



KASIKORNTHAI

Management Discussion and Analysis (MD&A)

For the Quarter Ended June 30, 2017

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary
Management Discussion and Analysis
For the Quarter Ended June 30, 2017

The global economy in the second quarter of 2017 maintained its growth momentum. Similarly, Thailand's major economic indicators continued to exhibit growth, as evidenced by brighter exports, government spending and private spending on certain items of durable goods. The Thai economy hence showed ongoing improvement from the first quarter. Nonetheless, the economic expansion, which was still limited and uneven, affected the performance of KBank and our customers both directly and indirectly.

In the second quarter of 2017, KBank and subsidiaries reported a net profit of Baht 8,986 million, a decrease of Baht 1,185 million, or 11.65 percent over-quarter. The decline could be attributed to an increase of Baht 1,493 million or 16.36 percent in our impairment loss on loans and debt securities to cope with economic uncertainties. Operating profit before provision expense and income tax expense rose slightly, by Baht 78 million or 0.33 percent over-quarter, as a result of an increase of Baht 450 million or 2.90 percent in non-interest income, and an increase of Baht 255 million or 1.11 percent in net interest income, derived from rising interest income from investment.

KBank maintained key financial ratios at levels consistent with our overall economic performance and within the established targets. Our net interest margin (NIM) equaled 3.43 percent – slightly higher than the preceding quarter. Our cost to income ratio rose marginally from the previous quarter to 40.32 percent, which was better than the target. Meanwhile, our robust capital position was sufficient to cushion against risk, and greater than the Bank of Thailand's requirement. As evidenced, the Conglomerate's capital adequacy ratio (CAR) according to the Basel III Accord was 17.63 percent, with a Tier 1 capital ratio of 15.25 percent.

KBank has emphasized synergy with K Companies, strategic partners and startup firms for enhancement of our business capabilities to achieve sustainable growth while maintaining our market leadership over the long term. Guided by our core strategies of "Customer Centricity" and making KBank the Customers' Main Bank for all eight customer segments, we focus on creating innovations and managing financial products, as well as reinforcing our sales and service quality excellence, with greater consideration of consumer protection in order to deliver excellent financial products and an unsurpassed service experience to all our customers. Meanwhile, KBank places equal importance on supporting functions, which are in harmony with our business directions that focus on effective, timely and proactive integrated risk management (IRM), internal operation efficiency, maximized resource utilization, along with better IT systems to ensure that we will attain our business goals.

All of the above endeavors and satisfactory operating performance, together with sound corporate governance, allowed KBank and K Companies to meet business targets, gaining wide acceptance and marks of recognition at home and abroad, as reflected in the numerous awards we received in this quarter.

Contents

	Page
Executive Summary	A
1. Overview of Operating Environment	1
1.1 Global and Thai Economy in the Second Quarter of 2017	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 Sustainable Development and Corporate Governance	7
3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK	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	15
4.1 Operating Performance	15
4.2 Financial Position Analysis	21
4.3 Loans and Deposits	23
4.4 Treasury Operations	27
4.5 Operating Performances of K Companies and Muang Thai Life Assurance PCL	28
4.6 Capital Requirements	29
4.7 Credit Ratings	30
5. Operations of Support Groups	32
5.1 Human Resource Management	32
5.2 IT Management	34

1. Overview of Operating Environment

1.1 Global and Thai Economy in the Second Quarter of 2017

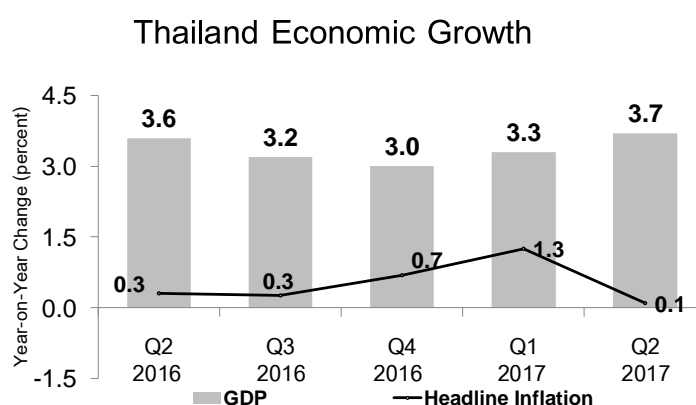
The global economy maintained its growth momentum throughout the first half of 2017. Nonetheless, several political developments warranted a close watch, particularly in US politics, which were a drag on the implementation of economic stimulus measures and tax reform. In addition, Britain's economic outlook was obscured by political uncertainty, leaving the timing and format of Brexit in limbo. Despite these fragilities, the overall global economy was still resilient due to ongoing economic growth in many European countries, China, Japan and other Asian countries. Meanwhile, the World Economic Outlook of the International Monetary Fund in July projected that the 2017 world economy would grow around 3.5 percent.

Over the remainder of this year, close attention should still be paid to US politics along with signals regarding the timing of the Federal Reserve's tightening monetary policy, via both hikes in its policy rate and reduction of its massive balance sheet. The Fed is expected to allow maturing US Treasuries and mortgage-backed securities to roll off gradually, while not exceeding the cap limit determined by the Fed, and use the amount in excess of the limit to reinvest in new securities. The move is expected to help slow the rise in US Treasury yields and mitigate potential volatility in financial markets worldwide, especially at the end of the third quarter of 2017. By then, another issue – guidelines for adjustment in the European Central Bank's asset purchase program for 2018 – should be closely monitored.

In Thailand, certain major economic indicators in the second quarter of 2017 exhibited better performance than that of the first quarter. Growth was fueled mainly by exports, government spending and spending on certain items of durable goods. The Thai GDP in this quarter posted its over-year growth of 3.7 percent, higher than the 3.3 percent in the first quarter. However, the

economic rebound during the second half of this year may be capped by weak commodity prices, likely causing growth in export value to be lower than what was seen in the first half. At the same time, farm income may decelerate amid rising output in the market.

Broadly speaking, the Thai economy in 2017 may grow around 3.4 percent. In addition to government spending and investment – the main contributors to the Thai economic revival, we should closely watch economic issues such as Thai Baht volatility and the Executive Decree on Management of



Sources: Office of the National Economic and Social Development Board and Ministry of Commerce

Foreign Workers, which may affect certain business sectors. Regarding the Thai monetary policy, the Bank of Thailand's policy rate is expected to stay at a low 1.50 percent for the entire year to accommodate domestic economic activity, which is on a recovery path.

1.2 Banking Industry and Competition

In the second quarter of 2017, commercial banks recorded decreased net profit over-quarter and over-year. The decline could be attributed to increase in impairment loss on loans and debt securities in line with non-performing loans to total loans, which remained at a high level. Net fees and service income – one of commercial banks' main sources of revenue – posted a slight increase from the previous quarter and the same period of last year. Despite several commercial banks' reductions in lending rates during this quarter, net interest income advanced over-quarter and over-year. Likewise, net interest margin (NIM) was stable from the previous quarter. This reflected commercial banks' attempts to manage funding cost, especially through maintaining a higher ratio of current account and savings account (CASA) while placing less focus on price competition, amid a greater flow of funds from other sources to be parked at banks. Moreover, loan saw brighter growth at the end of this quarter. This was particularly true for business loans, which were buoyed by reviving exports, as well as certain types of retail loans including hire purchase loan, which enjoyed healthy growth in line with revved-up domestic car sales after the end of the mandated ownership period for the first-time car buyer scheme.

As of the end of the second quarter of 2017, net loans at 14 domestically-registered commercial banks rose 2.38 percent, up from 1.75 percent at the end of the first quarter of 2017, and 1.26 percent at year-end 2016. Meanwhile, deposits grew 3.78 percent, compared to 1.98 percent at the end of the first quarter of 2017 and 1.46 percent at the end of 2016.

Looking ahead into the latter half of this year, loans are set to see accelerating growth. Even though business loans are expected to receive an additional boost from public investment, retail loans will remain challenged mainly by fragile consumer confidence and household debt servicing ability, which may curb demand for secured loans, especially housing loan. Meanwhile, debt quality still needs close watch given the complexity of its management, taking into account the tackling of borrowers' income and expenses and the requirements of commercial banks' relevant procedures. Therefore, debt quality improvement may lag ongoing economic expansion. Last but not least, several government measures, particularly those involving consumer protection and control of credit card and personal loans, together with a drop in credit card interest rates – all of these issues are likely to influence commercial banks' performance and certain sources of revenue, alike.

1.3 Regulatory Changes

Significant regulatory changes that may have affected KBank's and K Companies' business operations included:

- **Rules and Practices Regarding Currency Exchange and Measures to Prevent Thai Baht Speculation**

The Bank of Thailand issued Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 24) and Circular No. BOT. *ForKorNgor*. (21) *Wor*:834/2560 Re: Changes on Guidelines under Measures to Prevent Thai Baht Speculation, effective June 5, 2017, which contain the salient points as follows.

