

Management Discussion and Analysis for 1Q2018

This report discusses the principal changes in the unreviewed consolidated financial statement for the quarter ended March 31, 2018. Since June 2017, the Bank has combined National ITMX Co., Ltd to the Bank's associate company in accordance with Thai Accounting Standard 28 (TAS 28): Investments in Associates and Joint Ventures. The Bank considered its shareholding together with its power to participate in the company's operating policy through its representatives in the position of the company's board of directors as significant influence to the company. The Bank also restated the consolidated financial statements for Statements of Comprehensive Income for the three-month period ended March 31, 2017. However, the above change had insignificant impact to financial position and performance of the Bank.

I. The Bank and its Subsidiaries' Overview for the First Quarter of 2018

The Thai economy in early of 2018 continued to expand, largely as a result of merchandise export growth in major export destinations. Manufacturing production expanded and private investment posed a gradually increasing trend. Meanwhile, tourism sectors also expanded. Public spending increased as a result of accelerated disbursements from major offices. The expansion of overall private consumption was not yet robust, particularly among low-income earners who were affected by the downward trend of agricultural products and uneven economic recovery.

In 1Q2018, KTB's consolidated pre-provision profit was Baht 15,995 million, decreased by Baht 2,414 million (13.11%) from 1Q2017. Net profit was Baht 7,398 million, showing a decline of Baht 1,510 million (16.95%) and the Net Profit Attributable to Equity Holders of the Bank was Baht 6,787 million, decreased by Baht 1,751 million (20.51%) compare to 1Q2017. 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 declined by Baht 1,587 million (7.17%) mainly due to the impact of the lending rate cut on Minimum Retail Rate (MRR) at 0.50% in mid of May 2017 as well as the slight loan growth compared to the end of the year 2017. Consequently, Net Interest Margin (NIM) decreased by 0.40% to 3.07%, compared to 3.47% on 1Q2017. However, the bank has continued to manage its funding cost.

2) Net fee and service income increased by Baht 443 million (7.75%) from the expansion of the fee from Bancassurance services.

3) Other operating expenses expanded by Baht 924 million (7.33%) as a result of other expenses such as the allowance for impairment for property for sale. Conversely, the Bank continues to comply with its cost management policy. In 1Q2018, the Cost-to-income escalated from 40.64% to 45.82% compared to the same period of last year as a result of the decrease in the net interest income and increase in some expenses.

4) The Bank and its subsidiaries continue to maintain a prudent coverage ratio. As at the end of March 2018, coverage ratio was 120.25%. Provision expense was similar to that of the same period of last year. The NPL Ratio – Gross slightly increased from 4.19% as at December 2017 to 4.33%.

The Bank's consolidated total loans to customers (less deferred revenue) remained rather stable at Baht 1,928,205 million, showing a decline of Baht 9,877 million (0.51%) compared to the end of 2017 due to the reduction in loan to private corporate sector despite the expansion in loan to government and state enterprise sector as well as some loans to retail sector.

The Bank has been pursuing the Digital Banking Strategy by continuously supporting the National E-Payment including supporting the government's welfare program by providing Government to Consumer platform (G2C) for the government to transfer financial aid to people through PromptPay service, for example, the child support grant program – a program that provides financial aid as basic welfare for newborn babies and Welfare Card project. Furthermore, the Bank also provided mobile applications called “Paotung” and “Paotang” for the merchants and public to facilitate their online receipt and payment as well as QR Code payments. In 2018, the Bank launched Smart University Mobile Application for the universities to pave the way for cashless society in the near future and also presented KTB Cash Card to allow people with neither bank account nor welfare card to make a payment digitally at government agencies from March 27, 2018 onwards. On March 29, 2018, the Bank announced fee waiver for money transfer, bill payment and top up made on internet banking platform (KTB netbank) to enable people in all areas access to digital financial services. This business strategy has been adapted to meet the future market trend where there will be more intense competition and challenges.

II. The Bank and its Subsidiaries' Performance for the Quarter Ended March 31, 2018

A) Operating Profit before Tax and Net Profit

In 1Q2018, KTB's consolidated pre-provision profit was Baht 15,995 million, decreased by Baht 2,414 million (13.11%) compared to 1Q2017. After deducting Baht 6,908 million impairment loss on loans and debt securities (further information was shown in part F) impairment loss on loans and debt securities) and Baht 1,689 million income tax expense, net profit amounted to Baht 7,398 million, showing the decrease of Baht 1,510 million (16.95%) compared to 1Q2017. Net profit, attributable to equity holders of the Bank, was Baht 6,787 million, showing the decline of Baht 1,751 million (20.51%) compared to 1Q2017.

