



Management Discussion and Analysis (MD&A)

For the Quarter Ended June 30, 2016

ธนาคารกสิกรไทย
开票银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary
Management Discussion and Analysis
For the Quarter Ended June 30, 2016

In Thailand, key engines of growth did not fully recover. However, there were certain signs that the impacts of drought may have eased. Government spending and tourism were the main thrusts of Thai economic growth – offsetting lethargic exports, which are poised to contract for the fourth consecutive year. Still, development of risk factors vis-à-vis global economic fragility merits close monitoring. Such factors are, in particular, long-simmering problems in Europe’s banking sector, the UK’s post-Brexit relationship with the EU, and the exact timing of the UK’s separation from the EU. These uncertainties may affect the economic climate and financial markets both in Thailand and worldwide.

Amid internal and external economic uncertainties, KASIKORNBANK (KBank) and K Companies focused our efforts on operating cost and asset quality management, with the purpose of achieving sustainable growth and returns over the long term, under our “Customer Centricity” strategy and endeavors towards becoming our “Customers’ Main Bank”.

For our operating performance in the second quarter of 2016, KBank and subsidiaries reported a net profit of Baht 9,428 million, a slight decrease of Baht 218 million, or 2.27 percent, over-quarter. The decline could be attributed to a decrease of Baht 2,004 million or 11.42 percent in non-interest income, which came mainly from lower revenue from money market and capital market products. Our net interest margin (NIM) equaled 3.49 percent. In addition, other operating expenses rose Baht 854 million, or 5.77 percent. As a result, our cost to income ratio stood at 41.54 percent. Meanwhile, KBank set aside lower allowance for impairment loss on loans from the previous quarter.

As of June 30, 2016, KBank and subsidiaries had total assets of Baht 2,705,154 million, rising Baht 149,849 million, or 5.86 percent, compared to the end of 2015. The increase was mainly derived from higher net interbank and money market items, net investments and loans. Meanwhile, our gross NPLs to total loans equaled 2.89 percent, with coverage ratio at 136.21 percent, compared to 2.70 percent and 129.96 percent at the end of 2015. Our robust capital position was sufficient to cushion against risks, and greater than the Bank of Thailand’s requirement. As evidenced, KASIKORNBANK FINANCIAL CONGLOMERATE’s capital adequacy ratio (CAR) per the Basel III framework was 18.12 percent, and Tier-1 capital ratio was 14.69 percent.

Our operating performance and ongoing efforts enabled KBank and K Companies to meet business targets and gain wide acceptance and marks of recognition at home and abroad, as reflected in numerous awards received in the second quarter of 2016.

Contents

	Page
Executive Summary	A
1. Overview of Operating Environment	1
1.1 Global and Thai Economy in the Second Quarter of 2016	1
1.2 Banking Industry and Competition	2
1.3 Regulatory Changes	3
2. Risk Management and Risk Factors	5
2.1 Credit Risk Management	5
2.2 Market Risk Management	5
2.3 Liquidity Risk Management	5
3. Business Directions and Operations of Core Businesses	7
3.1 Sustainability Development and Corporate Governance	7
3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK in the Second Quarter of 2016	8
3.3 Customer Segments and Services	8
3.4 Service Channels	12
3.5 Awards and Commendation	14
4. Operating Performance and Financial Position Analysis	16
4.1 Operating Performance	16
4.2 Financial Position Analysis	22
4.3 Loans and Deposits	24
4.4 Treasury Operations	27
4.5 Operating Performances of K Companies and Muang Thai Life Assurance PCL	29
4.6 Capital Requirements	30
4.7 Credit Ratings	31
5. Operations of Support Groups	33
5.1 Human Resource Management	33
5.2 IT Management	34

1. Overview of Operating Environment

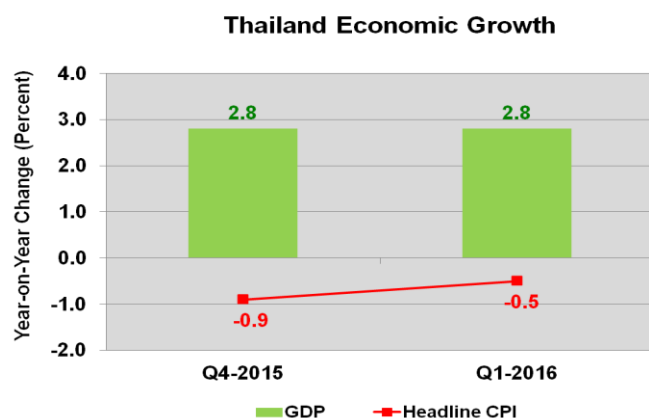
1.1 Global and Thai Economy in the Second Quarter of 2016

The global economic outlook was clouded by uncertainty. Risks heightened in light of the UK vote to leave the European Union (Brexit), while China's economic slowdown is likely to persist into the second half of this year. Recently, the International Monetary Fund (IMF) downgraded its world growth forecast for 2016 to 3.1 percent from the previous 3.2 percent. This projection is based on benign assumptions that uncertainty following the UK referendum on EU membership would gradually wane, and the policymakers in the EU and UK would manage to avoid wide-ranging repercussions, which would thus limit the financial market fallout. Nonetheless, if things do not turn out as expected, impacts on the global economy may significantly increase.

Amid numerous risks in the global economy, many central banks of core economies may maintain a cautious stance in their monetary policy to sustain the economic recovery. The US Federal Reserve (FED) may prudently consider timing of any policy rate hike in the FOMC meetings during the remainder of this year. The European Central Bank (ECB) and Bank of Japan may have to adopt more accommodative tools to shore up their economic growth while also focusing on achieving their inflation target.

In Thailand, key engines of growth have not fully recovered. Overall, however, the Thai economy in the second quarter of 2016 grew 3.5 percent YoY, led by a positive sign of household consumption, which was consistent with farm income that returned to growth in this quarter.

Government spending and tourism were the main thrusts of Thai economic growth – offsetting lethargic exports, which contracted 1.6 percent YoY during the first six months of 2016. Excluding gold and oil shipments, Thai exports fell 2.9 percent YoY. For 2016, Thai exports are likely to show a contraction for the fourth consecutive year. Looking at inflation, headline inflation returned to positive territory in this quarter, given rising prices of fresh food in line with lower supply of farm produce as a result of drought.



Looking forward, KResearch holds the view that the Thai economy in the second half of this year may be similar to what was seen in the first half amid a slower-than-expected rebound of exports. (KResearch has slashed its 2016 export projection to a 2.0-percent decline.) Nonetheless, continuous

domestic spending, both from the government and private sector, may keep the Thai economic growth momentum rolling. The Thai economy this year is therefore expected to maintain growth of 3.0 percent, as earlier projected. Still, development of risk factors vis-à-vis global economic fragility during the remainder of this year merits close monitoring. Such factors are, in particular, long-simmering problems in Europe's banking sector, negotiations on the UK's post-Brexit relationship with the EU, as well as the exact timing of the UK's separation from the EU. The global economic climate and financial markets may thus be affected by these uncertainties. Domestically, the Thai political situation needs close monitoring as major events per the set timetable progress.

Given these factors, the Bank of Thailand (BOT) may remain cautious in its economic projections for this year and may maintain its accommodative monetary policy throughout the remainder of this year, even though the key policy rate was kept intact at 1.50 percent during the Monetary Policy Committee (MPC) meeting held in August.

1.2 Banking Industry and Competition

The Thai economy, along with the investment atmosphere, was undergoing a gradual recovery. Maintaining their focus on asset quality, commercial banks remained prudent in their customer base expansion. Loans of the banking system therefore recorded limited growth during the second quarter of 2016. Several commercial banks set aside higher allowance for impairment loss on loans, as part of their proactive policy to cope with rising non-performing loans (NPLs) and cushion against possible future risks. As a result, net profit of domestically-registered banks in this quarter posted decelerating growth, over-quarter.

However, commercial banks' ability to generate income stayed healthy. Net interest income was stable, compared to the previous quarter. Likewise, net interest margin (NIM) was slightly lower due to the effective cost management undertaken by most banks. Several banks were noted to have cut their lending rates to help ameliorate interest payment burdens of their medium, small and micro business customers, without resorting to deposit rate reduction. Meanwhile, fee income was slightly lower compared to the preceding quarter, against the backdrop of cautious capital expenditure and consumption at home. Still, fee income enjoyed growth, over-year.

Looking into the rest of 2016, interest income from loans – one of commercial banks' core earnings – may see improvement from the first half of this year. Corporate business loans, especially those for long-term investment, are likely to benefit from the gradual implementation of the government's mega-projects. At the same time, retail business loans are set to witness ongoing growth, especially hire purchase loan, which may pick up as the impact of the first-time car buyer program fades further. Given that most commercial banks will continue to prioritize effective cost management when it comes to fund mobilization, downside risk of NIM may be somewhat limited. For fee income, numerous challenges still exist. They are, for instance, progress of the PromptPay program under the

government's National e-Payment Master Plan, which offers significantly lower transfer fees, as well as heightened competition in the market as new players and non-bank financial institutions join the fray. The new transfer service is scheduled to be rolled out at the end of this year. Although its current-year impacts may be limited, effects on fee income may be sharply felt in the year to come. Given these circumstances, all commercial banks are likely to keep a close watch on the situation, and may have to set additional management guidelines to cope with it.

1.3 Regulatory Changes

Significant regulatory changes during the second quarter of 2016 that may have affected KBank's and K Companies' business operations included:

- **Debt Collection Business Practices Regulation**

The Committee Governing Debt Collection's Announcement on "Debt Collection Business Practices Regulation", published in the Government Gazette on May 3, 2016, effective May 4, 2016, set major criteria for debt collection practices. Salient points include that the debts subject to follow-up procedures must be past-due and debtors must be notified of information beneficial to them, e.g., their rights to petition, any applicable expenses or fees incurred from debt default. In addition, debt collection agents must keep all information related to debtors in strict confidence, collect evidence of any payments made, e.g., receipts acknowledged by borrowers for later verification, and must provide complaint handling procedures with at least two channels for accepting complaints. This new regulatory framework also prescribes details governing debt collection agents' places of business and staff; they are required to have a "debt collection office" signage publicly posted and must arrange for employees to have ID cards that contain all required information per the new regulation.