- Customers are allowed to make payment for goods other than gold purchased from non-residents (NR) without needing to import into Thailand, or accept the delivery of such goods domestically.
- Reduce supporting documents for outward remittance in certain objectives and allow submission of supporting document in electronic form.
- Individuals are allowed to domestically enter into a forward contract with gold as an underlying asset.
- Commercial banks are permitted to grant Thai Baht-denominated direct loans to non-resident juristic persons per established criteria.
- Commercial banks are allowed to endorse or guarantee transactions of NRs, which may result in commercial banks being obliged to pay Thai Baht to a third party on behalf of NRs, without needing to place a back-to-back standby letter of credit issued by a foreign financial institution as collateral.

KBank has put in place operational procedures to accommodate these new regulations along with preparation for other relaxations by the Bank of Thailand, including elimination of the Foreign Exchange Transaction Form, with implementation expected by the end of this year.

- **Criteria for Supervision of Financial Conglomerates**

The Bank of Thailand issued five notifications on revised criteria for supervision of financial conglomerates to be consistent with changes in business operations of financial institutions, technology, laws and regulations of government agencies and specific regulatory authorities. The new criteria, coming into effect June 6, 2017, contain the following key points.

- Expand the scope of operations for financial and support businesses for a broader coverage.
- Revise supervisory criteria for venture capital (VC) business, such as establishing investment ratio in financial technology (FinTech) business and extending VC investment period.

- Revise credit granting criteria, credit-like transactions or debt guarantee for directors with managing authority or related parties of companies within financial conglomerates on a solo-consolidation basis, as well as other criteria of financial conglomerates, to be consistent with the changing criteria of financial institutions.

KBank is now preparing relevant operational procedures to be in line with these changes.

- **PromptPay Practical Guidelines for e-Money service**

The Bank of Thailand issued Circular No. BOT.*ForTorSor.Wor*.987/2560 Re: PromptPay Practical Guidelines for e-Money service, effective June 30, 2017, which has established minimum service standards in accordance with the principles of secured authentication and trusted relationships to ensure that registration and financial services via PromptPay for e-Money transactions are secure, accurate, trustworthy and in compliance with standards. For instance, registration must be prudent, with prerequisites in place including Know-Your-Customer (KYC) and Customer Due Diligence (CDD) procedures for registrants' identity authentication, retention of data and support documents, as well as relevant risk management processes.

These practices will help reduce risk in service provision and enhance confidence among service users. KBank is now preparing relevant operational procedures to ensure conformity to these guidelines.

- **Computer-Related Crime Act**

The Computer-Related Crime Act (No. 2) B.E. 2560 (2017), published in the Government Gazette on January 24, 2017, and effective May 25, 2017, includes a provision pertaining to transmitting data electronically (e-mail) in a manner that causes nuisance and annoyance to recipients without a convenient way of terminating or refusing the receipt of such data. Doing so shall be subject to a fine not exceeding Baht 200,000.

This law is pending a Ministerial Regulation designating the nature and methods of data transmission, as well as the nature and volume of computer data that shall not be deemed a cause of disturbance for recipients, and prescribing the nature of convenient options for recipients to terminate or refuse receipt of such data. When announced, the specifics shall be adopted by KBank as guidelines for transmitting data to customers via electronic channels so as to prevent violations of the law.

2. Risk Management and Risk Factors

2.1 Credit Risk Management

In the second quarter of 2017, the Thai economy kept its growth momentum from the previous quarter. However, it did not clearly show evidence of a broad-based recovery. Private investment, in particular, remained uncertain, pending greater clarity in both domestic and international economic policies. Households' purchasing power and debt servicing capability showed no sign of improvement. Under these circumstances, KBank put in place more stringent customer approval criteria for commercial lending policies, and closely monitored small and micro businesses. At the same time, KBank has been continually cautious in credit underwriting of retail customers' loans, and focused mainly on borrowers with good track records, and existing low-risk customers.

2.2 Market Risk Management

During this quarter, the Thai and US interest rates moved in accordance with the market consensus. The Thai policy rate remained static at 1.50 percent, while the Fed hiked its key interest rate by 25 basis points to 1.00-1.25 percent. No significant impact was therefore felt on interest rates of the Thai Baht and US Dollar in the money market. However, there were still some risks such as the US's fluid economic and political policies, political tensions between North Korea and the US, the Qatar diplomatic crisis, and the new reference rate of Yuan unveiled by the Chinese authorities, leading to strengthening of the Chinese currency and other Asian currencies. These risks caused the Thai Baht to be volatile and stronger against the US Dollar as well as the interest rates to be volatile and decline.

Meanwhile, the Public Debt Management Office (PDMO)'s bond switching wherein investors were allowed to exchange their source bonds with destination bonds, established by the Ministry of Finance in late June, drew public interest, with total switching of Baht 90,000 million per the established limit. However, the execution results of bond switching did not significantly impact government bond yields which had been moving on a downward trend in this quarter.

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 banking system tightened slightly in the second quarter as loans increased at a faster pace than the rise in deposits. Nonetheless, liquidity in the overall banking system

remained adequate, thus there were no signs of intense competition in the deposit market, especially amid continuous fund inflows. These factors affected KBank liquidity in various dimensions.

We are therefore keeping a close watch on the situation, while analyzing the course of events. 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 potential impact on our deposits and liquidity, both short and long term, to ensure that we adopt proper fund-raising strategies.

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

Notable progress of KBank's sustainable development along the three dimensions during the second quarter of 2017 can be summarized as follows.

- **Economy:** KBank announced the "Contribution for Partnerships" as guidelines for business collaboration with all organizations and parties, both at home and abroad, including the public and private sectors, associations, chambers of commerce, non-profit organizations, educational institutions, and experts in diverse fields, to ensure that our business operations achieve the set goals and generate the maximum benefit for all stakeholders.

- **Environment:** KBank unveiled the Environmental and Energy Conservation Policy as guidance for contributing to efforts to mitigate the impacts of climate change by reducing greenhouse gas emissions caused by our operations and by creating products and services that support environment-friendly businesses and projects via the integration of environmental and energy management practices into all our operations.

- **Society:** KBank issued the Diversity Management statement in the workplace emphasizing the importance of acceptance and understanding of the differences of staff members, i.e., gender, age, education, ethnic, and culture, by providing equitable opportunities throughout Human Resource Management process based on the equal basic rights of all employee groups, both at operational and executive levels.

KBank firmly believes that making sustainable development along economic, environmental, and social dimensions a concrete principle of business operations will help us to provide the maximum possible benefit to all stakeholders, making KBank a Bank of Sustainability for society and the nation.

Regarding our good corporate governance, KBank emphasized the maintenance and development of corporate governance on a continuous and sustainable basis, and promoting it as an organizational culture. A number of activities undertaken to promote our good corporate governance practices during the second quarter of 2017 included:

- Arranging orientation sessions on good corporate governance and regulatory requirements for new directors and executives

- Undertaking continued training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via KBank e-Learning system

- Communicating to employees the Anti-Corruption Policy and informing them of communication channels for accepting information, suggestions or complaints via internal media, i.e., Office 365 and KASIKORNTV

- Providing comments and recommendations on compliance with the Statement of Corporate Governance Principles to departments within KBank and K Companies

- Organizing lectures on good corporate governance for KBank executives
- Reviewing our operations to ensure their conformity with globally and domestically accepted corporate governance principles so that our operational procedures will be improved accordingly
- Engaging external organizations to undertake KBank corporate governance assessment KBank earned a perfect score of 100 from the AGM Quality Assessment Project, 2017 of the Thai Investors Association.

3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK

Thai economic growth gained traction in the second quarter of 2017, driven mainly by exports and government spending. However, the business sector remained mired in uncertainty in terms of new modes of competition, a broader marketplace within the ASEAN Economic Community (AEC) and the digital age, along with external changes, especially global economic fluctuations, as well as volatility in the Baht and interest rates. Businesses have had to contend with impacts of regulatory changes, the National e-Payment Master Plan, fast-changing technologies and changes in consumer behavior.

KBank has emphasized synergy with K Companies, strategic partners and startup firms for enhancement of our business capabilities to achieve sustainable growth while maintaining our market leadership over long-term. Guided by our core strategies of “Customer Centricity” and making KBank the Customers’ Main Bank for all eight customer segments, we focus on creating innovations and managing financial products, as well as reinforcing our sales and service quality excellence, with greater consideration of consumer protection in order to deliver excellent financial products and an unsurpassed service experience to all our customers.

Beyond the above strategies, KBank places equal importance on supporting functions, which are in harmony with our business directions that focus on effective, timely and proactive integrated risk management (IRM), improved customer service excellence, internal operation efficiency, and maximized resource utilization. We remain committed to efficient operating cost and asset quality management, along with better information and IT systems as well as human resource management, to ensure that we will attain our business targets.