Unit : Million Baht

	1Q2018	1Q2017 ⁽²⁾	Change	
			Amount	(%)
Pre-provision profit ⁽¹⁾	15,995	18,409	(2,414)	(13.11)
Operating profit before tax	9,087	10,949	(1,862)	(17.01)
Income tax expense	(1,689)	(2,041)	(352)	(17.25)
Net profit	7,398	8,908	(1,510)	(16.95)
Net profit (attributable to equity holders of the Bank)	6,787	8,538	(1,751)	(20.51)

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

⁽²⁾ The bank's consolidated financial statements for Statements of Comprehensive Income for the quarter ended March 31, 2017 was restated by combining National ITMX Co., Ltd to the Bank's associate company in accordance with Thai Accounting Standard 28 (TAS 28): Investments in Associates and Joint Ventures.

B) Net Interest Income

In 1Q2018, KTB's consolidated net interest income equaled to Baht 20,540 million, showing the decrease of Baht 1,587 million (7.17%) from 1Q2017 as the lending rate cut on Minimum Retail Rate (MRR) at 0.50% on May 2017 and slight loan growth. KTB's consolidated Net Interest Margin (NIM) was 3.07%, decreased by 0.40% from 3.47% in 1Q2017, however, the Bank has continued to manage its funding cost

Unit : Million Baht

	1Q2018	1Q2017	Change	
			Amount	(%)
Interest income	29,505	31,261	(1,756)	(5.62)
- Interbank and money market items	2,708	2,618	90	3.44
- Investments and trading transactions	78	54	24	44.44
- Investment in debt securities	848	1,090	(242)	(22.20)
- Loans	25,552	26,918	(1,366)	(5.07)
- Hire purchase and financial lease	300	568	(268)	(47.18)
- Others	19	13	6	46.15
Less Interest expense	(8,965)	(9,134)	(169)	(1.85)
- Deposits	(4,831)	(5,062)	(231)	(4.56)
- Interbank and money market items	(668)	(643)	25	3.89
- Contributions to BOT and DPA	(2,441)	(2,360)	81	3.43
- Debts issued	(1,007)	(1,064)	(57)	(5.36)
- Others	(18)	(5)	13	260.00
Net interest income	20,540	22,127	(1,587)	(7.17)
Net interest margin [based on earning assets] (%)	3.07	3.47		

In 1Q2018, 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 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 1Q2017 was restated accordingly

	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017	31 Dec 2016
Policy Interest Rate (%)	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Deposit Rate (%)						
- Saving 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	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% ⁽¹⁾	7.620%	7.620%

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

C) Net Fee and Service Income

KTB's consolidated net fee and service income in 1Q2018 amounted to Baht 6,159 million, rose by Baht 443 million (7.75%) from 1Q2017 mostly from the expansion of the fee from Bancassurance services.

Unit : Million Baht

	1Q2018	1Q2017	Change	
			Amount	(%)
Fee and service income	7,590	6,796	794	11.68
Less Fee and service expense	(1,431)	(1,080)	351	32.50
Net fee and service income	6,159	5,716	443	7.75

■ Fee and service income breakdown

Unit : %

	1Q2018	1Q2017	Y2017
Loan related fee	10%	10%	9%
Card Business and ATM services	44%	49%	46%
Electronic services	5%	4%	4%
Cash management	6%	7%	7%
Bancassurance and Mutual fund	12%	8%	10%
Other fees ⁽¹⁾	23%	22%	24%
Fee and service income breakdown	100%	100%	100%

⁽¹⁾Fees from Global Market and other services

D) Total Other Operating Income

In 1Q2018, KTB's consolidated total other operating income amounted to Baht 2,821 million, decreased by Baht 346 million (10.93%) from 1Q2017 because of the higher credit valuation adjustment reflected as part of the trading and foreign exchange activities as well as the decelerating of share of profit from investments on equity method from the Bank's associated company from insurance sector.

Unit : Million Baht

	1Q2018	1Q2017	Change	
			Amount	(%)
Gain (loss) on trading and foreign exchange transactions, net ⁽¹⁾	910	1,116	(206)	(18.46)
Gain (loss) on investments, net	115	176	(61)	(34.66)
Share of profit (loss) from investments on equity method ⁽²⁾	584	751	(167)	(22.24)
Dividend income	101	98	3	3.06
Other income	1,111	1,026	85	8.28
Total other operating income	2,821	3,167	(346)	(10.93)

⁽¹⁾In 1Q2018, 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 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 1Q2017 was restated accordingly.

⁽²⁾The bank's consolidated financial statements for Statements of Comprehensive Income for the quarter ended March 31, 2017 was restated by combining National ITMX Co., Ltd to the Bank's associate company in accordance with Thai Accounting Standard 28 (TAS 28): Investments in Associates and Joint Ventures.