One of our P Companies is responsible for handling debt collections for KBank; it has already performed debt collection operation in full compliance with the new guidelines and procedures.

- **Offering of Unit-Linked Life Policy**

The Office of Insurance Commission (OIC) has issued a notification on the "Rules, Procedures and Conditions concerning the Registration of Life Insurance Agents and Brokers Selling Unit-Linked Life Policies", B.E. 2559 (2016), which contains revised regulations that came into effect on June 6, 2016. Key issues involve permission for life insurance brokers as juristic persons to be eligible to sell unit-linked life insurance policies, whereas only individual life insurance agents and brokers were previously allowed to sell such policies. Registration is required for any juristic person seeking to sell the policies, as well as for their sales staff.

The revised regulations will provide further opportunities for corporate entities, including KBank, to offer unit-linked life insurance policies to customers interested in securities investments,

wherein they also gain life insurance coverage. KBank is preparing to register as a life insurance broker selling unit-linked life policies in accordance with the new OIC regulation.

- **Relaxation of Regulations on Investment in Securities Abroad and Derivatives Transactions**

BOT has issued a notification on a relaxation of regulations on investments in securities abroad and derivatives transactions, coming into effect on July 20, 2016, with the aim of allowing more flexibility in investor qualifications and other criteria. The salient points include:

1. Thai juristic persons or individuals with deposits or investment outstanding in securities and derivatives of Baht 100 million or more, classified as qualified investors (QI), are eligible to directly invest up to USD 5 million per year in foreign securities per conditions established by the BOT. However, individual QIs are still able to invest in foreign securities through local intermediaries in accordance with existing criteria.
2. QIs are allowed to conduct derivatives transactions with notional amount in foreign currencies with non-resident or authorized juristic persons.
3. QIs that are Thai juristic persons with assets of Baht 5 billion or more, and companies listed on the Stock Exchange of Thailand, are required to submit an acknowledgement form for investment objectives to authorized juristic persons upon any purchase, exchange or withdrawal of foreign currency for investment abroad.

These relaxed regulations will provide greater investment alternatives for our customers. KBank, as an authorized juristic person, has already put in place operational procedures to accommodate these changes.

2. Risk Management and Risk Factors

2.1 Credit Risk Management

Credit risk refers to risk whereby a counterparty or borrower may default on contractual obligations or agreements, or have an intention to not abide by an agreement, resulting in losses to banks. Amid global economic uncertainty, the Thai economic slowdown and concerns over hefty household debt in the second quarter of 2016, KBank adopted a cautious stance in credit risk management, placing an emphasis on creating a balance between our services and credit risk management within each customer segment to keep risks within an acceptable range. We also prioritize credit risk management compatible with international standards and regulatory requirements.

Given the rising risk trend, we put in place more stringent customer screening for both corporate and retail businesses, notably housing loan customers, while focusing on those with stronger financial status and sound debt servicing capabilities. Relevant processes were also adjusted for monitoring and managing these credit risks as well as portfolio quality management in a more efficient manner to elevate our loan quality. These efforts will be conducive to sustainable growth and reasonable returns for shareholders and investors.

2.2 Market Risk Management

Fragility persisted worldwide in financial markets during the second quarter of 2016. The US Fed signaled that any hike in the Fed Funds rate was not imminent, which somewhat helped ease investors' concerns. However, impacts of the Brexit on the EU and China's financial sector risk amid rocketing debts were the main drivers for increased volatility in the global economy. The Thai Baht was on a volatile course, as a result. Long-term Thai government bond yields remained under pressure while short-term yields were static after the BOT's Monetary Policy Committee resolved to maintain the policy rate at 1.50 percent.

To cope with domestic and international economic and political uncertainty, as well as rapid changes in fund flows as above, KBank is closely monitoring the situation and assessing possible impacts, placing importance on efficient risk management under the supervision of the Enterprise Risk Management Division, Market Risk Management Sub-committee and Risk Management Committee, to maintain risks within prudent limits.

2.3 Liquidity Risk Management

Overall liquidity in the Thai financial system slightly tightened during this quarter due to contrasting trends of loans and deposits. While demand for loans increased, deposit volume declined slightly. Capital inflows into Thai debt instruments increased towards the end of the quarter in light of

Brexit and the Fed slashing its forecast of further rate increases. Such factors could significantly affect KBank's liquidity in various dimensions.

We are therefore keeping a close watch on the situation, while also analyzing its impacts. Subject to our regular reviews and improvements in liquidity risk management processes at KBank and K Companies, these actions are consistent with economic circumstances and rapid changes in the prices of financial assets. We continue to emphasize proactive risk controls via the supervision of the Enterprise Risk Management Division, Assets and Liabilities Management Sub-committee and Risk Management Committee. We are also watchful for any impact on our deposits, both short and long term, to ensure that we adopt proper fund-raising strategies.

3. Business Directions and Operations of Core Businesses

3.1 Sustainability Development and Corporate Governance

□ Sustainability Development in Action

KASIKORNBANK continues to adhere to the “Green DNA” resolution - the concept of sustainable development in various aspects, namely the economy, society and environment, and to affirm that it is embedded in our collective conscience at the “DNA” level. This notion is an integral part of our corporate culture that will serve to establish our identity as a Bank of Sustainability. We have adopted a “Human Rights Policy”, which is in parallel with our sustainability development and in compliance with national and international requirements, such as principles of humanity and rights in accordance with the International Labor Organization (ILO) and Principles of the United Nations Global Compact (UNGC). Aimed at fostering greater awareness of human rights issues across the organization and enhancing our capability to carry out due diligence and manage human rights issues related to our employees, customers and suppliers, KBank’s Human Rights Policy is implemented to direct internal operations of KBank, K Companies, P Companies, our subsidiaries and business partners.

With the resolution to make our society stronger in alignment with our Corporate Social Responsibility for community and society, KBank encourages our employees to participate in volunteer activities; each employee is entitled to an annual one-day leave for such activities. This undertaking is part of efforts to build sustainable communities, society and environment, which will lead to value creation and social development in diverse dimensions in accordance with the Bank’s Corporate Citizenship Strategy and our business directions.

□ Corporate Governance

KBank places great emphasis on the maintenance and development of corporate governance standards as part of our corporate culture. During the second quarter of 2016, we organized several CG promotional activities, e.g., communication to employees about gift giving and acceptance practices per our Code of Conduct, as well as Anti-Corruption Policy – disseminated via KASIKORNTV – and the arrangement of meetings with our suppliers to assure their acknowledgement and understanding of KBank procurement policies and procedures. We also promoted ethical business practices among the suppliers by encouraging them to participate in Thailand’s Private Sector Collective Action Coalition Against Corruption (CAC). Other notable efforts included lectures on Good Corporate Governance and Anti-Corruption Policy presented to other organizations, plus employee training and evaluations of knowledge on compliance with our Code of Conduct and Anti-Corruption Policy via the KBank e-Learning system. Moreover, equitable treatment of shareholders has been another major focus. Given our firm dedication towards good corporate governance practices, KBank

received a full score of 100 points from quality assessment of Annual General Meeting arrangement in 2016, organized by the Thai Investors Association.

3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK in the Second Quarter of 2016

Amid economic uncertainties and political changes internally and externally, KBank and our wholly-owned subsidiaries placed special emphasis on business operational sustainability. We put our top priority on operating cost and asset quality management, as well as effective and timely risk management. We initiated assistance measures for our customers to help them sustain their businesses and financial status. Along with this, we firmly adhered to our commitment to quality business operations under our “Customer Centricity” strategy and efforts towards becoming our “Customers’ Main Bank” for all eight customer segments. We are committed to excellence in innovation, superior financial product management as well as strong sales and service with concern for consumers’ security. These efforts aim to deliver excellent service to our customers with the purpose of achieving long-term sustainable growth and returns. KBank’s brand positioning has been accentuated through synergies between KBank and K Companies as well as our strategic ownership in Muang Thai Life Assurance PCL.

Beyond the above strategies, KBank places equal importance on supporting tasks, which are in harmony with our business directions that focus on proactive integrated risk management (IRM), improved customer service, cost-efficient internal operations, as well as better information, human resource and IT system management. These endeavors are crucial to attaining our business targets and maintaining our leadership amid greater competition within the AEC and the coming digital banking era.

3.3 Customer Segments and Services

During the second quarter of 2016, KBank and K Companies continued to adhere to our “Customer Centricity” strategy with a focus on the impacts of domestic and global economic problems. Emphasis was placed on upholding customers’ businesses and financial positions, while also supporting their growth and opportunities derived from the government’s economic stimulus measures and other factors. Along with that, we developed our business in various dimensions – from customers to product domains and service channels – so that customers’ financial needs are efficiently and completely met by our solutions. These undertakings helped us to achieve our business goals, while also appropriately maintaining the quality of our portfolios.

■ Multi-Corporate Business

In the second quarter of 2016, the Thai economy began to pick up, driven largely by the government moving forward on public transportation upgrades nationwide and the private sector's investment in telecommunication system development. In tune with this trend, our Multi-Corporate Business customers continued their investment plan for business expansion. As evidenced, large telecom operators were seen mobilizing their funds, while big-time retailers pursued merger and acquisition (M&A) deals both at home and abroad. KBank focused on responding to our customers with loan products and other appropriate fund-raising services.

Meanwhile, domestic transactions were hampered by sluggish consumption amid rising household debts. Still, we expect that our growth targets will be attainable, especially through our value-added services, digital solutions and value chain solutions for our customers and their trade partners in the consumption, infrastructure and construction clusters. In foreign transactions, KBank maintained solid growth despite forex fluctuations given that we emphasized the offering of flexible risk management products. As a result, overall KBank business continues to grow along with our customers who remain financially strong, with sound debt servicing capabilities.

■ Large Corporate Business

Due to economic volatility, KBank has prioritized customers' risk management, especially exchange rate and interest rate risks. Depending on customers' needs and market timing, our professional Relationship Managers offer advisory services and risk protection tools (derivative products) to our customers, allowing them to operate their business with confidence.

Furthermore, we provide value chain management solutions wherein our customers and their business partners gain enhanced connectivity, leading to more expansive business networks and efficiency, upstream to downstream. To this end, we equip them with working capital and digital solutions to facilitate their financial transactions. So far, we have offered customized programs to our customers in the agro-processing, commerce, and packaging industries.

