



Management Discussion and Analysis

For the Quarter ended June 30, 2020

(Audited)

This report discusses the principal changes in the audited consolidated financial statement for the quarter ended June 30, 2020. There were no restatement of the Bank and its subsidiaries' historical financial statements given the change in financial reporting standards.

Economic Overview

Given the COVID-19 pandemic worldwide and in Thailand affecting operating environment and the likelihood of economic recession globally, IMF had forecasted the world economy in 2020 to contract by 4.9% YoY, the highest contraction since Great Depression. Such world economic slowdown as well as disease control measures significantly affected Thai economy whose ecosystem has high dependencies on foreign countries, particularly tourism and export sectors. Therefore, the Bank of Thailand had forecasted Thai economy in 2020 to contract by 8.1%.

Hence, the government had urgently issued the relief measures in terms of financial, health and other aspects for business and households who are being affected. In addition, the Bank of Thailand (BOT) had continuously issued financial measures to provide various assistance such as policy rate cut to the lowest level at 0.5% (5 times cut since the second half of 2019), guidance for commercial banks to support customers, soft loan and liquidity enhancement for corporate bond market to uphold the overall economy. Commercial banks realized the importance in providing such support and collaborating on measures issuance to help their customers.

The Bank and Its Subsidiaries' Overview Performance for the First Half of 2020

The Bank and Its Subsidiaries' Performance for the First Half of 2020

The Bank and its subsidiaries' pre-provision profit in 1H2020 was Baht 37,576 million, an increase of 10.9% YoY. Such increase was mainly derived from stable net interest income year-on-year given strong loan growth and effective cost of fund management amid policy rate and lending rate cuts. Additionally, Bank of Thailand announced on lower contributions to BOT. Net Interest Margin (NIM) stood at 3.15%, down from 3.54% YoY, mainly from such rate cuts. In addition to the expansion of other non-interest income (non-fee), total other operating expenses favorably declined 13.2% YoY, resulting in lower cost to income ratio of 40.74% from 46.76% in same period of 2019.

As the Bank and its subsidiaries thoroughly considered various factors of the forecasts during this economic slowdown and uncertainties that impacted loan quality, the expected credit losses amounted Baht 23,235 million, which also included full provision on one of large corporate customers in the public utilities and services – transportation business to reflect its credit risk. The expense for impairment loss of loans amounted Baht 12,891 million in the same period of 2019. The coverage ratio as at June 30, 2020 stood at 126.5%. The NPLs Ratio-Gross stood at 4.35% as compared to 4.33% as at December 31, 2019.

The aforementioned performance resulted in the Bank and its subsidiaries' net profit attributable to equity holders of the Bank of Baht 10,222 million, a decrease of 33.9% YoY.

The Bank and the Financial Business Group's Tier 1 and Total Capital ratios were 15.42% and 19.17% respectively.

The Bank and Its Subsidiaries' Performance for 2Q2020

Comparing 2Q2020 to the same period of last year, the Bank and its subsidiaries' pre-provision profit was Baht 20,080 million, an increase of 21.7% YoY. This was mainly due to higher net interest income from strong loan growth and effective cost of fund management together with interest income from loan in relation to partial payment from the auction of mortgaged guarantee assets. Additionally, BOT announced on lower contributions to BOT. NIM stood at 3.09%, down from 3.24% in 2Q2019.

Other non-interest income (non-fee) increased from gain from sale of properties for sale. Moreover, operating expenses decreased due to impairment loss on properties for sale recognition in 2Q2019, resulting in cost to income ratio of 38.10%, down from 45.10% in 2Q2019.

As the Bank and its subsidiaries thoroughly considered various factors of the forecasts during this economic slowdown and uncertainties that impacted loan quality, the expected credit losses amounted Baht 14,710 million. The expense for impairment loss of loans amounted Baht 5,562 million in the same quarter of last year. Hence, consolidated net profit attributable to equity holders of the Bank was Baht 3,755 million, a decline of 54.0% YoY.

Coverage ratio as at June 30, 2020 stood at 126.5%. The NPLs Ratio-Gross stood at 4.35% as compared to 4.36% as at March 31, 2020.

The Bank and Its Subsidiaries' Performance for the Quarter and First Half Ended June 30, 2020

Overview Operating Income and Net Profit

Unit : Million Baht

	2/2020	1/2020	Change	2/2019	Change	1H2020	1H2019	Change
	(TFRS 9)	(TFRS 9)	%		%	(TFRS 9)		%
Net interest income	23,460	22,961	2.2	21,805	7.6	46,421	46,446	(0.1)
Net fee and service income	5,269	4,951	6.4	5,650	(6.7)	10,220	11,285	(9.4)
Other non-interest income	3,712	3,051	21.7	2,609	42.3	6,763	5,904	14.5
Total operating income	32,441	30,963	4.8	30,064	7.9	63,404	63,635	(0.4)
Total other operating expenses	12,361	13,467	(8.2)	13,557	(8.8)	25,828	29,754	(13.2)
Pre-provision profit ⁽¹⁾	20,080	17,496	14.8	16,507	21.7	37,576	33,881	10.9
Impairment loss of loans and debt securities	-	-	N/A	5,562	N/A	-	12,891	N/A
Expected credit losses	14,710	8,524	72.6	-	N/A	23,235		N/A
Operating profit before income tax expenses	5,370	8,972	(40.1)	10,945	(50.9)	14,341	20,990	(31.7)
Income tax expenses	1,022	1,680	(39.2)	2,080	(50.9)	2,701	4,021	(32.8)
Net Profit	4,348	7,292	(40.4)	8,865	(50.9)	11,640	16,969	(31.4)
Net profit (attributable to equity holders of the Bank)	3,755	6,467	(41.9)	8,170	(54.0)	10,222	15,471	(33.9)
ROA (%) ⁽²⁾	0.48	0.84		1.17		0.66	1.14	
ROE (%) ⁽²⁾	4.54	7.81		10.34		6.08	9.99	

(1) Pre-provision profit before provision (expected credit losses or impairment loss of loans and debt securities) and income tax expense

(2) ROA and ROE calculated 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 2Q2020, KTB's consolidated pre-provision profit was Baht 20,080 million, an increase of 21.7% YoY. This was due to higher net interest income from strong loan growth and effective cost of fund management together with special transaction on interest income from loan in relation to partial payment from the auction of mortgaged guarantee assets of Baht 3,524 million. Additionally, BOT announced on lower contributions to BOT. Moreover, other non-interest income (non-fee) increased due to gain from sale of properties for sale; other operating expenses also decreased. The Bank and its subsidiaries had set aside the allowance for expected credit losses amounted Baht 14,710 million; hence, consolidated net profit attributable to equity holders of the Bank amounted to Baht 3,755 million, a decrease by 54.0% YoY.

