3
Total other operating expenses	12,738	12,259	3.9	12,488	2.0
Cost-to-income ratio (%)	44.10	41.59		41.43	

Impairment Loss of Loans

In 3Q2018, the Bank and its subsidiaries set aside provision for impairment loss of loans amounted to Baht 6,084 million, decreased by 38.7% compared to 3Q2017. Provision expenses were regularly set aside in this year.

The Bank continued to maintain its coverage ratio level which stood at 122.59% as at September 30, 2018, slightly change from 123.54% as at June 30, 2018 and 121.71% as at December 31, 2017.

In 3Q2018 and 3Q2017, the Bank wrote off NPLs in amount of Baht 12,786 million and Baht 578 million respectively.

Unit : Million Baht

	3Q2018	2Q2018	Change (%)	3Q2017 (Restated)	Change (%)
Impairment loss of loans ⁽¹⁾	6,084	6,769	(10.1)	9,918	(38.7)

⁽¹⁾ Impairment loss of loans and debt securities

The Bank and Its Subsidiaries' Financial Status

as at September 30, 2018

Loans to Customers

The Bank consolidated total loans to customers (less deferred revenue) was Baht 1,980,974 million, gradually increased by 2.2% compare to end of last year, supported by government and state enterprise and retail sectors.

- Loan Classified by Type of Borrower (The Bank's Financial Statements)

Unit : Million Baht

The Bank's Financial Statements	30 Sep 2018		30 Jun 2018		Change	31 Dec 2017		Change
	Amount	(%)	Amount	(%)	(%)	Amount	(%)	(%)
Private Corporate	633,897	33.2	651,555	34.5	(2.7)	671,345	36.0	(5.6)
Government and State Enterprise	177,121	9.3	156,083	8.3	13.5	129,623	7.0	36.6
SMEs ⁽¹⁾	337,487	17.7	337,082	17.9	0.1	347,698	18.6	(2.9)
Retail	758,719	39.8	742,912	39.3	2.1	716,431	38.4	5.9
Others	372	0.0	367	0.0	1.5	386	0.0	(3.6)
Total loans	1,907,596	100.0	1,887,999	100.0	1.0	1,865,483	100.0	2.3
Less Deferred revenue	102		121			87		
Total	1,907,494		1,887,878			1,865,396		

⁽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

Investments

KTB's consolidated net total investments as at September 30, 2018 totaled Baht 208,883 million, condensed by 8.5% from December 31, 2017, on the other hand, accelerated by 8.9 from previous quarter. The changes of investments were because of the Bank's bond portfolio management.

Unit : Million Baht

	30 Sep 2018		30 Jun 2018		Change	31 Dec 2017		Change
	Amount	(%)	Amount	(%)	(%)	Amount	(%)	(%)
Investments, net ⁽¹⁾	192,325	92.1	175,762	91.6	9.4	209,515	91.8	(8.2)
Investments in associates, net	16,558	7.9	16,054	8.4	3.1	18,725	8.2	(11.6)
Total investments, net	208,883	100.0	191,816	100.0	8.9	228,240	100.0	(8.5)

Total Assets

KTB's consolidated total assets as at September 30, 2018 was Baht 2,735,948 million, decreased by 4.1% from December 31, 2017, mostly from the deceleration of the net interbank and money market items as well as net total investment which partly fulfilled by the expansion of loans portfolio.

Liabilities

The Bank's consolidated deposits as at September 30, 2018 were Baht 2,007,392 million, dropped by 3.1% from December 31, 2017 because of the contraction of all deposit types whereas loans was expanding, resulting in the lessening of the Bank's liquidity as reflected in the Bank's consolidated loans to customers (less deferred revenue)-to-deposits ratio which increased to 98.68%, compared to 93.59% as at December 31, 2017. Meanwhile, net interbank and money market decreased by 22.0%. Debts issued and borrowings declined by 13.5%, as a consequence of the maturity of the unsecured unsubordinated debentures under Euro Medium Term Note Programme (EMTN Programme) amounted to Baht 16,410 million. The Bank's consolidated total liabilities contracted by 5.1% to Baht 2,430,626 million compared to the end of last year which was consistent to the Bank's cost of fund management practice during the year and in lined with the contraction of Bank's asset.

Equity

The total equity (equity holders of the Bank) as at September 30, 2018 amounted to Baht 297,678 million, increased by 3.4% from December 31, 2017.

Book value per share (equity holders of the Bank) was Baht 21.29 per share increased from Baht 20.59 per share at the end of the year 2017.

Sources and Uses of Funds

As at September 30, 2018, the Bank's major source of funds was deposits amounting to 73.4%; and the other source of funds as equity, interbank borrowings, and debt issued and borrowings. The Bank's use of funds comprised of 72.4% loans to customers (less deferred revenue), 16.2% net interbank and money market items, and 7.6% net investments and net investments in associates.