3.3 Customer Segments and Services

During the second quarter of 2017, KBank and K Companies continued to adhere to our “Customer Centricity” strategy, being attentive to impacts of domestic and global economic situations, as well as supporting their growth and opportunities, led by 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 service needs are efficiently met by

our solutions and KBank is chosen as customers' main bank. These undertakings helped us to achieve our business goals, while also appropriately maintaining asset quality.

■ **Multi-Corporate Business**

The Thai economy showed improvement on clearer signs of global economic recovery and progress in the government's megaprojects. KBank was therefore able to manage our credit and asset quality in line with the set targets despite Thai Baht volatility that affected certain economic sectors.

In the second quarter of 2017, KBank granted continual support to our large corporate clients taking part in bidding for the government's projects, especially those of infrastructure investment. Moreover, we were preparing to develop new financial products in keeping with the National e-Payment Master Plan. Of note was the study of blockchain technology to enhance convenience and efficiency in customer services.

KBank has focused our strategy on bolstering customer competitiveness. Aside from risk management products appropriate for customer needs in this period of economic volatility, we offered funding support for their business expansion through fund raising via capital markets, along with advisory service provided by KBank specialists to our large corporate clients.

■ **Large Corporate Business**

KBank has prioritized customer service and accessibility. In addition to attentive care along with effective and efficient advisory service offered to our customers, we provide them with products that are well-suited to market conditions. Focus has thus been on development of personnel and work processes. Furthermore, we provide value chain management solutions for enhanced connectivity between our customers and their business partners, thus leading to more expansive business networks and efficiency, especially among those in the agro-processing, commerce, and packaging industries. In addition, numerous activities were held to strengthen business networking for our customers. A notable learning course in this quarter was Professional Family Business Management No. 17, organized for new-generation executives to endow them with insights beneficial to their businesses.

With customer benefits in mind, KBank has given support to the government's projects, especially those under the National e-Payment Master Plan, which allows customers to conduct transactions with greater convenience while also strengthening their business operations both at home and abroad.

■ **Medium Business**

KBank assists our customers at every stage of their business operations for their long-term sustainable growth. To this end, we offer total solutions in the form of financial products and services supporting the full business cycle and consistent with actual needs. Products and services are offered in ways that are easy, convenient, and fast. Focus has also been on knowledge-based assistance and enhancement of business opportunity via strong networking and partnerships. In all these offerings, risk is managed to maintain loan quality at appropriate levels.

In the second quarter of 2017, we developed loan products for customers in industries with brighter growth prospects. Of note were K-SME Medical Credit, K-Buyer Financing for Sub-dealer and Added up for Leasing. We have extended the period of the soft loan program for equipment replacement and productivity enhancement, which is intended to provide funding for SME business expansion and liquidity support.

KBank also organized numerous knowledge-based seminars, namely “Open Doors to Myanmar and Cambodia”, to provide interested SME entrepreneurs with relevant information as guidelines for business operations in these two markets, as well as “Design a Plan to Cut Your Tax Bill” and “Effective Budget Management Leading to Effective Business Management”, both directed at assisting entrepreneurs in devising effective plans for their business operations.

■ **Small and Micro Business**

KBank develops convenience-enhancing digital technology to help our customers’ business operations to remain up-to-date and fast while boosting their potential in highly-competitive markets. A notable initiative in this quarter was K PLUS SME – the KBank mobile banking application that answers to the needs of customers to monitor account transactions, credit limits, and remaining available credit. Customers can also verify cheque status, both received and issued, and the system gives advance notice of potentially returned cheques.

Working with Advanced Info Service Plc and two tech startups i.e., FoodStory and FlowAccount, we created Food Solution, a digital solution that facilitates food orders with accounts linked to K PLUS SME. KBank plans to extend the type of service to SME entrepreneurs in other lines of business.

For our Micro Loan, we designed products to meet specific needs of customers in each business group. Of note were K-SME Restaurant Micro Credit and K-SME Medical Micro Credit, to be used as working capital and for business expansion.

Moreover, KBank continued to expand Electronic Data Capture (EDC) to merchants in alignment with the National e-Payment Master Plan through the offering of privileges that help lessen costs for merchants installing an EDC machine within this year.

■ **High Net Worth Individual**

KBank is committed to providing excellent customer experiences in order to reinforce our leadership in the industry. This quarter we have implemented infrastructure for transactions of High Net Worth Individual customers in the form of two separate support units with clearly-defined roles. They are, i.e., 1. Quality Assurance Unit which checks and confirms transactions with customers to ensure their real demand and consistency with each customer’s risk appetite, and 2. Settlement Unit which conducts transactions for customers. Both units work with Private Banker who provides investment product advice and recommendations to ensure that our operations are up to international standards through quality control, verification and prevention of risks for both customers and KBank.

■ Affluent

Making the most of our strong overseas network, we aim to serve foreign customers, especially those doing business with KBank in AEC+3 countries, as part of our efforts to expand THE WISDOM customer base. Advisory service has been enhanced to respond to their personal and business needs through multiple channels, namely teams of professional RMs, THE WISDOM ONWARD e-Newsletter – an online monthly newsletter, and quarterly seminars.

Meanwhile, KBank teamed up with KAsset to highlight saving and investment products with the launch of various types of mutual funds plus K-Saving Plan – a service designed to promote investment discipline among our customers, along with attractive privileges offered to first-time investors via K-Saving Plan. In collaboration with Muang Thai Life Assurance PCL, we debuted Whole Life 99/1 (with maturity benefit) targeting customers seeking to transfer assets to their heirs with no inheritance tax.

We underline the significance of upgrading our “THE WISDOM” brand and remaining the top-of-mind brand among our Affluent customers. KBank thus offers exclusive experiences to directly respond to their financial and lifestyle needs. To this end, “THE WISDOM Lane” was added to certain branches to provide greater convenience for our THE WISDOM customers when conducting financial transactions at branches with relatively heavy traffic. We also conducted lifestyle activities catering to each individual customer.

■ Middle Income

KBank debuted THE PREMIER ADVISORY to give financial advice and planning to KBank THE PREMIER Cardholders, to meet both their personal and business needs. We aim to strengthen THE PREMIER as an exclusive brand for new-generation customers whose investments range between Baht 2-10 million. “THE PREMIER ADVISORY: Eight Hours to Get Rich with Tens of Millions of Baht” was therefore organized in this quarter for clients in need of comprehensive financial and investment management and planning.

Having continually encouraged customers to save, plan for retirement and take out life insurance with tax benefits, we launched Taweessup Extra plus Life Insurance, featuring a tax-free 24-month fixed deposit product plus Pro Saving 615 Guarantee or Retirement 60/5 and Whole Life 99/5.

For loan products, KBank prioritizes customer screening per our prudent credit policy in order to maintain overall portfolio quality. We thus held co-promotions with our real estate business partners targeting specific groups of customers through the offering of a housing loan for purchase of new or pre-owned homes, and a mortgage refinance product with long-term flat or preferential interest rates under special conditions, offering an extra-low monthly payment plan.

For credit card products, KBank JCB Credit Card was introduced to broaden the base of customers who are Japan lovers. Notable campaigns to promote application for credit cards and card spending per our “Spend Every Day with Only One Card” strategy included, “Route to the Southern Hemisphere” and “Dine, Travel, Shop and Refresh in Summer”. We also launched a campaign to promote

spending in foreign currencies. With intense competition in the personal loan market, KBank offered reduced interest rates to target groups and highlighted interest rates calculated on a daily basis to differentiate ourselves from peers. Of note was K-Personal Loan with preferential interest rates at Baht 2.34 daily or 16 percent, p.a., per the established conditions, granted to KBank Payroll customers.

■ Mass

Guided by a strategy to be the preferred bank of our customers, especially those with the potential to become Middle Income clients, KBank remains committed to developing new products and services to be aligned with customer needs, which also helps to enhance opportunities to do business with our partners. In this quarter, KBank introduced a new channel for clients to apply for a debit card on their own via K PLUS, with no need to go to a bank branch. K-Debit Card with a One Piece theme – a famous Japanese manga – was thus launched, and customers may conveniently sign up for this debit card via K PLUS. Moreover, we organized a promotion program to spur spending with K-Debit Card in addition to the government-initiated campaign under the National e-Payment Master Plan.

We also improved the offering of non-life insurance products via electronic channels to make it more user-friendly, affordable and convenient to buy. Notable products were Travel Protection via K PLUS and www.kasikornbank.com, and PA365 via K-ATM.

Numerous marketing activities highlighting KBank's image were staged at Thailand's leading companies and universities as part of our CRM efforts to promote brand awareness and attract their personnel to use KBank as their main bank.

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.

(1) **Branch Network:** Key initiatives for branch network management in the second quarter of 2017 included:

- **Domestic branch network:** Our focus was on the enhancement of service efficiency through the maximization of our sales and service quality in alignment with changing consumer behavior. Given rising demand for mobile banking service in place of branches, we prioritized consolidation of branches with relatively low traffic and service channel expansion at viable locations.

Meanwhile, we took into account the appropriate consolidation of forex booths in certain areas while also adjusting business hours in each location, especially in tourist attractions.