Compared to 1Q2020, KTB's consolidated pre-provision profit rose 14.8% YoY, mainly from higher net interest income and other non-interest income. Moreover, higher allowance for expected credit losses had been set aside; hence, consolidated net profit attributable to equity holders of the Bank declined by 41.9%.

In 1H2020, KTB's consolidated pre-provision profit was Baht 37,576 million, an increase of 10.9% YoY. This was due to higher other non-interest income (non-fee) and lower other operating expenses from provision of properties for sales in 1H2019. The Bank and its subsidiaries had set aside the allowance for expected credit losses amounted Baht 23,235 million; hence, consolidated net profit attributable to equity holders of the Bank was Baht 10,222 million, a decrease by 33.9% YoY.

Net Interest Income

Unit : Million Baht

	2/2020	1/2020	Change	2/2019	Change	1H2020	1H2019	Change
	(TFRS 9)	(TFRS 9)	%		%	(TFRS 9)		%
Interest income	29,566	30,216	(2.2)	30,245	(2.2)	59,782	63,622	(6.0)
- Interbank and money market items	917	1,141	(19.6)	1,795	(48.9)	2,058	3,994	(48.5)
- Investments and trading transactions	103	161	(35.9)	105	(1.0)	264	204	29.7
- Investment in debt securities	621	1,300	(52.3)	1,487	(58.3)	1,921	2,340	(17.9)
- Loans	27,875	27,501	1.4	26,683	4.5	55,376	56,768	(2.5)
- Hire purchase and financial lease	42	80	(47.2)	113	(62.8)	122	251	(51.3)
- Others	8	33	(75.2)	62	(86.8)	41	65	(36.9)
Less Interest expense	6,106	7,255	(15.8)	8,440	(27.7)	13,361	17,176	(22.2)
- Deposits	3,778	4,105	(8.0)	4,354	(13.2)	7,883	9,022	(12.6)
- Interbank and money market items	297	685	(56.6)	651	(54.4)	982	1,291	(23.9)
- Contributions to BOT and DPA	1,351	1,420	(4.8)	2,453	(44.9)	2,771	4,937	(43.9)
- Debts issued	656	1,007	(34.9)	940	(30.2)	1,663	1,874	(11.3)
- Others	24	38	(37.6)	42	(43.8)	62	52	19.0
Net interest income	23,460	22,961	2.2	21,805	7.6	46,421	46,446	(0.1)
Earning Asset Yield (%)⁽¹⁾	3.89⁽²⁾	4.13		4.49		4.05⁽²⁾	4.85⁽²⁾	
Cost of Fund (%)⁽¹⁾	0.93	1.15		1.46		1.04	1.52	
Net interest margin [based on earning assets] (%)⁽¹⁾	3.09⁽²⁾	3.14		3.24		3.15⁽²⁾	3.54⁽²⁾	

(1) Earning assets include financial assets measured at fair value through profit or loss; Interest bearing debts include financial liabilities measured at fair value through profit or loss from 1Q2020 onwards.

(2) If excluding interest income received from the auction, earning asset yield for 2Q2020 would be 3.43% and NIM for 2Q2020 would be 2.62%. And, If excluding interest income received from the auction, earning asset yield for 1H2019 and 1H2020 would be 4.55% and 3.81% respectively, NIM for 1H2019 and 1H2020 would be 3.24% and 2.91% respectively.

KTB's consolidated net interest income in 2Q2020 amounted Baht 23,460 million, increased by 7.6% YoY as the result from strong loan growth and effective cost of fund management together with special transaction on interest

income from loan in relation to partial payment from the auction of mortgaged guarantee assets of Baht 3,524 million. All of which had lessened the impact from the 5 times policy rate cuts YoY and consequently, the lending rate cuts by the Bank. Additionally, BOT announced on lower contributions to BOT. NIM registered at 3.09%, decreased from 3.24% in 2Q2019 as the result of the lending rate cuts (NIM excluding special transaction in 2Q2019 of 2.62%).

Compared to 1Q2020, net interest income increased by 2.2% from strong loan growth and effective cost of fund management together with the special transaction; all of which had lessened the impact from policy rate cuts. Hence, NIM registered at 3.09%, decreased from 3.14% in 1Q2020 (NIM excluding special transaction stood at 2.62%, down from 3.14% from 1Q2020).

KTB's consolidated net interest income in 1H2020 amounted Baht 46,421 million, a similar level as 1H2019. This was the result of strong loan growth and effective cost of fund management. Additionally, BOT announced on lower contributions to BOT. Hence, NIM stood at 3.15%, down from 3.54% YoY, mainly due to such rate cuts.

Additionally, the Bank had special transactions on interest income from loan in relation to partial payment from the auction of mortgaged guarantee assets of Baht 3,524 million in 2Q2020 and Baht 3,899 million in 1Q2019 (if excluding such special transactions, NIM stood at 2.91%, down from 3.24% in the same period of 2019).

Change of interest rate

	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019
Policy Interest Rate (%)	0.50%	0.75%	1.25%	1.50%	1.75%	1.75%
Deposit Rate (%) ⁽¹⁾						
- Savings Rate	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
- 3 Months Fixed Rate	0.375%	0.60% - 0.70%	0.90%	0.90%	0.90%	0.90%
- 6 Months Fixed Rate	0.50%	0.80% - 0.90%	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%	1.15%-1.35%
- 12 Months Fixed Rate	0.50%	0.90% - 1.00%	1.30%	1.30%	1.30%	1.30%
Loan Rate (%)						
- MLR	5.250% ⁽²⁾	5.775%	6.025%	6.275%	6.275%	6.275%
- MOR	5.820% ⁽²⁾	6.620%	6.870%	6.870%	7.120%	7.120%
- MRR	6.220% ⁽²⁾	6.745%	6.870%	6.870%	7.120%	7.120%

(1) Standard deposit rate for individuals.