- Source of funds

Unit : Million Baht

	30 Sep 2018		30 Jun 2018		Change	31 Dec 2017		Change
	Amount	(%)	Amount	(%)	(%)	Amount	(%)	(%)
Deposits	2,007,392	73.4	2,040,349	72.7	(1.6)	2,070,875	72.6	(3.1)
Interbank and money market items, net	178,429	6.5	193,703	6.9	(7.9)	228,691	8.0	(22.0)
Debt issued and borrowings	95,744	3.5	112,169	4.0	(14.6)	110,626	3.9	(13.5)
Others	149,061	5.4	162,873	5.8	(8.5)	149,799	5.2	(0.5)
Total equity								
- Equity holders of the Bank	297,678	10.9	288,740	10.3	3.1	287,861	10.1	3.4
- Non-controlling interest	7,644	0.3	6,938	0.3	10.2	6,358	0.2	20.2
Total	2,735,948	100.0	2,804,772	100.0	(2.5)	2,854,210	100.0	(4.1)

Statutory Capital Fund

As at September 30, 2018, the Bank and the Financial Business Group Common Equity Tier 1 was Baht 266,442 million (13.93% of its Risk-weighted assets (RWA)). The Tier 1 capital were Baht 268,484 million 13.98% of its RWA). Total capital was Baht 341,495 million (17.78% of its RWA), increased from 17.15% as at December 31, 2017.

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.

Unit : Million Baht

Bank and the Financial Business Group ⁽¹⁾	30 Sep 2018		30 Jun 2018		The minimum rate required by the BOT for 2018 (%) ⁽²⁾	31 Dec 2017 (Restated)		The minimum rate required by the BOT for 2017 (%) ⁽²⁾
	Amount	(%)	Amount	(%)		Amount	(%)	
Common Equity Tier 1 capital	267,442	13.93	266,358	13.74	>6.375	267,381	13.38	>5.750
Tier 1 capital	268,484	13.98	267,342	13.79	>7.875	268,517	13.44	>7.250
Tier 2 capital	73,011		73,278			74,205		
Total capital fund	341,495	17.78	340,620	17.57	>10.375	342,722	17.15	>9.750
Risk-weighted assets	1,920,413		1,938,629			1,998,423		

⁽¹⁾ Balance sheet as under regulatory scope of the financial business group means financial statement for consolidated basis under BOT's regulation which does not include non-life and life insurance companies, and companies held less than 50 percent of paid-up shares capital by the Bank.

⁽²⁾ 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)

Asset Quality

Non-Performing Loans

The Bank's consolidated gross NPLs ratio as at September 30, 2018 was 4.42%, rose from 4.19% as at December 31, 2017, mostly caused by SMEs in some industries. However, gross NPL ratio decreased from 4.52% as at June 30, 2018

Net NPLs ratio was 1.95%, increased from 1.88% and 1.77% as at June 30, 2018 and December 31, 2017 respectively. The Bank set aside regular provision expenses along the year 2018 to maintain coverage ratio at 122.59%, as a steady level to previous quarter and end of last year.

● Loan Classification and Allowance for Doubtful Accounts

Unit : Million Baht

	30 Sep 2018			30 Jun 2018			31 Dec 2017		
	Net Amount			Net Amount			Net Amount		
	Loan and Accrued Interest Receivabl es	Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts	Loan and Accrued Interest Receivabl es	Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts	Loan and Accrued Interest Receivabl es	Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts
1. Loan Classification									
Normal	1,807,468	850,365	11,682	1,785,322	858,798	11,630	1,770,816	884,655	11,067
Special mention	73,024	34,258	16,272	68,616	27,617	15,779	69,362	28,189	17,305
Substandard	14,490	5,922	5,932	11,235	4,425	4,437	12,243	7,266	7,290
Doubtful	21,372	9,612	10,912	23,230	12,026	13,434	35,890	23,198	25,029
Doubtful of loss	69,828	29,996	30,285	76,133	37,093	42,963	54,982	19,924	28,247
Total	1,986,182	930,153	75,083	1,964,536	939,959	88,243	1,943,293	963,232	88,938
Excess allowance			54,459			48,334			36,426
Allowance for doubtful account			129,542			136,577			125,364
Revaluation allowance for debt restructuring			-			10			17
2. Actual provisioning for loan loss⁽¹⁾			129,542			136,587			125,381
3. NPLs gross⁽²⁾	105,675		4.42%	110,563		4.52%	103,020		4.19%
NPLs net⁽²⁾	45,554		1.95%	44,691		1.88%	42,506		1.77%
4. Coverage Ratio			122.59%			123.54%			121.71%

⁽¹⁾ Allowance for doubtful accounts and revaluation allowance for debt

⁽²⁾ Restructuring NPLs Ratio (gross) and NPLs Ratio (net) were calculated according to BOT definition

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	September 2018	June 2018	December 2017
■ Long-term/ Short-term	BBB / A-2	BBB / A-2	BBB / A-2
■ Outlook	Stable	Stable	Stable
■ Stand-Alone Credit Profile(SACP)	bb+	bb+	bb+
■ Moody's Investors Service	September 2018	June 2018	December 2017
■ Long-term/ Short-term	Baa1 / P-2	Baa1 / P-2	Baa1 / P-2
■ Outlook	Stable	Stable	Stable
■ Baseline Credit Assessment (BCA)	ba1	ba1	ba1
■ Fitch Ratings	September 2018	June 2018	December 2017
Foreign Currency Credit Ratings			
■ Long-term/ Short-term	BBB / F2	BBB / F2	BBB / F3
■ Outlook	Stable	Stable	Stable
■ Viability Rating	bbb-	bbb-	bbb-
■ Subordinated Debt (USD)	BBB-	BBB-	BBB-
National Credit Ratings			
■ Long-term/ Short-term	AA+(tha) / F1+	AA+(tha) / F1+	AA+(tha) / F1+ (tha)
■ Outlook	Stable	Stable	Stable
■ US dollar-denominated Senior unsecured debentures ⁽¹⁾	AA+(tha)	AA+(tha)	--
■ Subordinated Debt (Baht)	AA(tha)	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

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