- **International branch network:** We remain committed to a policy of network connectivity for our AEC+3 customers per our current business direction, focusing on growth in the Asian region. KBank has expanded branches and representative offices within AEC so as to respond to customers seeking to venture into other Asian countries, in alignment with the national agenda to embrace the AEC.

Branches and Financial Service Offices/Centers

Domestic Service Network	Number of Locations		Overseas Service Network	Number of Locations	
	Jun. 2017	Mar. 2017		Jun. 2017	Mar. 2017
Branch Network ¹⁾	1,056	1,081	Branches and Overseas Service Network:	16	16
Foreign Exchange Booth	142	144	Locally Incorporated Institution	1	1
THE WISDOM	105	105	Branches	6	6
Corporate Business Center	8	8	Representative Offices	9	9
SME Business Center ²⁾	121	121	Electronic Banking Services	Number of Units	
International Trade Service Center	58	58		Jun. 2017	Mar. 2017
Cheque Direct Service	31	31	Self-Service Channel (K-ATM and K-CDM)	11,652	11,696
			K-ATM (Automated Teller Machines)	9,026	9,037
			K-CDM (Cash Deposit Machines)	2,626	2,659
			K-PUM (Passbook Update Machines)	1,152	1,174

Notes: ¹⁾ Excluding 10 branches, classified as other branch platforms per the Bank of Thailand's conditions

²⁾ 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 to accommodate round-the-clock financial transactions with security. Customers are encouraged to use self-service machines, while we prioritized machine management for broader service coverage to effectively meet the needs of customers.

- **Digital Banking Services:** To highlight our digital and mobile banking leadership, K-MOBILE BANKING PLUS was renamed K PLUS, and its logo was also changed for easier recognition. An advertising campaign was launched under the concept of "Change for a Simpler Life", along with continued system development for service efficiency enhancement allowing customers to conduct transactions anywhere, anytime. Major initiatives of our digital banking in the second quarter of 2017 included:

- 1) **K PLUS:** New functions were added to K PLUS to facilitate customers to conduct transactions on their own including application for K-Debit Card, addition of new accounts simply by entering account number and the latest account balance, as well as credit card bill payments with no fee under the established conditions.

Furthermore, we launched K PLUS SME – KBank mobile banking application specifically designed for our SME clients to conduct transactions online with features that allow them to access data and manage their finance and business on their own.

- 2) **K-Cyber:** We focused on maintaining the stability of the K-Cyber system. Data security is ensured through implementation of ISO 27001:2013, the highest global standard, giving our customers more confidence when conducting financial transactions via all digital banking

channels. This initiative was in response to growing online financial transactions amid changing consumer lifestyles.

- 3) **K-Payment Gateway:** We enhanced service efficiency for bill payment with credit and debit cards online, and had in place a security system to assure merchants of easy, convenient and complete processes to accommodate customer business operation.

- **K-Contact Center:** We have developed numerous comprehensive service channels for enhanced customer convenience. The “Customer Feedback Management” program was continued to gauge customer satisfaction and obtain their recommendations for use of KBank services at branches and K-Contact Center, which will be used as input for development and upgrades to our service quality. We also introduced services on K PLUS to our customers for their enhanced convenience when conducting transactions.

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 2017, notably:

Awards to KBank and K Companies

Awards to KBank

- Two awards: **Best Service Provider-Cash Management Thailand** and **Best Cash Management Solution, Thailand for Thai Union** from The Asset magazine
- **Best DCM House in Thailand** from FinanceAsia magazine
- **Highly Commended Award: Best Customer Experience - Wealth Management** from Private Banker International and Retail Banker International
- **Marketeer No.1 Brand Thailand Awards** in the categories of **Credit Card** (four successive years), **Debit Card** and **Bank Saving Account** (second consecutive year) and **Bank for SME**, from Video Research International (Thailand) Ltd. and Marketeer magazine.

Awards to KAsset

- **Fund House of the year (Thailand)** from AsianInvestor magazine, for two successive years
- **Marketeer No.1 Brand Thailand Award** in the category of **Mutual Fund**, from Video Research International (Thailand) Ltd. and Marketeer magazine, for the fourth consecutive year.

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for the second quarter of 2017 totaled Baht 8,986 million, decreasing Baht 1,185 million or 11.65 percent over-quarter – due to an increase of Baht 1,493 million in impairment loss on loans and debt securities or 16.36 percent higher – to cope with economic uncertainties. Operating profit before provision expense and income tax expense slightly rose Baht 78 million, or 0.33 percent, over-quarter, derived mainly from an increase of Baht 705 million or 1.83 percent in net operating income, from a rise in both non-interest income and net interest income. Non-interest income rose Baht 450 million or 2.90 percent due largely to an increase in net fees and service income, and revenue from capital market products. Net interest income increased Baht 255 million or 1.11 percent, as a result of rising interest income from investments. Net interest margin (NIM) was equal to 3.43 percent, slightly higher than the previous quarter, but still within the set target of 3.3-3.5 percent.

Meanwhile, other operating expenses increased Baht 627 million or 4.12 percent due partly to increasing employee expenses, as well as premises and equipment expenses. Our cost to income ratio slightly rose from the previous quarter to 40.32 percent, which was better than the set target.

Operating Performance for the Second Quarter of 2017

(Unit: Million Baht)

	Q2-2017	Q1-2017	Change		Q2-2016	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	23,343	23,088	255	1.11	22,123	1,220	5.52
Non-Interest Income	15,967	15,517	450	2.90	15,547	420	2.70
Total Operating Income - net	39,310	38,605	705	1.83	37,670	1,640	4.35
Total Other Operating Expenses	15,851	15,224	627	4.12	15,647	204	1.31
Impairment Loss on Loans and Debt							
Securities	10,626	9,133	1,493	16.36	8,721	1,905	21.85
Net Profit (attributable to equity							
holders of KBank)	8,986	10,171	(1,185)	(11.65)	9,428	(442)	(4.68)
Basic Earnings per Share (Baht)	3.75	4.25	(0.50)	(11.65)	3.94	(0.19)	(4.68)

When compared to the same quarter of the previous year, a decrease of Baht 442 million in our consolidated net profit, or 4.68 percent, was due to an increase of Baht 1,905 million or 21.85 percent in impairment loss on loans and debt securities. However, operating profit before provision expense and income tax expense rose Baht 1,436 million or 6.52 percent, over the same quarter of previous year, due to an increase of Baht 1,220 million or 5.52 percent in net interest income which was derived mainly from interest income from investments. Meanwhile, interest expenses decreased over the same quarter of previous year due to early redemption of subordinated debentures of KASIKORNBANK PCL No.1/2012 in

the first quarter of 2017 and declining average deposit rates. Non-interest income rose Baht 420 million or 2.70 percent as a result of increase in net fees and service income, gains on trading and foreign exchange transactions and revenue from capital market products. Other operating expenses rose Baht 204 million, or 1.31 percent, over the same period of previous year.

Major financial ratios that reflected operating performance of KBank and our subsidiaries in the second quarter of 2017 compared to the previous quarter and the same quarter of last year included:

(Unit: Percent)

Financial Ratio	Q2-2017	Q1-2017	Change	Q2-2016	Change
Return on Assets (ROA) ¹⁾	1.26	1.43	(0.17)	1.41	(0.15)
Return on Equity (ROE) ¹⁾	10.78	12.44	(1.66)	12.79	(2.01)
Net Interest Margin (NIM) ¹⁾	3.43	3.41	0.02	3.49	(0.06)
Non-Interest Income to Average Assets ¹⁾	2.24	2.18	0.06	2.33	(0.09)
Non-Interest Income Ratio	40.62	40.19	0.43	41.27	(0.65)
Cost to Income Ratio	40.32	39.44	0.88	41.54	(1.22)

¹⁾ Annualized

(Unit: Percent)

Financial Ratio	Jun. 30, 2017	Mar. 31, 2017	Change	Jun. 30, 2016	Change
Net NPLs to Total Loans	1.87	1.80	0.07	1.54	0.33
Gross NPLs to Total Loans	3.31	3.31	-	2.89	0.42
Coverage Ratio	141.17	134.94	6.23	136.21	4.96
Loans ²⁾ to Deposits Ratio	95.28	94.80	0.48	95.51	(0.23)
Loans ²⁾ to Deposits and B/E Ratio	95.28	94.80	0.48	95.50	(0.22)
Capital Adequacy Ratio ³⁾	17.63	17.51	0.12	18.12	(0.49)
Tier 1 Capital Ratio ³⁾	15.25	15.03	0.22	14.69	0.56

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 2017 was Baht 23,343 million, increasing Baht 255 million, or 1.11 percent over-quarter due mainly to higher interest income from investments. Our NIM for the second quarter of 2017, therefore, equaled 3.43 percent, higher than the previous quarter, and 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 1,220 million, or 5.52 percent, due largely to higher interest income from investments while interest expenses dropped as a result of early redemption of subordinated debentures of KASIKORNBANK PCL No.1/2012 in the first quarter of 2017 and declining average deposit rates. However, our NIM in the second quarter of 2017 was lower than the same quarter of 2016.