(2) The Bank announced the lending rate cuts effective on April 10, 2020 and additional cut effective May 22, 2020 as the consequence to the Monetary Policy Committee, Bank of Thailand's announcement on the policy rate cut of 25 bps from 0.75% to 0.50% effective May 20, 2020.

Given the assessment on Thai economy's higher contraction than previously forecasted from global economic depression trend and impact of global pandemic, the Monetary Policy Committee, Bank of Thailand had announced series of policy rate cuts, having the 2 times cut in 2019 (August and November), another 2 times cut in 1Q2020 (February and March), and the recent 1 time cut in 2Q2020 (May) to 0.50%.

Realizing its role as an important part to uphold the economy, to support government mechanisms and to help business operators and retail customers, the Bank had gradually been cutting lending rates of MLR, MOR and MRR in

February, March, April and May recently, being the cuts on MLR of 1.025%, MOR of 1.30% and MRR of 0.90%. Furthermore, the Bank of Thailand announced the measure on lower contribution from financial institutions to the FIDF (FIDF fee) from 0.46% to 0.23% as announced on April 7, 2020.

Net Fee and Service Income

Unit : Million Baht

	2/2020 (TFRS 9)	1/2020 (TFRS 9)	Change %	2/2019	Change %	1H2020 (TFRS 9)	1H2019	Change %
Fee and service income	7,089	6,753	5.0	7,252	(2.2)	13,842	14,329	(3.4)
Less Fee and service expense	1,820	1,802	1.0	1,602	13.6	3,622	3,044	19.0
Net fee and service income	5,269	4,951	6.4	5,650	(6.7)	10,220	11,285	(9.4)

KTB's consolidated net fee and service income in 2Q2020 was Baht 5,269 million, a decrease by 6.7% YoY from lower management fee and higher number of transactions via digital channel during COVID-19 pandemic amid continuing improvement on bancassurance fee. Compared to 1Q2020, KTB's consolidated net fee and service income increased 6.4%.

KTB's consolidated net fee and service income in 1H2020 was Baht 10,220 million, compressed by 9.4% YoY due to higher number of transactions via digital channel during COVID-19 pandemic.

Total Other Operating Income

Unit : Million Baht

	2/2020 (TFRS 9)	1/2020 (TFRS 9)	Change %	2/2019	Change %	1H2020 (TFRS 9)	1H2019	Change %
Gains (loss) on financial instruments measured at fair value through profit or loss	730	692	5.4	N/A	N/A	1,422	N/A	N/A
Gain (loss) on trading and foreign exchange transactions, net	-	-	N/A	670	N/A	-	1,666	N/A
Gain (loss) on investments, net	400	347	15.4	337	18.7	747	672	11.1
Share of profit (loss) from investments for using equity method	262	293	(10.7)	464	(43.5)	555	781	(28.9)
Dividend income	130	118	10.5	188	(30.9)	248	304	(18.7)
Other income	2,190	1,601	36.8	950	130.5	3,791	2,481	52.8
Total other operating income	3,712	3,051	21.7	2,609	42.3	6,763	5,904	14.5

KTB's consolidated total other operating income in 2Q2020 was Baht 3,712 million, an increase by 42.3% YoY, mainly due to gain from sale of properties for sale. Compared to 1Q2020, KTB's consolidated total other operating income increased by 21.7%, mainly due to gain from sale of properties for sale.

KTB's consolidated total other operating income in 1H2020 was Baht 6,763 million, an increase by 14.5% YoY, mainly due to gain from sale of properties for sale.

Other Operating Expenses

Unit : Million Baht

	2/2020 (TFRS 9)	1/2020 (TFRS 9)	Change %	2/2019	Change %	1H2020 (TFRS 9)	1H2019	Change %
Employees' expenses	6,629	7,768	(14.7)	7,151	(7.3)	14,397	14,288	0.8
Premises and equipment expenses	2,112	2,085	1.3	2,214	(4.6)	4,197	4,409	(4.8)
Taxes and duties	976	1,047	(6.8)	1,077	(9.4)	2,022	2,194	(7.8)
Impairment loss of properties for sale	276	218	27.0	1,078	(74.4)	494	4,848	(89.8)
Others ⁽¹⁾	2,368	2,349	0.8	2,037	16.3	4,718	4,015	17.5
Total other operating expenses	12,361	13,467	(8.2)	13,557	(8.8)	25,828	29,754	(13.2)
Cost to income ratio (%)	38.10 ⁽²⁾	43.49		45.10 ⁽²⁾		40.74 ⁽²⁾	46.76 ⁽²⁾	

(1) Including Directors' remuneration

(2) If excluding interest income received from the auction and impairment loss of properties for sale items, cost to income ratio for 2Q2019 and 2Q2020 would be 41.77% and 42.75% respectively. If excluding interest income received from the auction and impairment loss of properties for sale items, cost to income ratio for 1H2019 and 1H2020 would be 41.77% and 43.13% respectively.

KTB's consolidated other operating expenses in 2Q2020 was Baht 12,361 million, declined by 8.8% YoY given special transaction on impairment loss on properties for sale in 2Q2019. This resulted in cost to income ratio of 38.10%, down from 45.10% in 2Q2019 (if excluding special transactions, cost to income stood at 42.75%, an increase from 41.77% in 2Q2019). Compared to 1Q2020, KTB's consolidated other operating expenses decreased 8.2% QoQ, resulting in cost to income ratio of 38.10%, down from 43.49% in previous quarter (if excluding special transactions, cost to income stood at 42.75%, a decrease from 43.49% in 1Q2020).

KTB's consolidated other operating expenses in 1H2020 was Baht 25,828 million, a decrease by 13.2% YoY from impairment loss of properties for sale in 1H2019. This resulted in cost to income ratio of 40.74%, down from 46.76% in the same period of last year (if excluding special transactions, cost to income stood at 43.13%, an increase from 41.77% in the same period of last year).