E) Other Operating Expenses

In 1Q2018, the Bank's consolidated other operating expenses was Baht 13,525 million, increased by Baht 924 million (7.33%) from 1Q2017 as a result of other expenses such as the allowance for impairment for property for sale. However, the Bank continues to comply with its cost management policy.

Unit : Million Baht

	1Q2018	1Q2017	Change	
			Amount	(%)
Personnel expenses	8,021	7,813	208	2.66
Directors' remuneration	10	11	(1)	(9.09)
Premises and equipment expenses	2,170	1,959	211	10.77
Taxes and duties	1,047	1,149	(102)	(8.88)
Others	2,277	1,669	608	36.43
Total other operating expenses	13,525	12,601	924	7.33
Cost-to-income ratio (%)	45.82	40.64		

F) Impairment Loss of Loans

In 1Q2018, the Bank and its subsidiaries set aside provision for impairment loss of loans amounted to Baht 6,908 million, decreased by Baht 552 million (7.40%) compared to 1Q2017. The Bank's coverage ratio was 120.25%, slightly changed from 121.71% as at December 31, 2017

In 1Q2018 and 1Q2017, the Banks wrote off NPLs in amount of Baht 3,173 million and Baht 2,353 million respectively.

	Unit : Million Baht			
	1Q2018	1Q2017	Change	
			Amount	(%)
Impairment loss of loans	6,908	7,460	(552)	(7.40)

III. The Bank and its Subsidiaries' Financial Position – as at March 31, 2018

A) Loans to Customers

The Bank showed a slight change of consolidated total loans to customers (less deferred revenue) at Baht 1,928,205 million, declined by Baht 9,877 million (0.51%) compared to the end of 2017 as a consequence of the lessening of loan from private corporate sector, despite the expansion from government and state enterprise sector, and the trivial growth of some loans from retail sector.

■ Loan portfolio breakdown by borrowers (The Bank's Financial Statements)

The Bank's Financial Statements	Unit : Million Baht					
	31 Mar 2018		31 Dec 2017		Change	
	Amount	(%)	Amount	(%)	Amount	(%)
Private Corporate	635,695	34.21	671,345	35.99	(35,650)	(5.31)
Government and State Enterprise	154,076	8.29	129,623	6.95	24,453	18.86
SMEs ⁽¹⁾	342,621	18.44	347,698	18.64	(5,077)	(1.46)
Retail	725,668	39.05	716,431	38.4	9,237	1.29
Others	382	0.02	386	0.02	(3)	(0.78)
Total loans	1,858,442	100.00	1,865,483	100.00	(7,040)	(0.38)
Less Deferred revenue	68		87			
Total	1,858,374		1,865,396			

⁽¹⁾SMEs were private companies that have employee number less than/equal to 200 people and fixed asset (excluding land) less than/equal to Baht 200 million

B) Investments

KTB's consolidated net investments as at March 31, 2018 totaled Baht 203,650 million, reduced by Baht 24,590 million (10.77%) from December 31, 2017 because of the downsizing of investment in debt securities.

Unit : Million Baht

	31 Mar 2018		31 Dec 2017		Change	
	Amount	(%)	Amount	(%)	Amount	(%)
Investments, net ⁽¹⁾	185,381	91.04	209,515	91.80	(24,134)	(11.52)
Investments in associates, net	18,269	8.96	18,725	8.20	(456)	(2.44)
Total investments, net	203,650	100.00	228,240	100.00	(24,590)	(10.77)

⁽¹⁾ the Bank had acquired shares in Sahaviriya Steel Industries Public Company Limited (SSI) consequent to its Business Rehabilitation Plan, equivalent to 40.49% of the total issues shares. However, according to Thai Accounting Standard 28 (TAS 28) regarding the Investments in Associates and Joint Venture, the Bank had no "significant influence" to SSI, the Bank recoded such items as Investments which had no significant impact to total investment.

C) Total Assets

KTB's consolidated total assets as at March 31, 2018 was Baht 2,887,501 million, increased by Baht 33,291 million (1.17%) from December 31, 2017, mostly from the acceleration of the net interbank and money market items.

D) Liabilities

The Bank's consolidated deposits as at March 31, 2018 were Baht 2,033,068 million, dropped by Baht 37,807 million (1.83%) from December 31, 2017 due to the contraction of all deposit types. The Bank's consolidated loans to customers (less deferred revenue) - to-deposits ratio was 94.84%, compared to 93.59% as at December 31, 2017. Meanwhile, the liabilities to deliver securities, net interbank and money market, and derivatives liabilities items increased by Baht 25,941 million (44.33%), Baht 21,548 million (9.42%), and Baht 14,409 million (47.58%) respectively, boosting up the Bank's consolidated total liabilities by Baht 27,660 million (1.08%) to Baht 2,587,651 million.