■ Medium Business

KBank continues to pursue "K SME Full Support for SME" through our Total Product Solutions. To this end, we offer K-Value Chain Solutions, featuring loan products and cash management services, specifically designed for entire business chains to assist our customers at all stages of their business operations for their sustainable success. Therefore, they will adopt KBank as their "Main Bank". In this quarter, KBank developed various loan products for our customers in major industries. Notable efforts included the Loan Program for Battery Industry, Financing for Buyers of Leading Operators in Construction Materials and Consumer Goods, etc.

Additionally, we improved customers' competitiveness via knowledge-based forums, namely seminars on "Keep Track of Economy, Beat Currency Fluctuations – Formula for Success in Import-

Export Business”, and “SME Converting Your Invoice to Working Capital”. Along with this, KBank emphasized business networking and the use of digital technologies plus cooperative efforts with our business partners to help our customers reduce operating costs. For greater work efficiency, we have improved the end-to-end credit approval process, while more time is now spent on customer visits.

■ **Small and Micro Business**

With a focus on the Customer Centricity strategy, “K SME Full Support for SME” has been implemented to serve existing customers and reduce their financial constraints while also broadening the new customer base. In the second quarter of 2016, numerous loan products and financial services were specifically designed to match customer demand in each industry, namely “K-SME Construction Credit”, “K-SME Medical Credit”, “Financing for Swine and Poultry Farm Producers”, including cooperative efforts with large beverage manufacturers. New loan products were also introduced, e.g. “Doing Good Deeds and Earn Money” to provide support for SMEs in complying with tax regulations, “SME Credit for EDC and mPOS Merchant Service”, among others. Meanwhile, KBank continued to expand our “Micro Loan” customer base with ongoing marketing campaigns.

To accommodate the expansion of EDC terminals and the greater use of debit cards, which are part of the government’s National e-Payment Master Plan, KBank has developed our K-PowerP@y (mPOS) to be compatible with the new mPOS device with PINPAD, which can be linked to a smartphone via Bluetooth. We are also preparing to communicate to our employees nationwide the plan to increase EDC terminals in alignment with the National e-Payment Master Plan.

To attain the “Customers’ Main Bank” status, KBank has focused on employee productivity enhancement and retention, both for RM teams and supporting units, as well as credit underwriting process for timely customer responsiveness. Along with those endeavors, study courses were designed to match the needs of our SME customers, with the aim of inspiring them and improving their business expertise. Of particular note were an online seminar, “SME Webinar”, and a TV variety show, “SME Tee Tak”. Customers’ business networks have also been strengthened via our business matching activities to enhance their knowledge – a stepping stone towards their business expansion.

■ **High Net Worth Individual**

To accentuate KBank’s leadership in comprehensive world-class private banking services, we introduced KBank Private Banking Family Wealth Planning Service, built upon the knowledge of Lombard Odier – our business partner – in the second quarter of 2016. The service covers six areas, i.e. Family Continuity Planning, Financial Asset Liabilities and Risk Management, Asset Holding Structure, Inheritance and Wealth Transfer, Philanthropy, and Family Office.

In addition to seminars held to equip our customers with useful knowledge, KBank acted as a coordinator to provide them with private advisory services through our domestically and internationally

recognized, highly professional business partners, with KBank specialists always on hand to take care of their family wealth management.

■ **Affluent**

KBank has established our “THE WISDOM” brand as a brand of exclusive and distinguished services that serves customers of every lifestyle via every channel. We aim to remain at the forefront in the market, wherein our Affluent customers, classified as those with Baht 10-50 million in deposits and investments with KBank, now represent the largest market share of 63 percent. We pursue business strategies that help us retain our customer base while also reaching out to new clientele in major provinces across the country, including foreign nationals and those in certain professions, along with portfolio quality improvement. Teaming up with KAsset, we launched mutual fund products based on customer behavior analyses to ensure them of greater returns during this quarter. Specifically designed for our Affluent customers were the K Enhanced Foreign Fixed Income Fund, as well as other alternative funds including the K Japanese Equity Index Fund (K-JPX) and K European Equity Index Fund (K-EUX), which are Foreign Investment Funds, as well as the K Property Sector Fund (K-PROP) and K Global Infrastructure Equity RMF (KGIFRMF).

As a savings alternative for risk-averse customers, we launched Pro Saving 215 and a special fixed-term deposit program. We also plan to launch a PR campaign on the reduction of deposit coverage limit to not more than Baht 15 million, which will come into effect in the third quarter, to ensure that our customers and RM teams are well-equipped with appropriate financial management guidelines.

■ **Middle Income**

Using strategies to create top-of-mind awareness, KBank is working to become the long-term bank of choice. We aim to increase product holdings through cooperative efforts with our business partners to meet customer needs, and the strengthening of our “THE PREMIER” as an exclusive brand for new-generation customers whose investments range between Baht 2-10 million. In this quarter, KBank introduced “*Taweesup* Extra with Life Insurance: Pro Saving 615 Guarantee”, which allows customers to make zero-percent-interest installment payment of premiums for three months via K-Credit Card every year. With the aim of expanding our customer base while also becoming the main bank of our customers, we have launched promotional campaigns to reach out to those without savings accounts to expand our customer base.

We have prioritized our efforts in screening clients with potential, introducing campaigns to promote financial discipline among our customers and adopting a more cautious stance towards loans, especially amid the hefty household debt and fragile economic recovery. To achieve this, we organized housing loan marketing campaigns to tap into target groups such as those residing in strategic provinces, and online borrowers. One notable endeavor was the launch of a special-rate home loan

scheme in line with the government's real estate stimulus measures. For the personal loan market, we initiated the "Special 16 Percent Interest K-Personal Loan" campaign. Under the program, KBank Payroll customers enjoy a 16 percent interest rate, p.a. while employees with regular income receive complimentary gifts. Another notable endeavor was the "Dine, Travel across the Country during Songkran Festival and Get Baht 500 Cash Back" to support the government's efforts to stimulate private spending.

Moreover, KBank has put in place relevant systems to accommodate PromptPay, a funds transfer service under the National e-Payment Master Plan. We also prepared to introduce the service to our customers and to facilitate them in their registration and funds transactions via the new service. Pre-registration was launched July 1, 2016. Registration for PromptPay started July 15, 2016 and the service will be available October 31, 2016 onward.

■ **Mass**

Placing our emphasis on higher security in financial transactions, KBank, in the second quarter of 2016, introduced a chip-embedded debit card in three designs based on different benefits in accordance with customers' lifestyles. The new debit card can be used for basic financial transactions anywhere, anytime. We also further developed our electronic service channels to accommodate new lifestyles with enhanced security, especially K-MOBILE BANKING PLUS, via the introduction of an app protocol for activation or transaction inquiry of K-Credit Card and K-Express Cash Card as well as for travel insurance purchase.

KBank remains committed to expanding the new customer base upcountry, especially those with potential. To attract promising Mass customers to become our Middle Income clients in the future, we have continually promoted the "KBank Football Club Debit Card", which has been well-received by the market. At the same time, numerous marketing activities to highlight KBank's image were presented at Thailand's leading companies and universities as part of our CRM efforts to attract their personnel to use KBank as their main bank and to attain top-of-mind status.

3.4 Service Channels

KBank maintained our commitment to developing efficiency in all our core service channels in order to raise our capacity to reach our customers and deliver them excellent service. Our efforts, especially provision of electronic channels, have been consistent with the government's digital economy policy. In the second quarter of 2016, new and fascinating services were added, including:

(1) **Branch Network:** Key initiatives for branch network management included:

- **Domestic branch network:** Enhancement of quality in our sales and service at branches has been a major focus. As part of achieving this, we now first consider viable locations when it comes to branch expansion, rather than simply increasing the number of branches. We have also upgraded the

potential of digital platforms to better meet changing customer needs and hold on to our position as the “Customers’ Main Bank”.

Some of THE WISDOM Centers and K-Express Credit Centers, totaling 11, are classified as other branch platforms per the BOT’s conditions.

- **International branch network:** Los Angeles International Branch has been reassigned as a representative office to coordinate with AEC+3 customers for network connectivity per our current business direction towards growth in the Asian region so as to respond to customers seeking to foray into other ASEAN countries in alignment with the national agenda to embrace the AEC.

Branches and Financial Service Offices/Centers

(Units: Units)

Branches and Financial Service Offices/Centers					
Domestic	Jun. 2016	Mar. 2016	International	Jun. 2016	Mar. 2016
Branch Network	1,121	1,120	Locally Incorporated Institution	1	1
Foreign Exchange Booth	156	157	Branches	5	6
THE WISDOM	105	105	Representative Offices	10	8
Corporate Business Center	8	8			
SME Business Center*	121	121			
International Trade Service Center	58	58			
Cheque Direct Service	31	31			

Note: * Excluding International Trade Service Centers. More than one SME Business Center may be located in a single branch.

(2) Electronic Network comprises:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus. Notable efforts included upgrades of machines for chip card compatibility per BOT policies, machine relocations to more appropriate and accessible sites, removal of worn-out machines, and encouragement of customers to use self-service machines. In addition, foreign customers now have more convenience in using our K-My ATMs, which can presently support 12 languages.

Electronic Banking Services

(Units: Units)

Electronic Banking Services	Jun. 2016	Mar. 2016
Self-Service Channel (K-ATMs and K-CDMs)	11,763	12,006
K-ATMs	9,070	9,306
K-CDMs (Cash Deposit Machines)	2,693	2,700
K-PUM (Passbook Update Machines)	1,264	1,272

- **Digital Banking Services:** Service efficiency enhancement in our three major digital banking services, i.e., K-Cyber Banking, K-MOBILE BANKING PLUS, and K-Payment Gateway, along with the launch of related campaigns in alignment with customer lifestyles, included:

- 1) **K-Cyber Banking:** In order to highlight our digital banking leadership, the “REWARD PLUS” program was continually implemented while more participating merchants joined the campaign so as to offer special privileges that better meet our customers’ needs when applying for and conducting transactions via K-Cyber Banking and K-MOBILE BANKING PLUS.
- 2) **K-MOBILE BANKING PLUS:** We have developed K-MOBILE BANKING PLUS functions which enable users to activate their K-Credit Card and K-Express Cash Card on their own, view card spending, billing and accumulated points as well as adding supplementary cards and checking spending via them. Customers are also able to buy international travel insurance via the app, wherein the insurance policy which provides coverage for medical expenses, trip delays and emergency assistance service will be sent immediately via e-mail.
- 3) **K-Payment Gateway: Pay Plus, a new payment channel, has been added,** which allows customers to make payment by account debit via K-MOBILE BANKING PLUS, in addition to K-Credit Card and K-Debit Card. Specific features of K-Payment Gateway are being developed to provide greater convenience and security for customers purchasing goods and services from K-Payment Gateway merchants.