Impairment Loss of Loans

Unit : Million Baht

	2/2020 (TFRS 9)	1/2020 (TFRS 9)	Change %	2/2019	Change %	1H2020 (TFRS 9)	1H2019	Change %
Impairment loss of loans ⁽¹⁾	-	-	N/A	5,562	N/A	-	12,891	N/A
Expected credit losses ⁽²⁾	14,710	8,524	72.6	-	N/A	23,235	N/A	N/A

(1) Impairment loss of loans and debt securities (for loans to customers)

(2) Expected credit losses for interbank and money market items, investments in debt securities, loans to customers (including loss from criteria change) and loan commitments & financial guarantee contracts

In 2Q2020, the Bank and its subsidiaries thoroughly considered various factors of the forecasts during economic slowdown and uncertainties that impacted loan quality; hence, the expected credit losses amounted Baht 14,710 million, which also included full provision on one of large corporate customers in the public utilities and services – transportation business to reflect its credit risk. The expense for impairment loss of loans amounted Baht 5,562 million in the same period of last year while the expected credit losses amounted Baht 8,524 million in 1Q2020.

In 1H2020, the Bank and its subsidiaries' expected credit losses amounted Baht 23,235 million. The Bank's consolidated coverage ratio was 126.5% as at June 30, 2020 as compared to 131.8% as at December 31, 2019 and 129.2% as at March 31, 2020.

The Bank and Its Subsidiaries' Financial Status as at June 30, 2020

Financial Assets and Investments, Net

The Bank's consolidated financial assets measured at fair value through profit or loss and investments, net per TFRS 9 were Baht 341,038 million as at June 30, 2020, in which financial assets measured at fair value through profit or loss comprised of government and SOE securities 78%, private enterprise debt securities 19%, and unit trust 3%. Investments, net amounted Baht 395,228 million as at December 31, 2019.

Classifications of financial assets and investments, net

Unit : Million Baht

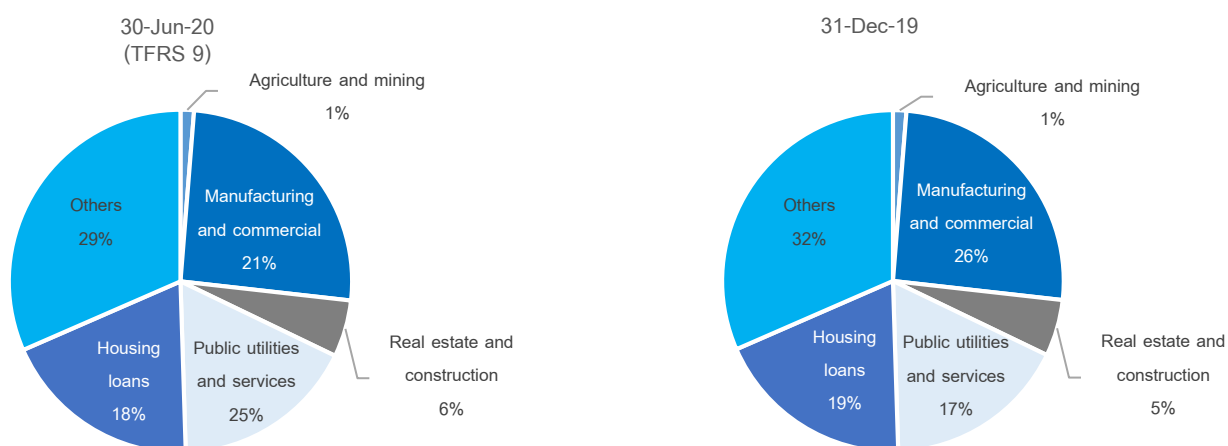
Consolidated Financial Statements	30 Jun 2020 (TFRS 9)	31 Mar 2020 (TFRS 9)	Change %
Financial assets measured at fair value through profit or loss	35,635	45,217	(21.2)
Investment, net	305,403	362,386	(15.7)
- Investment in debt securities measured at amortized cost	1,525	1,729	(11.8)
- Investment in debt securities designated to be measured at fair value through other comprehensive income	288,735	347,846	(17.0)
- Investment in equity securities designated to be measured at fair value through other comprehensive income	15,143	12,811	18.2
Total financial assets and investments, net	341,038	407,603	(16.3)

Unit : Million Baht

Consolidated Financial Statements	31 Dec 2019
Investments, net	
- Trading securities	48,252
- Available-for-sale securities	344,198
- Held-to-maturity debt securities	1,737
- General investments	1,041
Total investments, net	395,228

Loans to Customers

Loan breakdown by type of business



The Bank’s consolidated loans to customers (less deferred revenue) was Baht 2,285,561 million, increased by 9.4% compared to the end of last year, mainly from government and retail customers whilst increased by 7.2% from March 31, 2020.

Consolidated Financial Statements	30 Jun 2020 (TFRS 9)	31 Mar 2020 (TFRS 9)	Change		31 Dec 2019	Change
			%	%		
Loans to customers	2,286,001	2,132,315	7.2		2,090,342	9.4
<u>Less</u> Deferred revenue	440	428	2.8		469	(6.3)
<u>Add</u> Accrued interest receivables	9,015	5,794	55.6		5,160	74.7
<u>Less</u> Allowance for expected credit losses ⁽¹⁾	142,819	142,158	0.5		135,268	5.6
Loans to customers and accrued interest receivables, net	2,151,757	1,995,523	7.8		1,959,765	9.8

(1) Allowance for expected credit losses for loans to customers (including loss from criteria change) or allowance for doubtful accounts and allowance for debt restructuring revaluation per financial statements

Loan breakdown by type of borrowers (Consolidated's Financial Statements)