E) Equity

The total equity (equity holders of the Bank) as at March 31, 2018 amounted to Baht 292,881 million, showing an increase of Baht 5,020 million (1.74%) from December 31, 2017.

Book value per share (equity holders of the Bank) was Baht 20.95, increased from Baht 20.59 at the end of the year 2017.

F) Sources and Uses of Funds

As at March 31, 2018, 70.41% of the Bank's source of funds was deposits; the others were equity, interbank borrowings, and debt issued and borrowings. The Bank's use of funds comprised of 66.78% loans to customers (less deferred revenue), 20.27% net interbank and money market items, and 7.05% net investments and net investments in subsidiaries and associates.

Unit : Million Baht

	31 Mar 2018		31 Dec 2017		Change	
	Amount	(%)	Amount	(%)	Amount	(%)
Deposits	2,033,068	70.41	2,070,875	72.56	(37,807)	(1.83)
Interbank and money market items, net	250,239	8.67	228,691	8.01	21,548	9.42
Debt issued and borrowings	110,375	3.82	110,626	3.88	(251)	(0.23)
Others	193,969	6.72	149,799	5.25	44,170	29.49
Total equity						
- Equity holders of the Bank	292,881	10.14	287,861	10.08	5,020	1.74
- Non-controlling interest	6,969	0.24	6,358	0.22	611	9.61
Total	2,887,501	100.00	2,854,210	100.00	33,291	1.17

G) Statutory Capital Fund (The Bank's Financial Statements)

As at March 31, 2018, the Bank's Common Equity Tier 1 and Tier 1 capital was Baht 255,631 million (13.81% of its RWA). Total capital was Baht 327,962 million (17.72% of its RWA), increased from 17.45% 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

The Bank's Financial Statements	31 Mar 2018			31 Dec 2017		
	Amount	(%)	The minimum rate required by the BOT (%) ⁽¹⁾	Amount	(%)	The minimum rate required by the BOT (%)
Common Equity Tier 1 capital	255,631	13.81	More than 6.375	256,428	13.59	More than 5.750
Tier 1 capital	255,631	13.81	More than 7.875	256,428	13.59	More than 7.250
Tier 2 capital	72,331			72,883		
Total capital fund	327,962	17.72	More than 10.375	329,311	17.45	More than 9.750
Risk-weighted assets	1,851,096			1,887,433		

⁽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, announced on September 25, 2017)

H) Asset Quality - Non-Performing Loans (NPLs)

The Bank's consolidated NPLs as at March 31, 2018 was Baht 107,774 million, rose by Baht 4,754 million (4.61%), compared to December 31, 2017, from SMEs and some retail clients. The gross NPLs ratio was 4.33%, increased from 4.19% as at December 31, 2017

Unit : Million Baht

	31 Mar 2018		31 Dec 2017		Change	
	Amount	(%)	Amount	(%)	Amount	(%)
1. Loans						
Pass	1,755,686	91.05	1,765,969	91.12	(10,283)	(0.58)
Special Mention	64,745	3.36	69,093	3.57	(4,348)	(6.29)
Sub-Standard	13,579	0.70	12,241	0.63	1,338	10.93
Doubtful	35,240	1.83	35,890	1.85	(650)	(1.81)
Doubtful of loss	58,955	3.06	54,889	2.83	4,066	7.41
Total Loans	1,928,205	100.00	1,938,082	100.00	(9,877)	(0.51)
2. NPLs gross ⁽¹⁾	107,774	4.33	103,020	4.19		
NPLs net ⁽¹⁾	48,827	2.01	42,506	1.77		
3. Actual provisioning for loan loss ⁽²⁾	129,598		125,382			
Coverage Ratio		120.25		121.71		

⁽¹⁾ NPLs Ratio (gross) and NPLs Ratio (net) were calculated according to BOT definition

⁽²⁾ Allowance for doubtful accounts and revaluation allowance for debt restructuring

IV. Credit Ratings

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

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■ S&P Global Ratings	March 2018	December 2017
■ Long-term/ Short-term	BBB / A-2	BBB / A-2
■ Outlook	Stable	Stable
■ Stand-Alone Credit Profile (SACP)	bb+	bb+
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■ Moody's Investors Service	March 2018	December 2017
■ Long-term/ Short-term	Baa1 / P-2	Baa1 / P-2
■ Outlook	Stable	Stable
■ Baseline Credit Assessment (BCA)	ba1	ba1
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■ Fitch Ratings	March 2018	December 2017
Foreign Currency Credit Ratings		
■ Long-term/ Short-term	BBB / F3	BBB / F3
■ 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
■ Subordinated Debt (Baht)	AA(tha)	AA(tha)
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