(Unit: Million Baht)

	Q2-2017	Q1-2017	Change		Q2-2016	Change	
			Million Baht	Percent	Million Baht	Million Baht	Percent
Interest Income							
Interbank and Money Market Items	1,601	1,509	92	6.13	1,579	22	1.40
Deposits	275	251	24	9.64	80	195	242.82
Loans without Repurchase Agreements	121	72	49	69.23	107	14	12.91
Repurchase Agreements	1,205	1,186	19	1.58	1,392	(187)	(13.39)
Investments	4,342	4,115	227	5.51	3,382	960	28.37
Trading Investments	67	52	15	27.13	68	(1)	(1.12)
Available-for-Sale Investments	868	931	(63)	(6.75)	519	349	66.98
Held-to-Maturity Investments	3,407	3,132	275	8.80	2,795	612	21.90
Loans	22,529	22,500	29	0.13	22,407	122	0.54
Finance leases	1,252	1,244	8	0.61	1,242	10	0.83
Others	3	3	-	2.98	3	-	(2.88)
Total Interest Income	29,727	29,371	356	1.21	28,613	1,114	3.89
Total Interest Expenses	6,384	6,283	101	1.60	6,490	(106)	(1.65)
Total Interest Income – net	23,343	23,088	255	1.11	22,123	1,220	5.52
Yield on Earning Assets (percent)	4.36	4.34		0.02	4.51		(0.15)
Cost of Fund (percent)	1.25	1.22		0.03	1.32		(0.07)
Net Interest Margin (NIM) (percent)	3.43	3.41		0.02	3.49		(0.06)

□ Non-Interest Income

For the second quarter of 2017, KBank's consolidated non-interest income totaled Baht 15,967 million, increasing Baht 450 million, or 2.90 percent over-quarter. The increase was due mainly to increase in net fees and service income and revenue from capital market products, which was derived from continual expansion of a new customer base in line with our "Customer Centricity" strategy. In the second and first quarter of 2017, non-interest income ratio of KBank and our subsidiaries accounted for 40.62 percent and 40.19 percent, respectively. This was in alignment with KBank's target wherein non-interest income ratio would be around 40 percent of total income.

When compared to the same quarter of last year, consolidated non-interest income for the second quarter of 2017 increased Baht 420 million, or 2.70 percent, as a result of rising net fees and service income, gains on trading and foreign exchange transactions and revenue from capital market products.

(Unit: Million Baht)

	Q2-2017	Q1-2017	Change		Q2-2016	Change	
			Million Baht	Percent		Million Baht	Percent
Non-Interest Income							
Fees and Service Income	12,705	12,604	101	0.80	11,814	891	7.54
Fees and Service Expenses	2,490	2,519	(29)	(1.15)	2,403	87	3.61
Fees and Service Income - net	10,215	10,085	130	1.29	9,411	804	8.55
Gain on Trading and Foreign Exchange Transactions	2,209	2,165	44	2.03	1,624	585	35.96
Loss on Financial Liabilities Designated at Fair Value through Profit or Loss	1	-	1	612.60	(1)	2	588.06
Gain on Investments	577	244	333	136.83	147	430	292.34
Share of Profit from Investments using Equity Method	32	39	(7)	(19.56)	24	8	31.76
Dividend Income	773	466	307	65.79	601	172	28.78
Net Premiums Earned	29,727	26,427	3,300	12.49	23,796	5,931	24.92
Other Operating Income	365	377	(12)	(3.23)	424	(59)	(13.80)
<u>Less</u> Underwriting Expenses	27,932	24,286	3,646	15.01	20,479	7,453	36.39
Total Non-Interest Income	15,967	15,517	450	2.90	15,547	420	2.70
Non-Interest Income to Average Assets (percent)	2.24	2.18		0.06	2.33		(0.09)
Non-Interest Income Ratio (percent)	40.62	40.19		0.43	41.27		(0.65)
Net Fee Income to Net Total Operating Income Ratio (percent)	25.99	26.12		(0.13)	24.98		1.01

□ Other Operating Expenses

KBank's consolidated other operating expenses for the second quarter of 2017 was Baht 15,851 million, rising Baht 627 million, or 4.12 percent over-quarter, which was derived partly from rising employee expenses, as well as premises and equipment expenses. The increase could be attributed mainly to seasonality. Our cost to income ratio was equal to 40.32 percent, up from 39.44 percent in the previous quarter. The figure was better than the set target.

When compared to the same quarter of the previous year, other operating expenses slightly increased by Baht 204 million, or 1.31 percent. However, our cost to income ratio of the second quarter of 2017 was lower than the 41.54 percent in the same quarter of last year.

(Unit: Million Baht)

	Q2-2017	Q1-2017	Change		Q2-2016	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	7,462	7,191	271	3.77	7,073	389	5.51
Directors' Remuneration	83	18	65	364.66	81	2	3.66
Premises and Equipment Expenses	3,300	3,110	190	6.11	3,210	90	2.78
Taxes and Duties	1,130	1,065	65	6.10	1,100	30	2.65
Others	3,876	3,840	36	0.93	4,183	(307)	(7.33)
Total Other Operating Expenses	15,851	15,224	627	4.12	15,647	204	1.31
Cost to Income Ratio (percent)	40.32	39.44		0.88	41.54		(1.22)

□ Impairment Loss on Loans and Debt Securities

During the second quarter of 2017, KBank and our subsidiaries had Baht 10,626 million of impairment loss on loans and debt securities, an increase of Baht 1,493 million or 16.36 percent, over-quarter, and an increase of Baht 1,905 million or 21.85 percent, over the same quarter of previous year to cope with economic uncertainties. Thus, our credit cost in the second quarter of 2017 stood at 2.46 percent, higher than 2.15 percent in the previous quarter and 2.13 percent in the same quarter of last year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q2-2017	Q1-2017	Change		Q2-2016	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	10,626	9,133	1,493	16.36	8,721	1,905	21.85
Credit Cost (percent)	2.46	2.15		0.31	2.13		0.33

Allowance for Doubtful Accounts and Allowance for Impairment of Assets

As of June 30, 2017, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 94,363 million. This amount was equivalent to 250.69 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of June 30, 2017, KBank's consolidated NPLs stood at Baht 66,843 million, 3.31 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 64,866 million, 3.22 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2017	Mar. 31, 2017
Consolidated NPLs	66,843	65,393
Percent of total outstanding credit, including that of financial institutions	3.31	3.31
Bank-only NPLs	64,866	63,381
Percent of total outstanding credit, including that of financial institutions	3.22	3.22

Net Non-Performing Loans

As of June 30, 2017, KBank's consolidated net NPLs stood at Baht 37,290 million – 1.87 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 36,572 million – 1.84 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2017	Mar. 31, 2017
Consolidated net NPLs	37,290	35,051
Percent of total outstanding credit, including that of financial institutions	1.87	1.80
Bank-only net NPLs	36,572	34,305
Percent of total outstanding credit, including that of financial institutions	1.84	1.77

Debt Restructuring

As of June 30, 2017, KBank's consolidated restructured debts which incurred losses, totaled Baht 57,115 million, increasing by Baht 1,103 million, or 1.97 percent when compared to the first quarter of 2017.

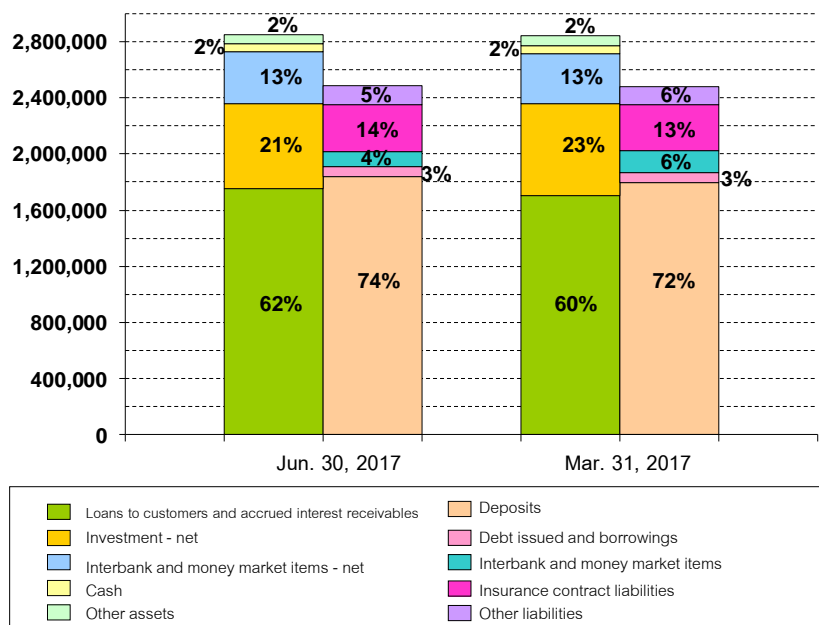
Foreclosed Properties

As of June 30, 2017, our consolidated foreclosed properties had a cost value of Baht 19,180 million, thus being 0.67 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,151 million, equivalent to 11.21 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.