Unit : Million Baht

Consolidated Financial Statement	30 Jun 2020 (TFRS 9)		31 Mar 2020 (TFRS 9)		Change %	31 Dec 2019		Change %
	Amount	(%)	Amount	(%)		Amount	(%)	
Private Corporate	642,152	28.1	706,891	33.2	(9.2)	650,266	31.1	(1.2)
Government and State Enterprise	367,070	16.1	160,940	7.5	128.1	182,986	8.8	100.6
SMEs ⁽¹⁾	326,978	14.3	335,051	15.7	(2.4)	332,447	16.0	(1.6)
Retail	949,426	41.5	929,055	43.6	2.2	924,268	44.2	2.7
- Housing	413,813	18.1	400,147	18.8	3.4	396,035	18.9	4.5
- Personal	476,470	20.8	470,366	22.1	1.3	464,138	22.2	2.7
- Credit card	53,013	2.3	51,893	2.4	2.2	56,653	2.7	(6.4)
- KTB Leasing	6,130	0.3	6,649	0.3	(7.8)	7,442	0.4	(17.6)
Others	375	0.0	378	0.0	(1.0)	375	0.0	(0.0)
Total loans (per F/S)	2,286,001		2,132,315	100.0	7.2	2,090,342	100.0	9.4

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

Asset Quality

Loan classification and expected credit loss

Unit : Million Baht

Consolidated Financial Statement	30 Jun 2020 (TFRS 9)	31 Mar 2020 (TFRS 9)	31 Dec 2019
Gross NPL ⁽¹⁾	115,037	112,377	102,659
Gross NPL Ratio	4.35%	4.36%	4.33%
Allowance for Expected Credit Losses (total) ⁽²⁾	145,577	145,198	135,268
Coverage Ratio ⁽³⁾	126.5%	129.2%	131.8%

(1) Gross NPLs based on principal less deferred revenue while including interbank and money market items

(2) Allowance for expected credit loss (total) = Allowance for expected credit losses for interbank and money market items, loans to customers and loan commitments & financial guarantee contracts

As at December 31, 2019, Allowance for expected credit loss (total) = Allowance for expected credit losses for loans to customers (including allowance for debt restructuring revaluation)

(3) Coverage Ratio = Allowance for expected credit losses for interbank and money market items, loans to customers and loan commitments & financial guarantee contracts / Gross NPLs

As at December 31, 2019, Coverage Ratio = Actual provisioning for loan loss / Gross NPLs

Unit : Million Baht

Consolidated Financial Statement	30 Jun 2020 (IFRS 9)	
	Loans and Accrued Interest Receivables ⁽¹⁾	Allowance for Expected Credit Losses ⁽²⁾
1. Loan Classification		
Performing	1,906,534	26,768
Under - performing	268,012	39,779
Non - performing	114,250	73,366
Lifetime ECL - simplified approach ⁽³⁾	5,780	2,906
Total	2,294,576	142,819

(1) Loan less deferred revenue while including accrued interest receivables and undue interest receivables

(2) Allowance for expected credit losses for loans to customers (including loss from criteria change) per financial statements

(3) Lifetime ECL – simplified approach is the approach of the Bank's subsidiary to recognize the allowance for expected credit losses on lifetime of finance lease receivables

Unit : Million Baht

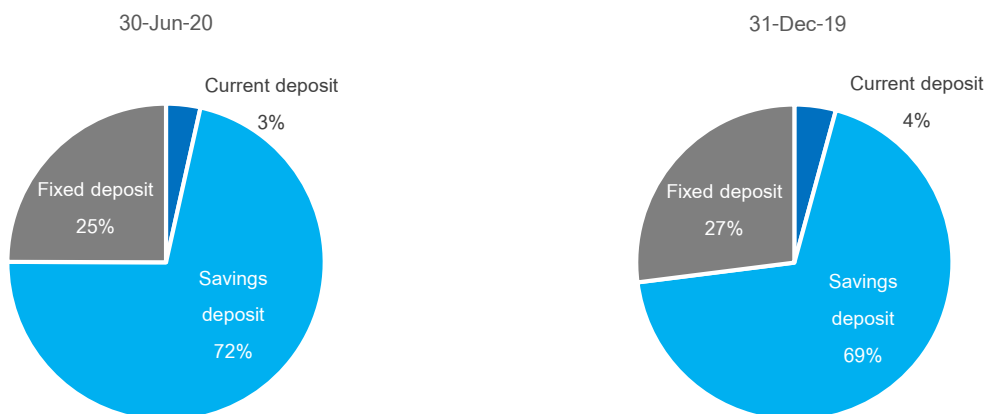
Consolidated Financial Statement	31 Dec 2019		
	Loan and Accrued Interest Receivables	Net Amount Used for Set aside the Allowance for Doubtful Account	Allowance for Doubtful Accounts
1. Loan Classification			
Normal	1,923,616	883,841	13,908
Special mention	68,696	30,545	8,478
Substandard	12,780	6,429	6,433
Doubtful	12,647	4,527	4,547
Doubtful of loss	77,294	37,398	37,403
Total	2,095,033	962,740	70,769
Excess allowance			64,459
2. Actual provisioning for loan loss ⁽¹⁾			135,268

(1) Allowance for doubtful accounts and allowance for debt restructuring revaluation per financial statement

The Bank's consolidated NPLs-Gross as at June 30, 2020 amounted Baht 115,037 million while NPLs Ratio-Gross was 4.35% as compared to 4.33% as at December 31, 2019 and to 4.36% as at March 31, 2020. As at June 30, 2020, the Bank's consolidated coverage ratio was 126.5% as compared to 131.8% as at December 31, 2019 and 129.2% as at March 31, 2020.

Deposits

Deposits breakdown by types



The Bank’s consolidated deposits was Baht 2,350,764 million, increased by 9.0% from December 31, 2019 with an uplift in saving deposits. However, the Bank’s consolidated deposits decreased by 0.1% from March 31, 2020 from maturity of fixed deposits.

The Bank’s consolidated loans to customers (less deferred revenue)-to-deposits ratio (L/D ratio) of 97.23% increased from 96.94% as at December 31, 2019 and increased from 90.62% as at March 30, 2020.