- **K-Contact Center:** KBank has implemented a 24-hour social media complaint management program to allow for timely resolution of such matters. The move could help prevent online criticism from escalating to a point where it may harm an organization’s image and reputation. Meanwhile, we have adopted international guidelines for our development process in order to elevate management efficiency vis-à-vis customers, employees and service processes so that relevant issues can be resolved within a shorter period of time. We also set up a K-Contact Center in Khon Kaen for service continuity in case of crisis situations.

3.5 Awards and Commendation

Through these efforts, KBank and K Companies have achieved good business performance, earning the recognition of various organizations at home and abroad, proven by many awards granted during the second quarter of 2016, notably:

Awards to KBank and K Companies

KBank

- Two awards from The Asian Banker CEO Leadership Achievement Award 2016, organized by The Asian Banker journal: **Best CEO in Thailand** and **Best Management Bank in Thailand**
- Two awards from The Asian Banker Transaction Banking Awards 2016, organized by The Asian Banker journal: **Best Transaction Bank in Thailand** and **Best Cash Management Bank in Thailand**
- Two awards from Thailand Zocial Awards 2016, held by Thoth Zocial Co., Ltd.: **The Best Customer Service on Social Media** and **The Best Online Crisis Management**
- Three awards from the 6th Asian Excellence Recognition Award 2016, organized by Corporate Governance Asia magazine: **Asia's Best CEO - Investor Relations**, **Best Investor Relations Company** and **Best Investor Relations Professional**
- Three awards from The Asset Triple A Treasury, Trade and Risk Management Awards 2016 Dinner, organized by The Asset magazine: **Best Cash Management Bank in Thailand 2016**, **Editors' Triple Star for PTT Fill&Go 2016** and **Best Cash Management Solution in Thailand for Thep Sombat 2016**
- Four awards from The Asset Triple A Asia Infrastructure Awards 2016 Dinner, organized by The Asset: **Project Finance House of the Year, Thailand**, **Best Energy/Renewable Energy Deal - Industrial Waste, Thailand** and **Best Energy/Renewable Energy Deal - Wind, Thailand** and **Best Power Deal, Thailand**
- Two awards organized by Marketeer magazine: **Marketeer No.1 Brand Thailand 2015-2016**, in the category of Bank for SME and **Marketeer No.1 Brand Thailand 2015-2016** in the category of Credit Cards (for three consecutive years), Debit Cards and Deposits
- **Most Attractive Booth Award**, from Money Expo 2016, organized by Money and Banking magazine

KAsset

- Two awards from Best of the Best Awards 2015, organized by Asia Asset Management magazine: **Best Fund House (Thailand)** and **Best Pension Fund Manager (Thailand)**
- **Fund House of the Year (Thailand)**, from AsianInvestor Asset Management Awards 2016, held by AsianInvestor magazine (Hong Kong)
- **Best Fixed-Income Fund of 2016**, in the category of mid/long term bonds, from Morningstar Thailand Fund Awards 2016, organized by Morningstar Research (Thailand) Co., Ltd.
- **Marketeer No.1 Brand Thailand 2015-2016**, in the category of mutual fund business (for the second consecutive year)

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for the second quarter of 2016 totaled Baht 9,428 million, slightly decreasing Baht 218 million – 2.27 percent lower over-quarter, despite a decline of Baht 2,572 million in impairment loss on loans and debt securities, or 22.78 percent lower. The decrease was attributed to operating profit before provision expense and income tax expense which dropped Baht 2,935 million, or 11.76 percent lower over-quarter. This decline was derived from non-interest income which fell Baht 2,004 million, or 11.42 percent, mainly from lower revenue from money market and capital market products. Moreover, net interest income slightly decreased by Baht 77 million, or 0.35 percent lower, due partly to declining interest rates despite an average increase in loans. Meanwhile, net interest margin (NIM) was equal to 3.49 percent, down from the previous quarter, but still within the set target of 3.3-3.5 percent.

At the same time, operating expenses rose Baht 854 million – 5.77 percent higher over-quarter. As a result, cost to income ratio increased from the previous quarter to 41.54 percent, but still lower than the target.

Operating Performance for the Second Quarter of 2016

(Units: Million Baht)

	Q2-2016	Q1-2016	Change		Q2-2015	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	22,123	22,200	(77)	(0.35)	21,119	1,004	4.75
Non-Interest Income	15,547	17,551	(2,004)	(11.42)	16,637	(1,090)	(6.55)
Total Operating Income - net	37,670	39,751	(2,081)	(5.24)	37,756	(86)	(0.23)
Other Operating Expenses - total	15,647	14,793	854	5.77	15,947	(300)	(1.88)
Impairment Loss on Loans and Debt Securities	8,721	11,293	(2,572)	(22.78)	6,037	2,684	44.46
Net Profit (attributable to equity holders of KBank)	9,428	9,646	(218)	(2.27)	11,479	(2,051)	(17.87)
Basic Earnings per Share (Baht)	3.94	4.03	(0.09)	(2.27)	4.80	(0.86)	(17.87)

When compared to the same quarter of the previous year, a decrease of Baht 2,051 million in our consolidated net profit, or 17.87 percent lower, was largely due to an increase of Baht 2,684 million or 44.46 percent in impairment loss on loans and debt securities to cope with the economic slowdown. However, operating profit before provision expense and income tax expense slightly rose by Baht 214 million or 0.98 percent, over-year, due to a decrease of Baht 300 million, or 1.88 percent in other operating expenses. Meanwhile, net operating income slightly dropped by Baht 86 million, or 0.23

percent, due mainly to a decrease of Baht 1,090 million in non-interest income – 6.55 percent lower. The decrease in non-interest income could be largely attributed to lower net premiums earned less underwriting expenses, gain on trading and foreign exchange transactions and net fees and service income. Meanwhile, net interest income rose Baht 1,004 million or 4.75 percent, over-year. The increase was mainly derived from falling interest expenses because of high-interest deposits reaching maturity and lower deposit interest rates.

Major financial ratios that reflected operating performance of KBank and our subsidiaries in the second quarter of 2016 compared to the previous quarter and the same quarter of last year included:

(Units: Percent)

Financial Ratio	Q2-2016	Q1-2016	Change	Q2-2015	Change
Return on Assets (ROA) ¹⁾	1.41	1.48	(0.07)	1.84	(0.43)
Return on Equity (ROE) ¹⁾	12.79	13.41	(0.62)	16.94	(4.15)
Net Interest Margin (NIM) ¹⁾	3.49	3.62	(0.13)	3.59	(0.10)
Non-Interest Income to Average Assets ¹⁾	2.33	2.70	(0.37)	2.67	(0.34)
Non-Interest Income Ratio	41.27	44.15	(2.88)	44.06	(2.79)
Cost to Income Ratio	41.54	37.21	4.33	42.24	(0.70)

¹⁾ Financial ratios are calculated on an annualized basis.

(Units: Percent)

Financial Ratio	Jun. 30, 2016	Mar. 31, 2016	Change	Jun. 30, 2015	Change
Net NPLs to Total Loans	1.54	1.48	0.06	1.07	0.47
Gross NPLs to Total Loans	2.89	2.81	0.08	2.39	0.50
Coverage Ratio	136.21	135.13	1.08	138.13	(1.92)
Loans ²⁾ to Deposits Ratio	95.51	92.33	3.18	93.86	1.65
Loans ²⁾ to Deposits and B/E Ratio	95.50	91.83	3.67	93.61	1.89
Capital Adequacy Ratio ³⁾	18.12	18.36	(0.24)	17.39	0.73
Tier 1 Capital Ratio ³⁾	14.69	14.88	(0.19)	13.77	0.92

²⁾ Loans = Loans to customers less deferred revenue

³⁾ KASIKORNBANK FINANCIAL CONGLOMERATE's Capital Adequacy Ratio (CAR)

□ Net Interest Income

KBank's consolidated net interest income for the second quarter of 2016 was Baht 22,123 million, decreasing Baht 77 million or 0.35 percent over-quarter due to reduction in average interest rates and an average increase of loans. Our NIM for this quarter, therefore, equaled 3.49 percent, lower than the previous quarter, which remained within the set target range of 3.3 – 3.5 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 1,004 million, or 4.75 percent higher, due largely to lower interest expenses, over-year, as a result of high-interest deposits reaching maturity and lower deposit rates. Meanwhile, falling interest income from loans prompted NIM in this quarter to decrease over-year.

(Units: Million Baht)

	Q2-2016	Q1-2016	Change		Q2-2015	Change	
			Million Baht	Percent		Million Baht	Percent
Interest Income							
Interbank and Money Market Items	1,579	1,401	178	12.69	896	683	76.28
Deposits	80	41	39	96.70	230	(150)	(65.13)
Loans without Repurchase Agreements	107	188	(81)	(42.94)	143	(36)	(24.91)
Repurchase Agreements	1,392	1,172	220	18.69	523	869	166.03
Investments	3,382	3,451	(69)	(2.00)	4,027	(645)	(16.03)
Trading Investments	68	62	6	7.58	85	(17)	(21.11)
Available-for-Sale Investments	519	628	(109)	(17.19)	1,473	(954)	(64.73)
Held-to-Maturity Investments	2,795	2,761	34	1.24	2,469	326	13.22
Loans	22,407	22,669	(262)	(1.15)	22,470	(63)	(0.28)
Finance leases	1,242	1,263	(21)	(1.68)	1,286	(44)	(3.40)
Others	3	3	-	16.85	-	3	100.00
Total Interest Income	28,613	28,787	(174)	(0.60)	28,679	(66)	(0.23)
Total Interest Expenses	6,490	6,587	(97)	(1.47)	7,560	(1,070)	(14.16)
Total Interest Income - net	22,123	22,200	(77)	(0.35)	21,119	1,004	4.75
Yield on Earning Assets (percent)	4.51	4.70	(0.19)		4.88	(0.37)	
Cost of Fund (percent)	1.32	1.38	(0.06)		1.61	(0.29)	
Net Interest Margin (NIM) (percent)	3.49	3.62	(0.13)		3.59	(0.10)	

□ Non-Interest Income

For the second quarter of 2016, KBank's consolidated non-interest income totaled Baht 15,547 million, decreasing Baht 2,004 million, or 11.42 percent over-quarter. The decrease was due mainly to lower revenue from money market and capital market products. In this quarter and the first quarter of 2016, non-interest income ratio of KBank and our subsidiaries accounted for 41.27 percent and 44.15 percent of total income, respectively. This was in alignment with KBank's goal wherein non-interest income would be around 40 percent of total income.