4.2 Financial Position Analysis

Assets and Liabilities Structure

(Unit: Million Baht)



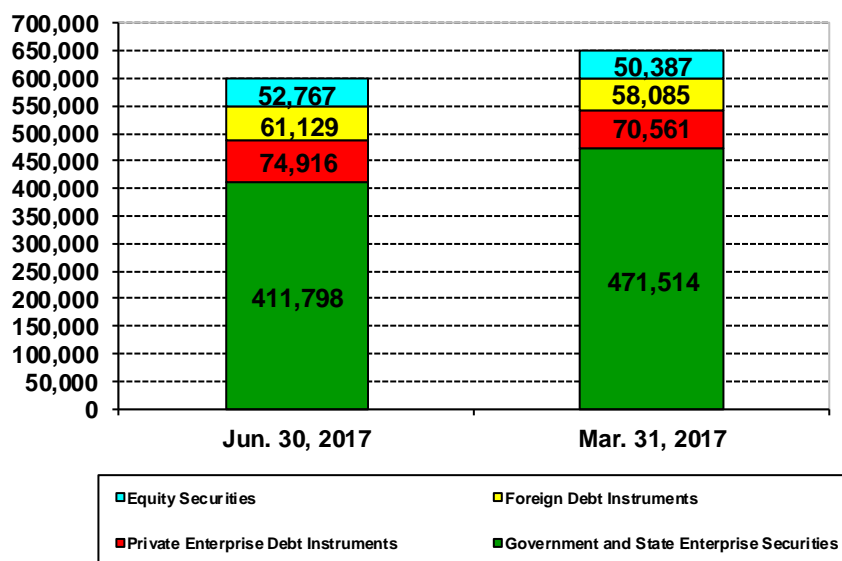
□ Assets

At the end of the second quarter of 2017, KBank's consolidated assets totaled Baht 2,853,339 million, increasing Baht 6,135 million or 0.22 percent from the end of the first quarter of 2017. The rise was due mainly to increase in loans to customers and net interbank and money market items (assets) whereas net investment decreased. In detail:

- Loans to customers (less deferred revenue) amounted to Baht 1,752,227 million, increasing Baht 50,552 million or 2.97 percent over-quarter. The growth was due substantially to increase in commercial loan, housing loan and working capital. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net interbank and money market items (assets) totaled Baht 373,990 million, increasing Baht 13,469 million or 3.74 percent from the previous quarter, due mainly to KBank's liquidity management.
- Net investment totaled Baht 601,711 million, decreasing by Baht 49,908 million or 7.66 percent from the previous quarter, due mainly to sales of government bonds.

Investments in Securities

(Unit: Million Baht)



□ Liabilities and Equity

Our consolidated liabilities, at the end of the second quarter of 2017, amounted to Baht 2,484,352 million, increasing Baht 3,629 million or 0.15 percent, from the end of the first quarter of 2017. The increase was mainly attributable to increase in deposits and insurance contract liabilities while interbank and money market items (liabilities) decreased. Significant changes in our consolidated liabilities included:

- Deposits totaled Baht 1,839,068 million, increasing by Baht 43,996 million or 2.45 percent from the prior quarter. KBank's deposits ranked the fourth-largest among Thai commercial banks.
- Insurance contract liabilities were registered at Baht 340,908 million, up Baht 19,090 million or 5.93 percent from the previous quarter, in line with growth in life insurance business.
- Interbank and money market items (liabilities) equaled Baht 102,345 million, decreasing Baht 57,539 million or 35.99 percent from the first quarter of 2017, due largely to a decrease in borrowings per private repurchase transactions.

At the end of this quarter, total equity attributable to equity holders of KBank amounted to Baht 334,158 million, increasing Baht 1,527 million or 0.46 percent from the previous quarter, driven largely by net operating profit for the second quarter of 2017, totaling Baht 8,986 million, despite payment of dividend of Baht 8,376 million derived from net profit of 2016 that was made in April 2017.

□ Relationship between Sources and Uses of Funds

As of June 30, 2017, the funding structure as shown in the consolidated financial statement comprised Baht 2,484,352 million in liabilities and Baht 368,987 million in total equity, resulting in a debt-to-

equity ratio of 6.73. The main source of funds on the liabilities side was deposits, which equaled Baht 1,839,068 million, or 64.45 percent of the total, as of June 30, 2017. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 3.59 percent and 2.53 percent of the total, respectively.

As of June 30, 2017, KBank's and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,752,227 million, resulting in loan-to-deposit ratio and loan-to-deposit plus bills of exchange ratio of 95.28 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

(Unit: Million Baht)

Period	Deposits				Loans			
	Jun. 30, 2017	Percent	Dec. 31, 2016	Percent	Jun. 30, 2017	Percent	Dec. 31, 2016	Percent
≤ 1 Year	1,815,863	98.74	1,783,984	99.40	807,794	46.10	772,897	45.53
> 1 - 5 Year	23,205	1.26	10,851	0.60	423,375	24.16	415,263	24.46
> 5 Year	-	-	-	-	521,058	29.74	509,421	30.01
Total	1,839,068	100.00	1,794,835	100.00	1,752,227	100.00	1,697,581	100.00

As of June 30, 2017, 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.

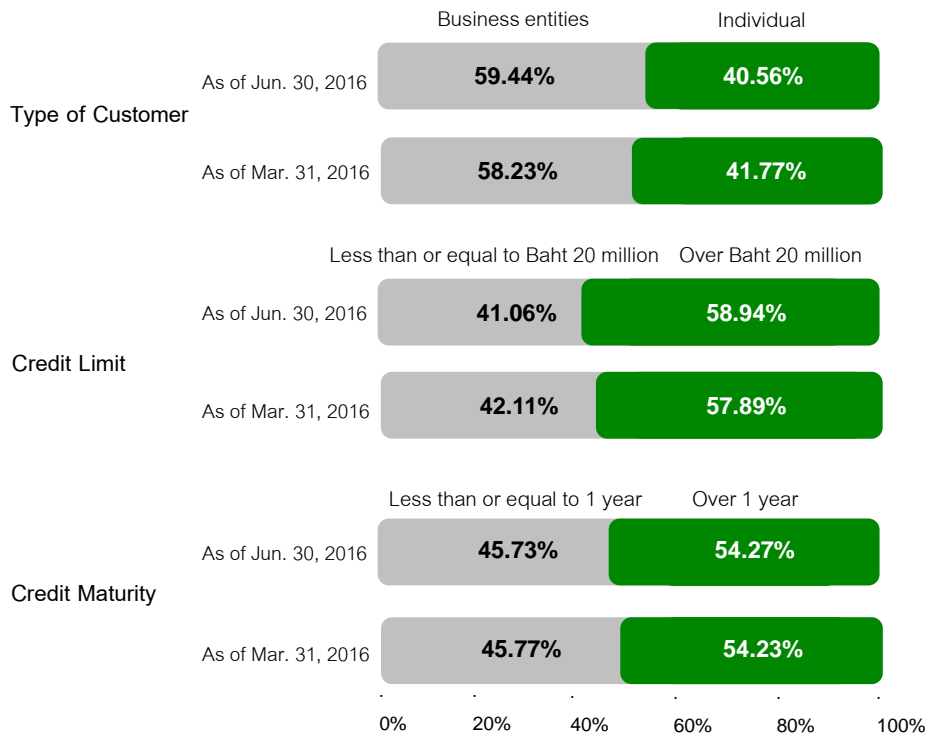
4.3 Loans and Deposits

□ Loans

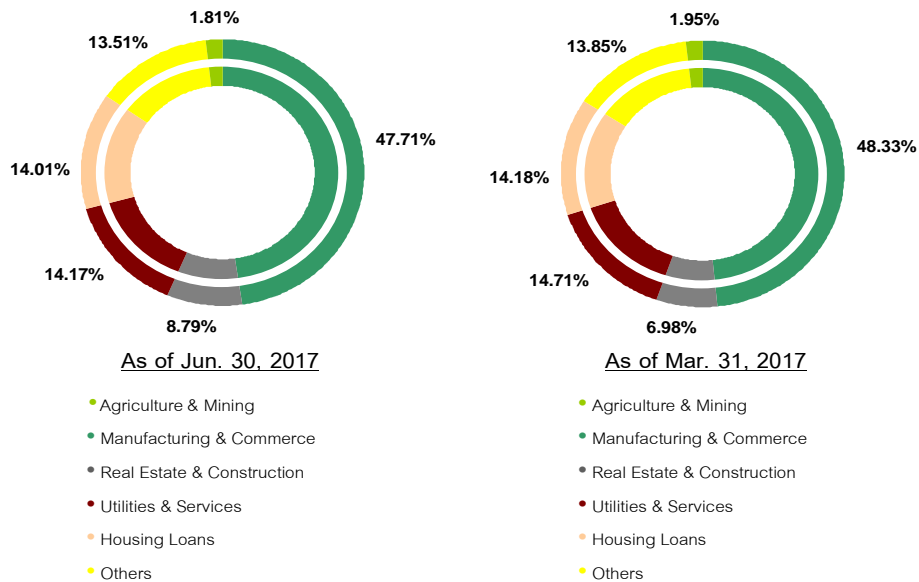
As of June 30, 2017, KBank's consolidated outstanding loans stood at Baht 1,752,227 million, increasing by Baht 50,552 million, or 2.97 percent, compared to Baht 1,701,675 million as of March 31, 2017.