Sources and Uses of Funds

Unit : Million Baht

	30 Jun 2020 (TFRS 9)		31 Mar 2020 (TFRS 9)		Change	31 Dec 2019 (Pre-TFRS 9)		Change
	Amount	(%)	Amount	(%)	%	Amount	(%)	%
Net Interbank and money market items (asset)	423,452	13.4	470,362	14.9	(10.0)	338,770	11.2	25.0
Financial assets measured at fair value through profit or loss	35,635	1.1	45,217	1.4	(21.2)	N/A	N/A	N/A
Net investments and net investments in associates	334,367	10.5	388,818	12.3	(14.0)	426,174	14.2	(21.5)
Loans to customers (less deferred revenue)	2,285,561	72.1	2,131,887	67.4	7.2	2,089,873	69.4	9.4
Less Allowance for expected credit losses ⁽¹⁾	142,819	(4.5)	142,158	(4.5)	0.5	135,268	(4.5)	5.6
Other assets	235,127	7.4	268,934	8.5	(12.6)	292,667	9.7	(19.7)
Total Asset	3,171,323	100.0	3,163,060	100.0	0.3	3,012,216	100.0	5.3
Deposits	2,350,764	74.1	2,352,523	74.4	(0.1)	2,155,865	71.6	9.0
Net Interbank and money market items (liabilities)	228,376	7.2	177,063	5.6	29.0	215,823	7.2	5.8
Debt issued and borrowings	97,837	3.1	98,379	3.1	(0.6)	96,841	3.2	1.0
Other liabilities	146,052	4.6	196,485	6.2	(25.7)	195,361	6.5	(25.2)
Total equity	348,294	11.0	338,610	10.7	2.9	348,326	11.5	(0.0)
- Equity holders of the Bank	338,036	10.7	327,784	10.4	3.1	338,287	11.2	(0.1)
- Non-controlling interest	10,258	0.3	10,826	0.3	(5.2)	10,039	0.3	2.2
Total liabilities and equity	3,171,323	100.0	3,163,060	100.0	0.3	3,012,216	100.0	5.3
Loans to customers (less deferred revenue)-to-deposits ratio (%)	97.23		90.62			96.94		

(1) Allowance for expected credit losses for loans to customers (including loss from criteria change) or allowance for doubtful accounts and allowance for debt restructuring revaluation per financial statements

As at June 30, 2020, the Bank's consolidated major source of funds was 74.1% deposits; and the other source of funds as equity, interbank borrowings, and debt issued and borrowings. The Bank's consolidated use of funds comprised of 72.1% loans to customers (less deferred revenue), 13.4% net interbank and money market items, and 10.5% net investments and net investments in associates.

Equity

The total equity (equity holders of the Bank) as at June 30, 2020 was Baht 338,036 million, a slight decrease as compared to December 31, 2019 and increased by 3.1% compared to Mar 31, 2020.

Book value per share (equity holders of the Bank) was Baht 24.18 per share decreased from Baht 24.20 per share at December 31, 2019 and increased from Baht 23.44 per share at March 31, 2020.

Statutory Capital Fund

Statutory Capital Fund (Bank and the Financial Business Group)

Unit : Million Baht

Bank and the Financial Business Group ⁽¹⁾	30 Jun 2020 ⁽³⁾		31 Mar 2020 ⁽³⁾		The minimum rate required by the BOT for 2020 (%) ⁽²⁾	31 Dec 2019 ⁽³⁾		The minimum rate required by the BOT for 2019 (%) ⁽²⁾
	Amount	Amount	Amount	(%)		Amount	(%)	
Common Equity Tier 1 capital	309,221	15.36	309,373	14.97	>8.000	304,705	15.19	>7.500
Tier 1 capital	310,290	15.42	310,447	15.03	>9.500	305,805	15.24	>9.000
Tier 2 capital	75,479		76,170			75,534		
Total capital fund	385,769	19.17	386,617	18.71	>12.000	381,339	19.01	>11.500
Risk-weighted assets	2,012,724		2,066,182			2,006,423		

(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)

(3) Capital fund and capital adequacy ratio are preliminary information prepared accordance with BOT guidelines.

Statutory Capital Fund (The Bank's Financial Statements)

Unit : Million Baht

The Bank's Financial Statements	30 Jun 2020 ⁽²⁾		31 Mar 2020 ⁽²⁾		The minimum rate required by the BOT for 2020 (%) ⁽¹⁾	31 Dec 2019 ⁽²⁾		The minimum rate required by the BOT for 2019 (%) ⁽¹⁾
	Amount	(%)	Amount	(%)		Amount	(%)	
Common Equity Tier 1 capital	287,700	14.88	288,254	14.43	>8.000	285,462	14.80	>7.500
Tier 1 capital	287,700	14.88	288,254	14.43	>9.500	285,462	14.80	>9.000
Tier 2 capital	74,539		75,364			74,616		
Total capital fund	362,239	18.73	363,618	18.20	>12.000	360,078	18.66	>11.500
Risk-weighted assets	1,933,666		1,997,962			1,929,176		

(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 2.50% 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)

(2) Capital fund and capital adequacy ratio are preliminary information prepared accordance with BOT guidelines.

As at June 30, 2020, the Bank and the Financial Business Group's Common Equity Tier 1 was Baht 309,221 million (15.36% of its RWA) and Tier 1 capital was Baht 310,290 million (15.42 % of its RWA). Total capital was Baht 385,769 million (19.17 % of its RWA).

As at June 30, 2020, the Bank's Common Equity Tier 1 and Tier 1 capital (bank only) were Baht 287,700 million (14.88% of its RWA). Total capital was Baht 362,239 million (18.73% of its RWA).

On July 6, 2020, the Bank redeemed the Ringgit-Malaysia-denominated Subordinated Notes in an amount of MYR 1,000,000,000, exercising a call option in whole amount. Such notes was considered as part of Tier 2 capital.

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.