When compared to the same quarter of last year, consolidated non-interest income for this quarter decreased Baht 1,090 million or 6.55 percent, as a result of lower net premiums earned less underwriting expenses, gain on trading and foreign exchange transactions and net fees and service income.

(Units: Million Baht)

	Q2-2016	Q1-2016	Change		Q2-2015	Change	
			Million Baht	Percent		Million Baht	Percent
Non-Interest Income							
Fees and Service Income	11,814	12,087	(273)	(2.26)	11,586	228	1.96
Fees and Service expenses	2,403	2,366	37	1.56	2,038	365	17.87
Fees and Service Income - net	9,411	9,721	(310)	(3.19)	9,548	(137)	(1.44)
Gain on Trading and Foreign Exchange Transactions	1,624	2,129	(505)	(23.69)	2,215	(591)	(26.67)
Loss on Financial Liabilities Designated at Fair Value through Profit or Loss	(1)	-	(1)	(27.63)	(6)	5	94.93
Gain on Investments	147	926	(779)	(84.11)	173	(26)	(14.86)
Share of Profit from Investments using Equity Method	24	32	(8)	(25.63)	26	(2)	(7.41)
Dividend Income	601	434	167	38.11	361	240	66.07
Net Premiums Earned	23,796	26,226	(2,430)	(9.26)	21,961	1,835	8.36
Other Operating Income	424	898	(474)	(52.82)	328	96	29.46
<u>Less</u> Underwriting Expenses	20,479	22,815	(2,336)	(10.24)	17,969	2,510	13.97
Total Non-Interest Income	15,547	17,551	(2,004)	(11.42)	16,637	(1,090)	(6.55)
Non-Interest Income to Average Assets (percent)	2.33	2.70	(0.37)		2.67	(0.34)	
Non-Interest Income Ratio (percent)	41.27	44.15	(2.88)		44.06	(2.79)	
Net Fee Income to Net Total Operating Income Ratio (percent)	24.98	24.45	0.53		25.29	(0.31)	

□ Other Operating Expenses

KBank's consolidated other operating expenses for the second quarter of 2016 totaled Baht 15,647 million, increasing Baht 854 million, or 5.77 percent over-quarter. The increase could be attributed mainly to rising public relations and marketing expenses which were seasonal. Our cost to income ratio was equal to 41.54 percent, up from 37.21 percent in the previous quarter. The figure remained within the set target.

When compared to the same period of the previous year, other operating expenses decreased by Baht 300 million or 1.88 percent. Therefore, our cost to income ratio of this quarter was slightly lower from the 42.24 percent in the same quarter of last year.

(Units: Million Baht)

	Q2-2016	Q1-2016	Change		Q2-2015	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	7,073	7,458	(385)	(5.16)	7,270	(197)	(2.71)
Directors' Remuneration	81	17	64	357.31	78	3	3.85
Premises and Equipment Expenses	3,210	2,760	450	16.33	3,255	(45)	(1.38)
Taxes and Duties	1,100	1,103	(3)	(0.20)	1,072	28	2.68
Others	4,183	3,455	728	21.04	4,272	(89)	(2.08)
Total Other Operating Expenses	15,647	14,793	854	5.77	15,947	(300)	(1.88)
Cost to Income Ratio (percent)	41.54	37.21	4.33		42.24	(0.70)	

□ Impairment Loss on Loans and Debt Securities

During the second quarter of 2016, KBank and our subsidiaries had Baht 8,721 million of impairment loss on loans and debt securities, a decrease of Baht 2,572 million or 22.78 percent, over-quarter. However, this was Baht 2,684 million, or 44.46 percent higher than the same period of the previous year. Thus our credit cost stood at 2.13 percent, lower than the 2.80 percent in the previous quarter, but higher than 1.55 percent in the same period of last year.

(Units: Million Baht)

	Q2-2016	Q1-2016	Change		Q2-2015	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	8,721	11,293	(2,572)	(22.78)	6,037	2,684	44.46
Credit Cost (percent)	2.13	2.80	(0.67)		1.55	0.58	

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of June 30, 2016, KBank's consolidated NPLs stood at Baht 56,736 million, 2.89 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 54,818 million, 2.80 percent of the total outstanding credit, including that of financial institutions. NPL data is shown in the table below:

Non-Performing Loans

(Units: Million Baht)

Quarter Ending	Jun. 30, 2016	Mar. 31, 2016
Consolidated NPLs	56,736	52,927
Percent of total outstanding credit, including that of financial institutions	2.89	2.81
Bank-only NPLs	54,818	51,064
Percent of total outstanding credit, including that of financial institutions	2.80	2.72

Net Non-Performing Loans

As of June 30, 2016, KBank's consolidated net NPLs stood at Baht 29,750 million – 1.54 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 28,925 million – 1.50 percent of the total outstanding credit, including that of financial institutions. The net NPL data is shown in the table below:

Net Non-Performing Loans

(Units: Million Baht)

Quarter Ending	Jun. 30, 2016	Mar. 31, 2015
Consolidated net NPLs	29,750	27,535
Percent of total outstanding credit, including that of financial institutions	1.54	1.48
Bank-only net NPLs	28,925	26,698
Percent of total outstanding credit, including that of financial institutions	1.50	1.44

Debt Restructuring

As of June 30, 2016, KBank's consolidated pre-written off, restructured debts totaled Baht 75,610 million, increasing by Baht 29,730 million when compared to the first quarter of 2016. Losses from debt restructuring stood at Baht 1,246 million, representing 1.65 percent of total restructured debts, which was equivalent to an increase of Baht 390 million, from Baht 856 million in the first quarter of 2016.

Foreclosed Properties

As of June 30, 2016, KBank's consolidated foreclosed properties had a cost value of Baht 16,602 million, or 0.61 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 1,768 million, equivalent to 10.65 percent of the cost value of those foreclosed properties, which is believed to be sufficient to cover holding, maintenance and disposal expenses, as well as losses on liquidations.

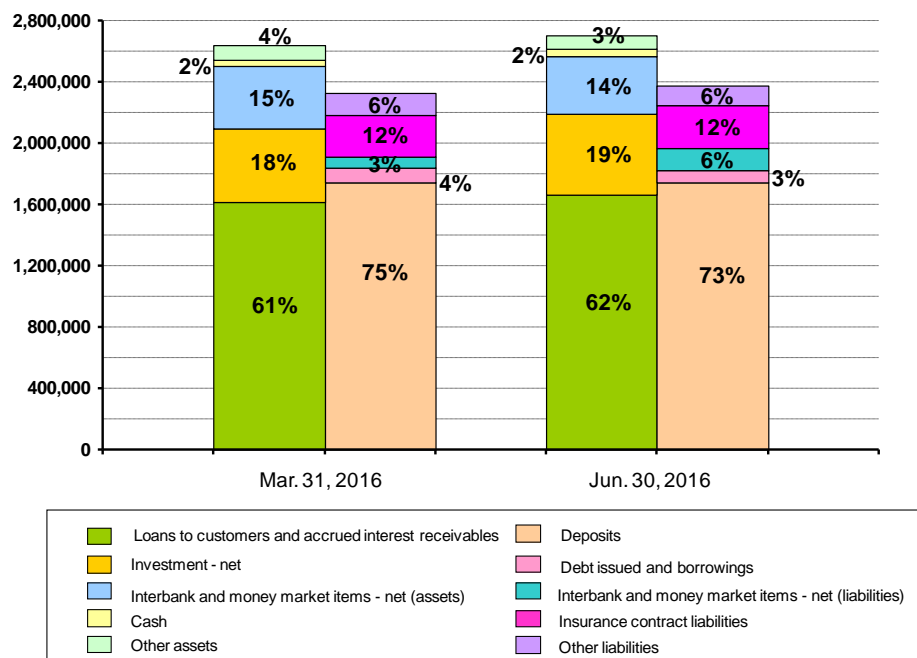
Allowances for Doubtful Accounts and Impairment of Assets

As of June 30, 2016, KBank's consolidated allowances for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 77,281 million, equivalent to 218.02 percent of the level required by the BOT.