As of June 30, 2017, 59.44 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,016,621 million, or 58.94 percent of the total; 41.06 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 45.73 percent of our total loans.

Loan Portfolio by Type of Customer, Credit Limit and Credit Maturity



KBank's Consolidated Lending Portfolio

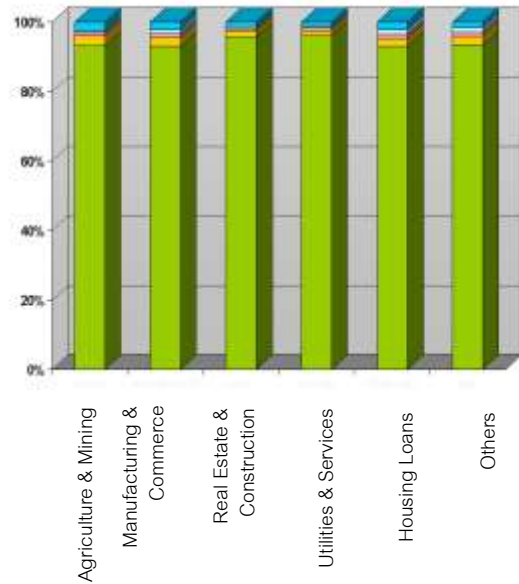
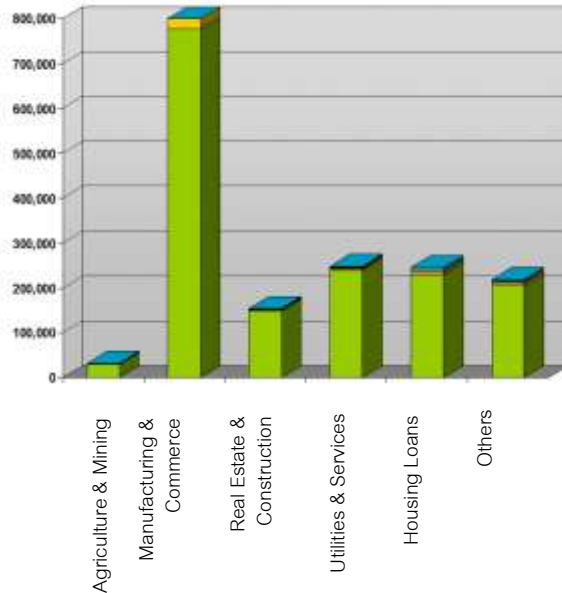


As of Jun. 30, 2017

Consolidated Loans Classified
by Type of Business and Loan Classification

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

Unit: Million Baht



■ Normal
 ■ Special Mention
 ■ Sub-standard
 ■ Doubtful
 ■ Doubtful of Loss

Within KBank’s consolidated lending portfolio, 93.75 percent were classified as “Normal” loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 47.71 percent; of that 92.99 percent were classified as “Normal” loans.

Loans Classified by Business

(Unit: Million Baht)

	Jun. 30, 2017		Mar. 31, 2017	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,235,521	423,229	1,186,850	419,346

Notes: ¹⁾ “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, letter of guarantee, trade finance solutions, syndicated loans, cash management solutions and value chain solutions.

²⁾ “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.

As of the end of the second quarter of 2017, our corporate business loans (corporate and SME customers) increased by Baht 48,671 million, or 4.10 percent, from the end of the first quarter of 2017. The

increase came from loans granted to customers that enjoyed solid performance and continually sought financial support, especially those in the real estate business, service sector and agro-industry. Meanwhile, KBank implemented a policy aimed at strengthening our customers' businesses both at home and abroad through financial assistance for both their business expansion and liquidity enhancement. In this quarter, we extended the period of the soft loan program granted to SME clients for machinery replacement and productivity enhancement. Our efforts to support the government's projects were continued, especially regarding the National E-Payment Master Plan, which helps facilitate customers in their financial transactions.

For our retail loans, KBank maintained a cautious growth policy in alignment with overall market conditions so as to maintain our loan quality and hold on to our market leadership in major loan products. In the second quarter of 2017, our retail loans slightly increased, by 0.93 percent from the end of the first quarter of 2017, derived mainly from improved housing loan owing to KBank's collaborations with our business partners both in Bangkok and other provinces as well as our marketing campaigns catering to specific groups of customers. At the same time, consumer loan rose with improvement of other types of personal loan, thanks to our effective customer screening.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Jun. 30, 2017	Mar. 31, 2017	Million Baht	Percent
Total Deposits	100.00	1,839,068	1,795,072	43,996	2.45
Current accounts	5.34	98,106	94,633	3,473	3.67
Savings accounts	72.60	1,335,246	1,293,854	41,392	3.20
Fixed-term deposit accounts	22.06	405,716	406,585	(869)	(0.21)

During the second quarter of 2017, total deposits rose 2.45 percent from the first quarter of 2017, which were derived from savings and current accounts per our policy for management of deposits, which must be kept at levels appropriate for business operation and competition. Meanwhile, KBank launched deposit products in response to customer needs for both saving and life insurance coverage, as well as other investment vehicles yielding higher returns with acceptable risk levels, as alternatives to matured fixed deposits.

4.4 Treasury Operations

□ Treasury Operations

During the second quarter of 2017, overnight interbank lending rates remained stable from the final quarter of last year, standing at 1.40 percent p.a. Those steady rates were influenced by the MPC meeting resolution on May 24, 2017, wherein the key policy rate was kept at 1.50 percent, p.a. Meanwhile, interbank lending transactions rose slightly over the preceding quarter.

In addition, returns of short-term bonds with maturities of less than one year were lower than the key policy rate in this quarter. KBank therefore sold short-term bonds from our portfolio to invest in money market while increasing our holdings in long-term bonds with maturities of around 10 years, amid the declining yields in the market.

Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q2-2017	Q1-2017	Change	
				Million Baht	Percent
Interest income					
Interbank and money market items ¹⁾	58.97	1,420	1,339	81	6.05
Investments	41.03	988	1,040	(52)	(5.00)
Total	100.00	2,408	2,379	29	1.22

Note: ¹⁾ Including loans

Total interest income for the second quarter of 2017 stood at Baht 2,408 million, increasing Baht 29 million, over the previous quarter due to portfolio adjustment as mentioned earlier.

□ Liquid Asset Ratio

KBank maintains average fortnightly current deposits at not lower than 1.00 percent of total deposits and certain types of borrowings in accordance with the Bank of Thailand's regulations. For the fortnight of June 30, 2017, our deposits at the Bank of Thailand and cash at cash center averaged Baht 22,657 million.

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

Operating Performance of K Companies¹⁾ and Muang Thai Life Assurance PCL

(Unit: Million Baht)

	Performance Measurement	First Half of 2017	First Half of 2016	2016
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management	1,255,372	1,223,596	1,240,206
	Market Share (Percent)	19.08	20.22	19.47
KASIKORN SECURITIES PCL. (KSecurities)	Trading Volume	394,102	371,217	868,068
	Market Share (Percent)	3.87	3.72	3.78
KASIKORN LEASING CO., LTD. (KLeasing)	Loans	92,993	89,346	90,696
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Loans	16,628	13,715	14,798
Muang Thai Life Assurance PCL. (MTL)	Net Premiums Earned	57,895	51,783	97,013
	Market Share (Percent)	19.45	18.59	17.07

Note: ¹⁾ KResearch is not included, since this company does not engage in financial business.

During the first half of 2017, 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 market share of 20.42 percent. Total market share of assets under management (AUM) was 19.08 percent. The excellent performance benefited from its synergy with KBank, as well as product development to match consumers' needs. Notable efforts were: 1) the launch of K Asia Fixed Income Fund (K-AFIXED) to cash in on Asian growth; 2) My Port Simulator – a tool for portfolio analysis and management based on customer risk appetite; and 3) Fund Navigator – a tool for funds selection in accordance with investment target. In parallel, we also emphasized 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, investment technologies that are aligned with investor behavior in the digital era have been introduced. They include: 1) KS Super Stock Mobile Application, for which a new function was developed to allow stock selection based on global investing gurus' viewpoints, plus enhanced functions for three-year historical individual stock performance monitoring and analysis; and 2) KS Super Portfolio – a complete function for portfolio analysis and monitoring with portfolio adjustment advisory service. Through these endeavors, KSecurities has maintained its market leadership in the first half of 2017, with a market share of 3.87 percent.