Appendix

I. The Effective of Thai Financial Reporting Standard and its Impact

On January 1, 2020, TFRS 9 re: Financial Instruments had become effective. Upon the adoption, the Bank had key changes as follows:

Changes under TFRS 9	Previous TFRS
<p>1. Financial Assets Classification into 3 categories according to the business model for managing the financial assets and the contractual cash flows characteristics of financial assets as follows:</p> <p>1.1 Amortized cost: with objective to receive contractual cash flows, having the receipts of principal and interest based on the principal amount outstanding at a specific date; such as loan to customers, interbank and money market items and mainly on previously classified as investment on held-to-maturity debt instruments</p> <p>Recognition will be initially measured at fair value on the trade date and will be subsequently measured at amortized cost net of allowance for expected credit losses (if any).</p> <p>1.2 Fair value through other comprehensive income (FVOCI): with objectives to receive contractual cash flows and to sell financial assets, having the receipts on principal and interest based on the principal amount outstanding at a specific date; mainly consisted of previously classified as investment on debt instruments as well as of equity instruments</p> <p>Recognition will be initially and subsequently measured at fair value; unrealized gain or loss from changes in fair value will be reported as a component of shareholders' equity through other comprehensive income until disposal.</p> <p>1.3 Fair value through profit or loss (FVTPL): no objective to receive contractual cash flows; having the cash flows not generating from the receipts on principal and interest based on the principal amount outstanding at a specific date.</p> <p>Recognition will be initially and subsequently measured at fair value; unrealized gain or loss from changes in fair value and gain or loss on disposal of instruments will be recognized as gain (loss) on financial instruments measured at fair value through profit or loss.</p>	<p>Classification of held-to-maturity debt securities, trading securities, available-for-sale securities and general investments</p>

Changes under TFRS 9	Previous TFRS
<p>2. Revenue Recognition (financial assets)</p> <p>Recognition of interest income by using the Effective Interest Rate (EIR) method, by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate.</p>	<p>Recognition of interest income and interest expense under contract rate method and recognition of relevant fees in whole amount at initiation</p>
<p>3. Allowance for Expected Credit Losses on Financial Assets</p> <p>3.1 Consider expected credit losses throughout the lifetime of financial instruments, taking into account the forward-looking on economic factors</p> <p>3.2 Recognize expected credit losses of financial asset – debt instruments, which are measured at mortised cost or fair value through other comprehensive income, for:</p> <ul style="list-style-type: none"> - Interbank and money market (assets) - Loans to customers - Investments in debt securities - Loan commitments and financial guarantee contracts <p>3.3 Three stage approach</p> <p>Consider changes of loan quality since initiation as follows:</p> <p>3.3.1 <u>Stage 1</u> (Performing) 12 months ECL : No significant increase in credit risk (interest income calculated from gross carrying amount without any ECL deduction)</p> <p>3.3.2 <u>Stage 2</u> (Under – performing) Lifetime ECL : having significant increase in credit risk with no credit impairment (interest income calculated similarly as Stage 1)</p> <p>3.3.3 <u>Stage 3</u> (Non – performing) Lifetime ECL with Credit Impairment : having credit impairment (interest income calculated from net carrying amount)</p>	<p>3.1 Estimated allowance for doubtful accounts based on analysis of customers' historical and expected future payment in accordance with BOT's relevant regulations</p>
<p>4. Derivatives and Hedge Accounting consisting of:</p> <p>4.1 Fair value hedge</p> <p>4.2 Cash flow hedge</p>	<p>Having derivatives on foreign currency and interest in banking book, in which interest recognized on accrual basis while foreign currency recognized the translation rate at the reporting date</p>

The adoption of new Thai Financial Reporting Standards related to financial instruments and TFRS 16 Leases had no significant impact to the consolidated financial statements. The consolidated cumulative change from such accounting standards adoptions had been adjusted under retained earnings as at January 1, 2020, in which TFRS 16 had not impact on retained earnings.

Upon the above changes, there would be no restatement of historical financial statements for comparison, in which the financial analysis might be affected as follows:

1. Recognition of interest income by taking into account any discount or premium on acquisition, relevant fee and costs of financial assets will be under Effective Interest Rate (EIR) approach and interest income will be amortized throughout the lifetime of each financial assets. Previously, recognition of interest income will be under contract rate approach and recognition of relevant fee will be in whole amount at initiation. These would mainly affect ratios such as earning asset yield, NIM as well as fee income.

Recognition of interest income from investment in debt instruments will be under straight-line approach throughout the investment period, which will be varied insignificantly from effective interest rate approach.

2. Value measurement on financial instruments will be shown under gain (loss) on financial instrument measured at fair value through profit or loss, which consisted of gain (loss) from disposal, fair value measurement or reclassification of financial assets including trading and translating assets and liabilities in foreign currencies; and of net gain (loss) from changes in fair value or adjustments on financial assets designated to measure at fair value through profit or loss; whereas, previously showed as part of gain (loss) on investments, net under other operating income.
3. Expected credit losses of financial assets will considerably be classified into 3 stages from previously 5 classifications of allowance for doubtful accounts under BOT's regulation. Additionally, the new expected credit losses of financial assets will extend to include items such as loan commitments & financial guarantees and etc. from previously on loans to customers. Any bad debt recovery will be recognized as income.

II. KTB's Relief Measures in Response to the Impacts of the COVID-19 Pandemic

KTB's Relief Measures

Realizing the importance to uphold the economy, the Bank had issued relief measures to help customers (updated April 27, 2020) as follows:

- Retail loan on both personal loan under supervision (such as Smart Money loan, Multi-purpose loan 5 Plus) and housing loan (such as Home Easy Cash loan) (not exceeding Baht 3 million): 4-month debt payment holiday on principal and interest together with 4-month lower interest rate of 0.25% per annum on existing loan agreement.

In addition, personal and housing loans with document proof of reduced income shall have 6-month debt payment holiday on principal (payment on interest only) together with 6-month lower interest rate of 0.25% per annum on existing loan agreement.

- Business loan (not exceeding Baht 100 million): 6-month debt payment holiday on principal and interest automatically
- Business loan of medium-size or higher with document proof of reduced income: up to 12-month debt payment holiday on principal for term loan together with up to 6-month debt payment extension for P/N and trade finance
- Supporting soft loans for liquidity on business loan (not exceed Baht 500 million): up to 20% credit limit of outstanding loan as at December 31, 2019 for up to 5-year tenure with first 2-year interest rate of 2.0% per annum, together with up to 12-month debt payment holiday on principal and first 6-month of no interest payment; participating in SFIs' supporting soft loans based on the stated criteria.
- Continual lending rate cuts on MLR, MOR and MRR since end of last year till 2Q2020 (latest lending rate cut effective on May 22, 2020) on a cumulative of -0.65% to -1.05%

These measures will ease loan burden and increase liquidity at present while the Bank will closely work with customers to consider the financial structure for their businesses in conjunction with the pre-emptive financial restructuring in order to provide additional assistance.