4.2 Financial Position Analysis

Assets and Liabilities Structure

(Units: Million Baht)



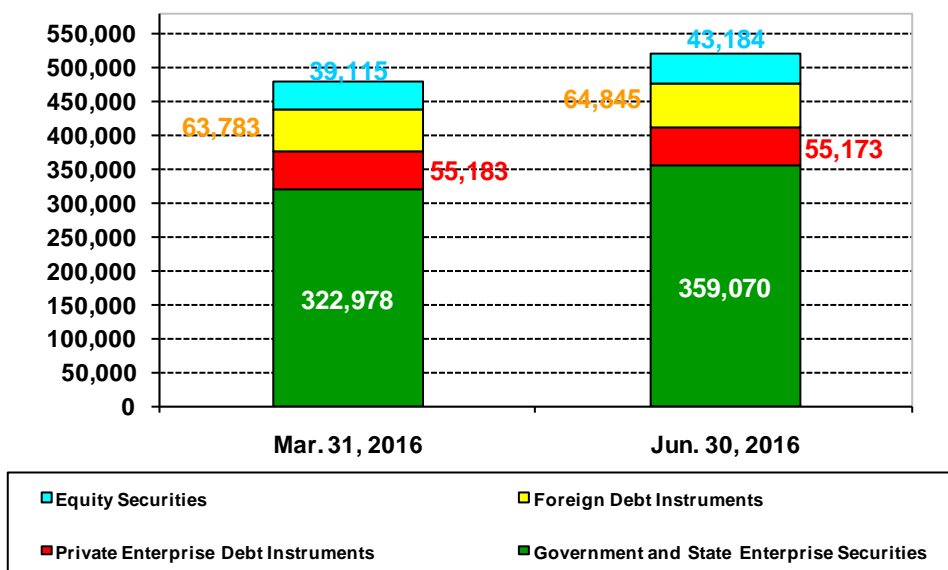
□ Assets

At the end of the second quarter of 2016, KBank's consolidated assets totaled Baht 2,705,154 million, increasing Baht 61,445 million or 2.32 percent from the end of the first quarter of 2016. The rise was due mainly to increase in loans to customers and net investments, while net interbank and money market items (assets) decreased. In detail:

- Our consolidated loans (less deferred revenue) at the end of this quarter amounted to Baht 1,663,967 million, increasing by Baht 50,390 million or 3.12 percent from the end of the first quarter of 2016, due partly to increases in commercial loans, working capital, trade finance and housing loans. Our consolidated loans were the fourth largest among Thai commercial banks.
- Net investments at the end of this quarter totaled Baht 523,501 million, rising by Baht 41,157 million or 8.53 percent from the end of the first quarter of 2016, due mainly to an increase in government bonds.
- Net interbank and money market items (assets) as of the end of this quarter totaled Baht 378,597 million, down Baht 24,147 million or 6.00 percent from the end of the first quarter of 2016, due mainly to KBank's liquidity management.

Investments in Securities

(Units: Million Baht)



□ Liabilities and Equity

Our consolidated liabilities, at the end of the second quarter of 2016, amounted to Baht 2,375,344 million, rising Baht 50,034 million or 2.15 percent, from the end of the first quarter of 2016. The increase was mainly attributable to increased interbank and money market items (liabilities) and insurance contract liabilities, while debts issued and borrowings, and deposits decreased. Significant changes in our consolidated liabilities included:

- Interbank and money market items (liabilities) at the end of the second quarter of 2016 equaled Baht 141,761 million, increasing Baht 65,691 million or 86.36 percent from the end of the first quarter of 2016, due largely to increased borrowings per private repurchase transactions.
- Insurance contract liabilities at the end of the second quarter of 2016 registered Baht 281,091 million, an increase of Baht 13,462 million or 5.03 percent, in line with the growing life insurance business.
- Debt issued and borrowings at the end of the second quarter of 2016 equaled Baht 80,268 million, down by Baht 9,408 million or 10.49 percent from the end of the first quarter of 2016, due largely to decreased bills of exchange.
- Deposits at the end of the second quarter of 2016 totaled Baht 1,742,114 million, slightly decreasing by Baht 5,520 million or 0.32 percent from the end of the first quarter of 2016. KBank's deposits ranked fourth-largest among Thai commercial banks.

At the end of the second quarter of 2016, total equity attributable to equity holders of KBank amounted to Baht 300,031 million, rising by Baht 10,311 million or 3.56 percent from the end of the first

quarter of 2016, driven largely by net operating profit for this quarter at Baht 9,428 million.

□ Relationship between Sources and Uses of Funds

As of June 30, 2016, the funding structure as shown in the consolidated financial statement comprised Baht 2,375,344 million in liabilities and Baht 329,810 million in total equity, resulting in a debt-to-equity ratio of 7.20. The main source of funds on the liabilities side was deposits, which equaled Baht 1,742,114 million, or 64.40 percent of the total, as of June 30, 2016. Other sources of funds included interbank and money market items, as well as debts issued and borrowings, which accounted for 5.24 percent and 2.97 percent of the total, respectively.

KBank's and subsidiaries' major use of funds was loans less deferred revenue, which as of June 30, 2016, amounted to Baht 1,663,967 million, resulting in a loan-to-deposit ratio of 95.51 percent. Meanwhile, the loan-to-deposit plus bills of exchange ratio was 95.50 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, and investments in securities.

KBank and Subsidiaries' Major Sources and Uses of Funds

(Units: Million Baht)

Period	Deposits				Loans			
	Jun. 30, 2016	Percent	Dec. 31, 2015	Percent	Jun. 30, 2016	Percent	Dec. 31, 2015	Percent
< 1 Year	1,729,854	99.30	1,677,664	98.37	787,565	47.33	747,275	46.42
≥ 1 - 5 Year	12,260	0.70	27,715	1.63	393,065	23.62	389,124	24.17
> 5 Year	-	-	-	-	483,337	29.05	473,488	29.41
Total	1,742,114	100.00	1,705,379	100.00	1,663,967	100.00	1,609,887	100.00

As of June 30, 2016, deposits with maturities of less than or equal to 1 year were larger than loans with remaining maturities of less than or equal to 1 year. This is considered normal for commercial banks in Thailand, as they normally fund their lending or investments in long-term assets from short-term liabilities. However, since most deposits are renewed upon maturity, it is considered likely that they will remain with KBank longer than their stated contractual term, thereby helping to support funding for KBank's lending.

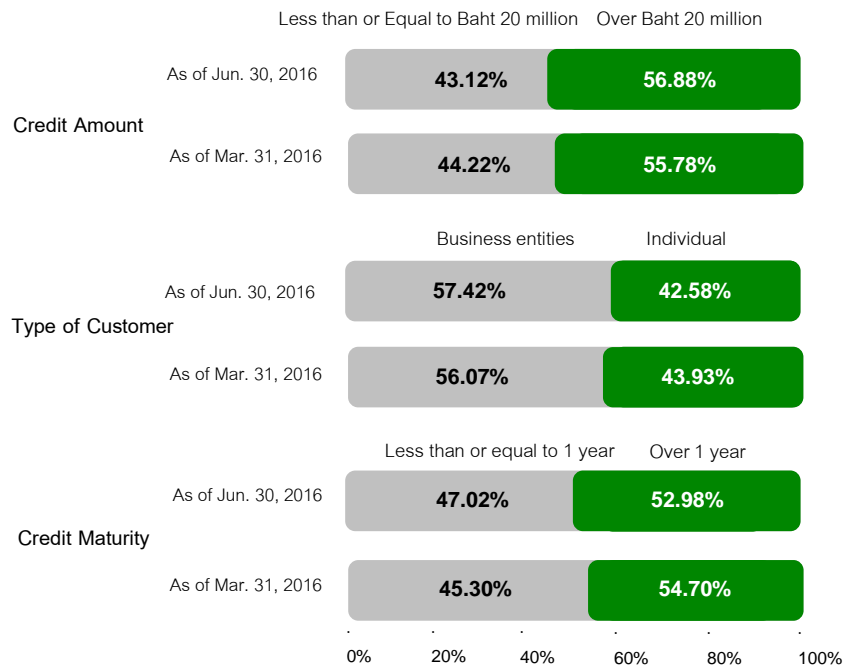
4.3 Loans and Deposits

□ Loans

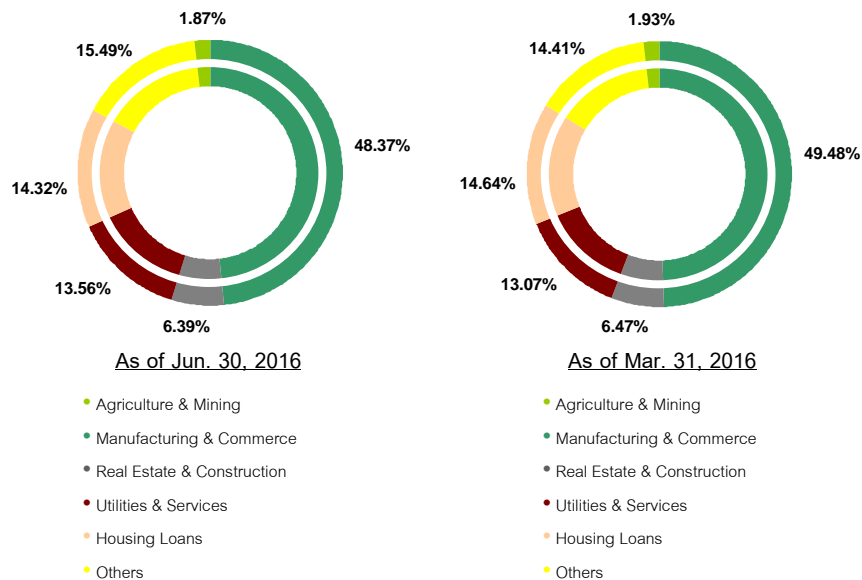
As of June 30, 2016, KBank's consolidated outstanding loans stood at Baht 1,663,967 million, increasing by Baht 50,390 million, or 3.12 percent, compared to Baht 1,613,577 million as of March 31, 2016.

As of June 30, 2016, 57.42 percent of KBank's outstanding loans were made to registered businesses. Loan accounts exceeding Baht 20 million totaled Baht 932,894 million, equivalent to 56.88 percent of the total, whereas the remaining of 43.12 percent were loans less than Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 47.02 percent of our total loans.