BOT's Relief Measures Phase 2

BOT had announced relief measure phase 2 for retail customers impacted from COVID-19 on the following:

1. Reduction on interest rate ceilings, service fee, and penalty (interest) for credit cards and personal loan under supervision (effective August 1, 2020 onwards) on the following details:

Type	Prevision ceiling (% per annum)	New ceiling (% per annum)
1. Credit card	18	16
2. Personal loan under supervision		
- Revolving credit	28	25
- Installment payment	28	25
- Auto title loan	28	24

2. Credit limit extension on credit card and personal loan under supervision (effective August 1, 2020 onwards)

For customers who are in need of additional credit limit and continuously pay on time with average income less than Baht 30,000 per month, temporary extending credit limit from 1.5 times to 2 times of average monthly income till December 31, 2021.

3. Additional relief measures phase 2 for retail customers (effective July 1, 2020 onwards)

The scope and period of such relief measures for retail customers impacted from COVID-19 and not considered as NPLs as at March 1, 2020 are detailed below given options of minimum assistance by type of credit available to the impacted customers.

Type	Minimum Relief Measures
1. Credit card	Convert into loan of 48 installment or extend payment period according to debtor's payment ability with interest rate \leq 12% per annum
2. Personal loan under supervision: revolving loan such as cash loan card	1. Reduct minimum installment payment according to payment ability or 2. Convert into loan of 48 installment or extend payment period according to debtor's payment ability with interest rate \leq 22% per annum
3. Personal loan: installment payments and hire purchase (automotive)	Reduce installment: at leaset 30% of previous installment with interest rate \leq 22%
4. Hire purchase	1. Debt payment holiday (principal and interest): 3-month or 2. Reduce installment by extending payment period
5. Home loan or Home for Cash	1. Debt payment holiday (principal and interest): 3-month or 2. Debt payment holiday (principal): 3-month and reconsider interest rate as appropriate or 3. Reduce installment by extending payment period

Customer who would like to request for assistance could contact the Bank through various channels such as application, website, call center or SMS channel.

BOT's Additional Measures

Given the ongoing COVID-19 pandemic situation far from recovery with high uncertainty, BOT had requested commercial banks on no interim dividend payment based on 2020 performance and no share repurchase, effective on June 18, 2020. In addition, commercial banks shall have capital management plan for the next 1-3 years in order to maintain strong capital level and to continuously support business operation.

Accounting Guidance on Temporary Relief Measures for Entities Providing Assistance to Debtors Impacted by Situations That Affect the Thai Economy

On February 28, 2020, the BOT had revised the regulations for commercial banks to support customers under pre-emptive measures. For Non-NPL customer as at January 1, 2020, bank could classify such loan as Stage 1 with no identification as troubled debt restructuring: TDR given that if it is foreseen that debt restructuring agreement could be complied by customer; moreover, bank could classify loan in performing stage if NPL customer could make payment for 3 consecutive months or installments under the new debt restructuring agreement. This is applicable for debt restructuring during January 1, 2020 till December 31, 2021.

Another measure involved provisioning, in which expected credit losses shall be calculated only for the drawn portion.

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	June 2020	March 2020	December 2019
■ Long-term/ Short-term	BBB / A-2	BBB / A-2	BBB / A-2
■ Outlook	Stable ⁽⁴⁾	Stable	Stable
■ Stand-Alone Credit Profile (SACP)	bb+	bb+	bb+
■ Moody's Investors Service	June 2020	March 2020	December 2019
■ Long-term/ Short-term	Baa1 / P-2	Baa1 / P-2	Baa1 / P-2
■ Outlook	Stable	Stable ⁽³⁾	Positive
■ Baseline Credit Assessment (BCA)	baa3	baa3	baa3
■ Fitch Ratings	June 2020	March 2020	December 2019
Foreign Currency Credit Ratings			
■ Long-term/ Short-term	BBB / F2	BBB / F2	BBB / F2
■ Outlook	Stable	Stable	Positive
■ Viability Rating	bbb-	bbb-	bbb-
■ Subordinated Debt (USD)	--	-- ⁽¹⁾	BBB-
National Credit Ratings			
■ Long-term/ Short-term	AA+(tha) / F1+ (tha)	AA+(tha) / F1+ (tha)	AA+(tha) / F1+ (tha)
■ Outlook	Stable	Stable	Stable
■ THB-denominated Senior unsecured debentures	AA+(tha)	AA+(tha)	AA+(tha)
■ Subordinated Debt (Baht)	AA-(tha)	AA-(tha) ⁽²⁾	AA(thai)

(1) The Bank had redeemed subordinated debt USD in December 2019.

(2) On April 2, 2020, Fitch Ratings had downgraded the rating from AA(thai).

(3) On April 21, 2020, Moody's Investors Service had revised ratings on Thailand's outlook from Positive to Stable; consequently, Thai banks' outlook had been revised on April 22, 2020.

(4) On August 24, 2020, S&P Global Ratings had placed ratings on the Bank and Senior Unsecured as CreditWatch with negative implications.

On April 2, 2020, Fitch Ratings affirmed the Bank's Foreign Currency Credit Ratings and National Credit Ratings given the challenging operating environment and economic disruptions from COVID-19 pandemic. Additionally, the Bank has been considered as one of the five domestic systemically important banks (D-SIBs) in Thailand and is strategically important to the government. Nonetheless, the Bank's subordinated debt (Baht) was downgraded by one-notch to AA-(tha) from AA(thai) in accordance with Fitch's revised criteria, thus, affecting the ratings for domestic subordinated debts.

On August 24, 2020, S&P Global Ratings viewed that COVID-19 pandemic negatively impacted Thailand's overall economy, including higher credit risks for Thai banks; hence, ratings was placed on the Bank and Senior Unsecured as CreditWatch placement with negative implications.

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

Disclaimer

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