KBank's Lending Portfolio - Profile



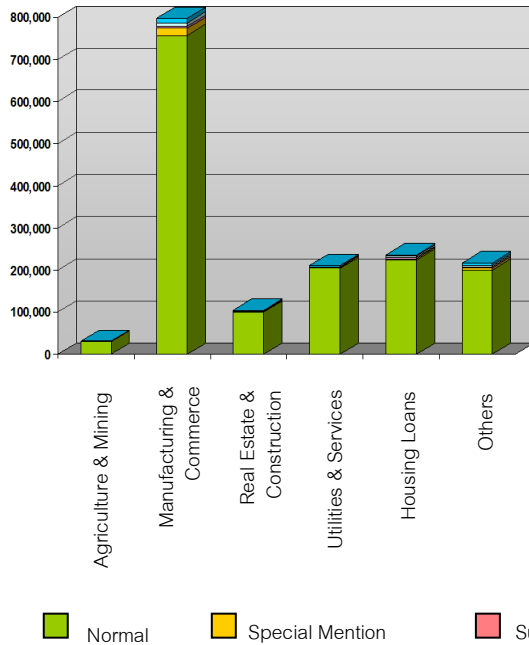
KBank's Consolidated Lending Portfolio



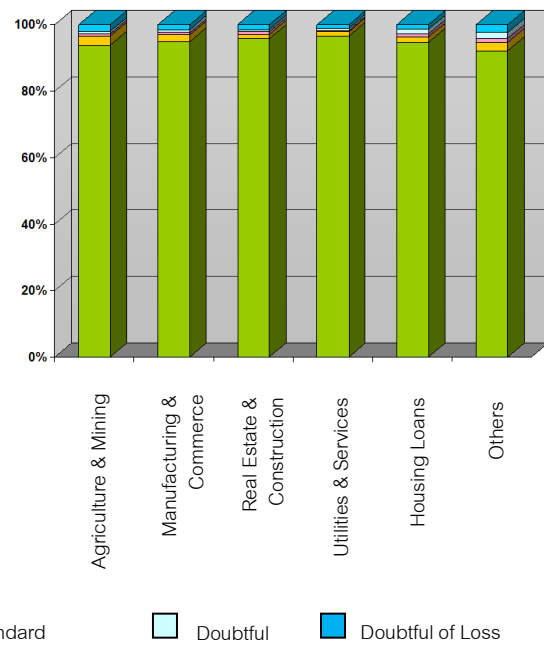
As of Jun. 30, 2016

Consolidated Loans Classified by Type of Business and Loan Classification

Units: Million Baht



Percent of Consolidated Loans Classified by Type of Business and Loan Classification



Within KBank's consolidated lending portfolio, 94.83 percent are classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represent the highest share of total consolidated lending at 48.37 percent; of that, 94.86 percent are classified as "Normal" loans.

Loans Classified by Business

(Units: Million Baht)

	Jun. 30, 2016		Mar. 31, 2016	
	Corporate Business*	Retail Business**	Corporate Business*	Retail Business**
Loans	1,140,830	423,169	1,092,260	416,471

Notes: * "Corporate Business" refers to registered companies, certain private individual business customers, government agencies, state enterprises, as well as financial institutions, etc. KBank provides a variety of financial products and services to them, e.g., long-term and working capital loans, letters of indemnity, trade finance solutions, syndicated loans, cash management solutions and value chain solutions.

** "Retail Business" refers to private individual customers using KBank products and services, e.g. deposit accounts, debit cards, credit cards, personal loans, housing loans, financial advisory services, investment products and other transactional services.

At the end of the second quarter of 2016, our corporate business loans (for corporate and SME customers) increased by Baht 48,570 million, or 4.45 percent over the first quarter of 2016, due primarily to growth of long- and short-term loan, notably granted to customers in commerce,

communications and transportation. The continual growth was in line with Thailand's gradual economic improvement, driven largely by government projects. Placing an emphasis on customer services, we offered products that meet their needs while also providing them with efficient risk, cost and liquidity management to comprehensively support business operations of both our customers and their business partners so that they remain competitive and financially strong.

Our retail business loans in this quarter rose by Baht 6,698 million or 1.61 percent from the first quarter of 2016, which was derived mainly from rising home loan due to our collaborative efforts with business partners in Bangkok and other provinces to launch promotional campaigns in response to customer needs and the government's real estate stimulus policy. Meanwhile, our consumer loan slightly increased in line with higher personal loan thanks to KBank's focus on customer screening policy.

□ Deposits

Deposits Classified by Type of Deposit Account

(Units: Million Baht)

	Percent of Total Deposits	Deposits		Changes	
		Jun. 30, 2016	Mar. 31, 2016	Million Baht	Percent
Total Deposits	100.00	1,742,114	1,747,634	(5,520)	(0.32)
Current accounts	5.80	101,028	95,059	5,969	6.28
Savings accounts	69.58	1,212,133	1,204,472	7,661	0.64
Fixed-term deposit accounts	24.62	428,953	448,103	(19,150)	(4.27)

During the second quarter of 2016, total deposits – comprising those of Corporate Business and Retail Business – decreased by Baht 5,520 million, or 0.32 percent, from the first quarter of 2016, due mainly to decrease in fixed-term deposits of Retail Business. Special fixed-term deposit products as well as a deposit plus a life insurance product were launched alongside investments offering higher return, with risks acceptable to customers as alternatives to matured fixed deposits. Meanwhile, KBank recorded higher deposits in savings and current accounts, from Retail Business and Corporate Business, respectively. This was in line with our management of deposits which must be maintained at levels appropriate for our business operation and competitiveness.

4.4. Treasury Operations

During the second quarter of 2016, overnight interbank lending rates stood at 1.40 percent, unchanged from the final quarter of 2015. Those steady rates were influenced by the MPC meeting resolutions in May, June and August, 2016, wherein the key policy rate was held at 1.50 percent p.a. Meanwhile, interbank transactions decreased only slightly from the preceding quarter.

Meanwhile, the Thai economy in this quarter continued to fare better compared to the first quarter. As a result, market expectations of a key policy rate reduction were lower, prompting the 1-2 year government bond yield to rise 0.10-0.20 percent over the first quarter. KBank therefore increased our holdings in these bonds, while selling short-term bonds which offered lower returns than the key policy rate.

Treasury Operations Income

(Units: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q2-2016	Q1-2016	Change	
				Million Baht	%
Interest income*					
Interbank and money market items **	69.73	1,504	1,350	154	11.41
Investments	30.27	653	750	(97)	(12.93)
Total	100.00	2,157	2,100	57	2.71

Notes: * Managerial figures

** Including loans

Total interest income for the second quarter of 2016 stood at Baht 2,157 million, increasing Baht 57 million, being 2.71 percent higher than the same period of last year due to portfolio adjustment and increase in liquidity.

□ Liquid Asset Ratio

KBank maintains current deposits at not lower than 1.00 percent of the total deposits and several types of borrowings in accordance with the BOT regulations. As of June 30, 2016, our cash in hand, cash at cash center and cash at the BOT totaled Baht 24,703 million (based on the BOT Notification No. *SorKorNgor*. 56/2558 Re: Commercial Banks' Reserve Requirement, effective on January 6, 2016, in place of the BOT Notification No. *SorNorSor*. 7/2555 Re: Commercial Banks' Reserve Requirement, which stipulated that commercial banks were required to maintain liquid asset ratio at not lower than 6.00 percent, comprising current deposits at the BOT, cash at cash center, cash in hand and eligible securities as well as fixed-term deposits at the BOT).

4.5 Operating Performance of K Companies and Muang Thai Life Assurance PCL

Operating Performance of K Companies* and Muang Thai Life Assurance PCL

(Units: Million Baht)

Performance Measurement		First Half of 2016	First Half of 2015	2015
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Outstanding Loans	13,715	13,444	13,397
KASIKORN LEASING CO., LTD. (KLeasing)	Outstanding Loans	89,346	88,903	88,671
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management (AUM)	1,223,596	1,123,317	1,131,737
	Market Share (Percent)	20.22	20.64	20.45
KASIKORN SECURITIES PCL (KSecurities)	Trading Volume	371,217	488,851	859,937
	Market Share (Percent)	3.72	4.76	4.40
Muang Thai Life Assurance PCL (MTL)	Net Premiums Earned	51,783	46,105	87,880
	Market Share (Percent)	18.59	17.54	16.35

Note: * KResearch is not included, since this company does not engage in financial business.

During the first half of 2016, K Companies and Muang Thai Life Assurance PCL (MTL) attained satisfactory qualitative and quantitative operating performance, attributable to the close cooperation between KBank and K Companies, as well as MTL.

KAsset has maintained the number-one position in mutual funds, with a total market share of 22.51 percent; its total market share of assets under management (AUM) was 20.22 percent. The strong performance benefited from its synergy with KBank, as well as product enhancement to match consumers' needs, notably, the launch of K-AEC and K-PROP, plus expansion of electronic channels and improvement of service quality.

As for KSecurities, emphasis has been placed on development of products and services, especially on research, securities trading services and investment banking, to be more responsive to investor needs and lifestyles. Research papers have been made more timely, in-depth and precise. Along with this, technologies for stock selection and up-to-date investment analyses have been introduced, including the KS Super Stock Mobile Application, which was upgraded with an alert system on the prices which has been earlier set to enable immediate trading, plus added functions for investment verification and performance history analysis. Another notable effort is KS Offshore Investment (KSOI), a 24-hour service offering comprehensive round-the-clock, real-time securities trading in 41 bourses globally. Moreover, KSecurities has regularly conducted personnel development to ensure that they are able to offer professional advice to customers. With these endeavors, KSecurities has maintained its market leadership in 2016, with a market share of 3.72 percent.

KLeasing was able to maintain its outstanding loans close to those of 2015, with growth of 0.50 percent, amid the country's domestic auto sales contraction of 0.13 percent. KLeasing enjoyed healthy new loan growth, which was derived mainly from Auto Dealer Floor Plan. Asset quality remains healthy with an NPL ratio of 1.54 percent, lower than the banking industry average. Through enhancements in service quality and the introduction of responsive campaigns, KLeasing strives to offer an excellent service experience to retail and corporate customers.

KF&E reported over-year loan growth of 2.01 percent, in alignment with the company's 2016 target. Loans were extended to diverse industries nationwide. In addition to forging alliances with customers who are machinery dealers, it has been working with KBank RMs to achieve service excellence with a higher customer satisfaction level.

MTL upheld its leading position in the life insurance business, with the number-one market share in new business premiums at 22.86 percent, and the number-two market share in total premiums at 18.59 percent. The company remained at the forefront in bancassurance thanks to close cooperation with KBank in developing insurance plans that are suited to KBank customers' needs.

4.6 Capital Requirements ¹⁾

As of the end of the second quarter of 2016, KBank, under the Basel III capital requirements, had capital funds of Baht 301,025 million, consisting of Baht 239,349 million in Tier-1 capital and Baht 61,676 million in Tier-2 capital. The capital adequacy ratio of KBank was 17.40 percent, above the BOT's minimum requirement and conservation buffer of 9.125 percent. Details of the capital adequacy ratio of KBank are shown in the following table:

Capital Adequacy Ratio

- The Bank

(Units: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2016	Mar. 31, 2016	Minimum Requirement	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015
Tier-1 Capital Ratio ³⁾	6.625	13.84	14.00	6.00	13.79	13.84	13.10
<i>Common Equity Tier-1 Ratio</i>	5.125	13.84	14.00	4.50	13.79	13.84	13.10
Tier-2 Capital Ratio	-	3.56	3.62	-	3.60	3.23	3.73
Capital Adequacy Ratio	9.125	17.40	17.62	8.50	17.39	17.07	16.83

● KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Units: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2016	Mar. 31, 2016	Minimum Requirement	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015
Tier-1 Capital Ratio ³⁾	6.625	14.69	14.88	6.00	14.53	14.61	13.77
<i>Common Equity Tier-1 Ratio</i>	5.125	14.69	14.88	4.50	14.53	14.61	13.77
Tier-2 Capital Ratio	-	3.43	3.48	-	3.47	3.12	3.62
Capital Adequacy Ratio	9.125	18.12	18.36	8.50	18.00	17.73	17.39

- Note:
- ¹⁾ Excluding net profit of each period, which under the Bank of Thailand's regulations, net profit in the first period is to be counted as capital after approval by the Board of Directors per KBank's regulations. Net profit in the second period is also counted as capital after approval of the General Meeting of Shareholders. However, whenever a net loss occurs, the capital must be immediately reduced at the end of period.
 - ²⁾ KASIKORNBANK FINANCIAL CONGLOMERATE means the company under the Notification of the Bank of Thailand Re: Consolidated Supervision, consisting of KASIKORNBANK, K Companies and subsidiaries operating in support of KBank, Phethai Asset Management Co., Ltd. and other subsidiaries within the permitted scope from the BOT's to be a financial conglomerate.
 - ³⁾ According to Basel III Capital Requirements, Tier-1 Capital is required to include phase-in or phase-out items at 20 percent p.a. from January 1, 2014, onwards, until reaching 100 percent in 2018.
 - ⁴⁾ Conservation buffer requires an additional Common Equity Tier 1 at 0.625 percent p.a. from January 1, 2016 onwards until reaching 2.50 percent in 2019.

4.7 Credit Ratings

At the end of June 2016, the Bank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of March 2016.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings

Credit Ratings Agency	Jun. 30, 2016
Moody's Investors Service *	
<u>Foreign Currency</u>	
Outlook	Stable
Long-term - Senior Unsecured Notes	Baa1
- Deposit	Baa1
- Counterparty Risk Assessments	Baa1(cr)
Short-term - Debt/Deposit	P-2
- Counterparty Risk Assessments	P-2(cr)

Subordinated Debt	Baa3
Bank Financial Strength Rating (BFSR)	C-
Outlook for BFSR	Stable
Baseline Credit Assessment	Baa2
<u>Domestic Currency</u>	
Outlook	Stable
Long-term - Deposit	Baa1
Short-term - Debt/Deposit	P-2
Standard & Poor's *	
<u>Global Scale Ratings</u>	
Outlook	Stable
Long-term Counterparty Credit Rating	BBB+
Long-term Certificate of Deposit	BBB+
Short-term Counterparty Credit Rating	A-2
Short-term Certificate of Deposit	A-2
Senior Unsecured Notes (Foreign Currency)	BBB+
Subordinated Debt (Foreign Currency)	BBB
<u>ASEAN Regional Scale Ratings</u>	
Long-term	axA+
Short-term	axA-1
Subordinated Debt	axA
Fitch Ratings *	
<u>International Credit Ratings (Foreign Currency)</u>	
Outlook	Stable
Long-term Issuer Default Rating	BBB+
Short-term Issuer Default Rating	F2
Senior Unsecured Notes	BBB+
Viability	bbb+
Support	2
Support Rating Floor	BBB-
<u>National Credit Ratings</u>	
Outlook	Stable
Long-term	AA(th)
Short-term	F1+(th)
Subordinated Debt (legacy Basel II Tier 2 securities)	AA-(th)
Subordinated Debt (Basel III-compliant Tier 2 securities)	AA-(th)

Note: * The base levels for investment grade on long-term credit ratings for Moody's Investors Service, Standard & Poor's, and Fitch Ratings are Baa3, BBB- and BBB-, respectively. For short-term credit ratings, the base levels for investment grade as viewed by these three agencies are P-3, A-3, and F3, respectively.

5. Operations of Support Groups

5.1 Human Resource Management

KBank has prioritized our supporting tasks with the establishment of KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG), business expansion within the AEC+3 and the greatest efficiency in other human resource management operations.

- **Establishment of KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG)**

KBank has always recognized the importance of human resource support, as shown with the establishment of KBTG – among the wholly-owned subsidiaries of KBank. We have thus arranged for a new organizational structure and job positions, relevant infrastructural and information system upgrades necessary for human resource management, as well as the implementation of a competitive compensation and benefits plan. These efforts are aimed at recruiting and employing tech-savvy personnel from both inside and outside of KBank. To achieve this, we have organized a job fair and KBTG Machine-Learning Academic Partnership Programs, wherein interested university students with computer skills, especially machine-learning knowledge, are recruited to work with KBTG. Furthermore, high-ranking KBank executives paid a visit to the US to promote our career advancement opportunities among Thai students in New York and other Thais residing in Silicon Valley to persuade them to work with us. Another notable effort was “FinTech by KBTG” – an event held to officially introduce KBTG to our employees for their preparedness in response to customers’ needs in the digital banking era.

- **Business Expansion within AEC+3**

KBank has focused on staff preparations to accommodate our business operations and in line with our expansion plan within the AEC countries. We have conducted studies in order to design a manpower structure that matches our service model. A plan for personnel recruitment, job rotation and systematic employee development has been devised so that we are able to quickly respond to business needs and remain competitive in the local labor market. In the second quarter of 2016, KBank took part in a job fair held in Lao PDR where a KBank business presentation was delivered to students of the National University of Laos (NUOL). Other high-profile initiatives were the launch of a banking knowledge exchange program within the AEC via a job training program for Laotian university students in Thailand, and a KBank-KBZ Staff Exchange Program in Myanmar to broaden participants’ horizons, especially through improved financial literacy. These activities were part of our efforts to forge cordial relations with our partner banks while also supporting KBank’s plan for future overseas business expansion.

- **Other Human Resource Management Operations**

In response to the preferences of “new generation” workers and the fast-growing digital world, KBank remodeled our job application website to make it more trendy, more convenient and easily accessible per the slogan, “Designing Your Future, Career is at Your Fingertips” in the second quarter of 2016. Job openings were also publicized via social media such as KBank Live on Facebook, KBank Live on Line Official Account, and KBank on LinkedIn.

To maximize employee potential, ongoing efforts were undertaken via study courses on core banking application to ensure that our staff members can deliver timely customer service in alignment with demand. In parallel with this, leadership training was organized for executives and high-potential employees on a regular basis, via special seminars conducted by highly experienced executives of other organizations, as well as study courses on creativity and innovative thinking development. We also awarded 13 post-graduate scholarships to the general public and KBank employees to further their studies both at home and abroad, to help build a workforce with financial knowledge for the organization and society.

Regarding employee relations and benefits, the second Employees’ Committee meeting was held to allow for consultations and problem-solving discussions between KBank and the Employees’ Committee, deepening our bond with the workforce. A project to reduce breaches of discipline has been implemented via informative seminar sessions to promote staff consciousness towards their duties and responsibilities with respect to our customers and KBank.

Looking at employee benefits, KBank offers savings alternatives to our employees through voluntary Provident Fund contributions ranging from 2 to 15 percent of their salaries. They are also given the option to voluntarily transfer a special pension, calculated monthly at the rate of 5 to 10 percent of their salaries, based on each employee’s years of service, to the Provident Fund. This is to allow our employees to gain both tax benefits and greater savings options.

Moreover, our labor management for the society has reinforced the “Green DNA” resolution that focuses on our responsibilities to the economy, society and environment. One notable initiative was the “20,000 *Chuamong Tham Di Tham Dai*” project, wherein our employees are encouraged to do good deeds by participating in volunteer activities of their interest, and each employee is entitled to an annual one-day leave for such activities.

5.2 IT Management

KBank established KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG), comprising five subsidiaries, to cope with fast-changing consumer behaviors and to enhance our IT management efficiency in the digital economy. In the second quarter of 2016, KBank provided assets and personnel, as well as transferring IT infrastructure tasks and application operations, to be under management of KBTG.

We have also embraced technological innovation to be in alignment with our strategy of placing KBank at the forefront of the financial business and holding on to our position as the number-one digital banking provider in this highly competitive, technology-driven marketplace. Our initiatives included:

- Create and conduct a test run for the KBank Cashless Payment System via KBTG-Pay application, in a bid to provide our customers a faster and more convenient payment channel while also reducing their reliance on cash. The first test run was conducted at a restaurant in KASIKORNBANK Chaeng Watthana Building 2, and will be further undertaken with our business partners.
- Study and develop an API (Application Programming Interface) Manager system, of which a sandbox is being developed to allow startup firms to link to our system on a trial basis. API Production Environment system is expected to be rolled out in the third quarter of this year.
- Study use case and machine learning techniques to be applied to KBank business. We have conducted studies on customer behavior to shed light on useful information which will be further analyzed with the aim of providing benefits that better match each customer's needs.
- Study and develop "blockchain", which will be further applied to our financial business. In the initial stage, the technology has been applied to issuance of letters of indemnity for enhanced work efficiency, streamlined process, time saving and reduced paper consumption.
- Enhance capability of K-MOBILE BANKING PLUS which allows customers to check points, view credit card spending, and receive alert notifications on K-Credit Card/K-Express Cash Card (KEC) amount past-due, which enables them to settle payment. Moreover, we have developed K-MOBILE BANKING PLUS to be a channel for registration, change and/or cancellation of PromptPay service.

Disclaimer

Certain statements shown in this document are forward-looking statements in respect of financial position or performance of KASIKORNBANK Public Company Limited ("KBank"). KBank has prepared such statements based on several assumptions, and has relied on the financial and other information made available from public sources as of the date these statements were made. Statements with words such as "expect", "believe", "estimate", etc., are types of forward-looking statements involving uncertainties and subject to change at any time due to future events, including but not limited to, changes in the global/national economic, political and regulatory environment. KBank is under no obligation to update these forward-looking statements to correspond to the current situation. Thus, recipients shall carefully review these statements and make an independent decision prior to investing or entering into any transaction.

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