KLeasing was able to maintain its outstanding loans close to those of 2016, with growth of 4.08 percent, in line with the country's domestic auto sales growth. KLeasing enjoyed solid new loan growth, which was derived mainly from Hire Purchase. Asset quality remained healthy with an NPL ratio of 1.50 percent, lower than the banking industry average. Moreover, KLeasing has continued to improve service quality and introduce new product campaigns to meet customers' needs while providing an excellent service experience to both retail and corporate customers.

KF&E reported over-year loan growth of 21.24 percent, which was higher than the company's target. Loans were extended to diverse industries nationwide. The company, which specializes in equipment leasing, focused on forging alliances with customers who are machinery dealers. It has also 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 23.05 percent, and the number-one market share in total premiums at 19.45 percent. The company remained at the forefront in bancassurance, thanks to close cooperation with KBank in developing insurance plans that are in line with KBank customers' demands.

4.6 Capital Requirements ¹⁾

As of the end of the second quarter of 2017, KBank, under the Basel III capital requirements, had capital funds of Baht 313,263 million, consisting of Baht 264,634 million in Tier-1 capital and Baht 48,629 million in Tier-2 capital. The capital adequacy ratio of KBank was 16.87 percent, above the BOT's minimum requirement and conservative buffer of 9.75 percent. Details of the capital adequacy ratio of KBank are shown in the following table:

Capital Adequacy Ratio

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2017	Mar. 31, 2017	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016
Tier-1 Capital Ratio ³⁾	7.25	14.25	14.17	6.625	14.27	14.78	13.84
<i>Common Equity Tier-1 Ratio</i>	5.75	14.25	14.17	5.125	14.27	14.78	13.84
Tier-2 Capital Ratio	-	2.62	2.68	-	3.90	4.00	3.56
Capital Adequacy Ratio	9.75	16.87	16.85	9.125	18.17	18.78	17.40

● KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2017	Mar. 31, 2017	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016
Tier-1 Capital Ratio ³⁾	7.25	15.25	15.03	6.625	15.16	15.69	14.69
<i>Common Equity Tier-1 Ratio</i>	5.75	15.25	15.03	5.125	15.16	15.69	14.69
Tier-2 Capital Ratio	-	2.38	2.48	-	3.68	3.77	3.43
Capital Adequacy Ratio	9.75	17.63	17.51	9.125	18.84	19.46	18.12

- 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 2017, KBank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of March 2017.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings

Credit Ratings Agency	Jun. 30, 2017
Moody's Investors Service¹⁾	
<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
Baseline Credit Assessment	Baa2

Domestic Currency

Outlook	Stable
Long-term - Deposit	Baa1
Short-term - Debt/Deposit	P-2

Standard & Poor's ¹⁾**Global Scale Ratings**

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

ASEAN Regional Scale Ratings

Long-term	axA+
Short-term	axA-1
Subordinated Debt	axA

Fitch Ratings ¹⁾**International Credit Ratings (Foreign Currency)**

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-

National Credit Ratings

Outlook	Stable
Long-term	AA+(tha)
Short-term	F1+(tha)
Subordinated Debt (legacy Basel II Tier 2 securities)	AA(th)
Subordinated Debt (Basel III-compliant Tier 2 securities)	AA(th)

Note: ¹⁾ 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 placed emphasis on human resource management to support our operations in three key areas, namely KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG), business expansion within the AEC+3, and other related operations, to ensure greater efficiency in our human resource management operations.

- **KBTG Human Resource Management**

Amid a highly competitive environment in the financial and digital world, KBTG has recruited high-caliber people to be part of shaping KBank into a digital bank of the future, serving the boundless lifestyles of the mobile and online society.

In the second quarter of 2017, PR activities were staged on a continual basis. They were, for instance, Career Day under the Smart Career with Digital Life theme; and IT Career Talk, in which executives shared their knowledge as tech professionals in the banking business with computer engineering students at various universities in Thailand. Other notable initiatives were the New Hire Bootcamp to communicate to new employees KBTG's working culture, and fostering of KBTG innovations through the Comnovation activity, intended to create a learning society with a community of practice (CoP) in order to reinforce KBTG's Core Values, i.e., Value Creation, Innovation, and Agility. At the same time, we emphasized the Leadership Development Program, identifying and developing a talent pool of high-potential staff, particularly in terms of competitive abilities, preparing them to advance their careers. The program also helps to manage risks of suitability and continuity of personnel in assuming critical positions to support the growing business both now and in the future.

- **Human Resource Management for Business Expansion within AEC+3**

KBank conducted studies in order to design a manpower structure that matches our service model within AEC+3 countries for enhanced work efficiency to cope with the region's growing banking business. In the second quarter of 2017, career path development programs were developed. They included the AEC Development Program aimed at employee preparedness, and the KBanker Academy learning course designed specifically for frontline KBank officers in Thailand, China and AEC countries. Along with local staff development, staff orientation programs have been organized for expatriates so that they can quickly respond to business needs and remain competitive in the local labor market.

As support for business operations in the People's Republic of China, KBank has made preparations for the establishment of a locally incorporated institution (LII) and the opening of a Shanghai branch through employee recruitment and training. To this end, we have initiated the Competency to Career program to analyze competency models and career paths for employees.

- **Other Human Resource Management Operations**

- **Employee recruitment:** Emphasis was placed on proactive selection and recruitment of high-potential personnel while carrying out KBank branding programs. To this end, the KBank Campus Roadshow was held, wherein KBank executives and alumni gave a lecture and shared their work experience at KBank with university students. Other activities of note included Get Inspired by K-Expert, where attendees were given knowledge and tips on investment; SME Career Day, which aimed to recruit university students and those with credit analysis background to work with KBank; and K SME Open House: Light up Your Career, an activity in which KBank credit specialists imparted their hands-on experience and credit analysis techniques to participants.
- **Employee development:** We introduced the Coaching Academy program to provide our executives with professional coaching skills help them fully draw out employee potential and bolster motivation for high productivity and the achievement of goals. Coaching also strengthens relationships between coaches and coachees while elevating their leadership skills. The initiative has been promoted via various activities and media to perpetuate a continuous learning environment within the organization.
- **Promotion and maintenance of employee engagement:** KBank held “You are K Heroes” to recognize staff, individually and as teams, for their contributions to the success of the organization per the set goals. Moreover, activities for K LOVE DIY series were organized and broadcast to stimulate and promote manager-staff relationships and bonding with the organization under the principle, “Give Care, Give Information, Give Respect, Give Growth”.
- **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. In keeping with the principles of good labor relations, KBank also held negotiations with our labor union on their demands for improvement of employee welfare benefits in alignment with current conditions, and both parties were able to reach an agreement. In collaboration with the KASIKORNBANK Labour Union and KASIKORNBANK Officer Labour Union, KBank took remedial actions for employees performing in violation of regulatory requirements to ensure strict compliance among our staff members. These efforts were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks.
- **Organizational culture creation:** The VP Retreat: One for All, and All for One was held to promote creativity and collaboration – among KBank’s Core Values – for KBank and K Companies Vice Presidents and those of an equivalent position. The activity was a continuation from last year, when a similar event was organized for First Vice Presidents and other executives at a higher level.

- **Communication management for economic, social and environmental sustainability under the “Green DNA” resolution:** Employees have been encouraged to accumulate hours of good deeds under the Green DNA 2017 project. Out of the collective goal of 50,000 hours for this year, their hours of good deeds reached around 13,000 hours during this quarter.

5.2 IT Management

In the second quarter of 2017, KBTG conducted studies in technological development, in alignment with our strategy of maintaining KBank competitiveness and holding on to our position as the number-one digital banking provider to cope with fast-changing consumer behaviors in this highly competitive, technology-driven marketplace. Our key initiatives can be summarized as follows.

- **Create functions for the KBank Cashless Payment System via K+ Wallet application** to better meet the needs of both shops and customers. Together with Carabao Group PCL, KBTG has developed a credit innovation for retail shops buying merchandise from the group, which would be obliged to act, via a mobile application, as a guarantor of these shops. We also plan to expand the service to other retail shops and to integrate K+ Wallet into the K PLUS platform so that customers can use the service on a single app by scanning the QR code of K PLUS Merchant when making bill payments.

- **Study and develop an Application Programming Interface (API) Manager system:** We are in the process of compiling data and mapping out strategies in keeping with demand of FinTech business, aside from the launch of API linkage to FlowAccount on the K PLUS SME application.

- **Study use case and machine learning techniques to be applied to KBank businesses:** We have started to offer our products based on customer behavior studies to target groups via SMS, e-mail, and the Mobile Life Plus application on a trial basis.

- **Develop functions of “blockchain” to better respond to business needs,** as the Hyperledger blockchain platform has been applied to letters of guarantee issuance for our Multi-Corporate Business customers.

- **Study and develop Electronic Know Your Customer (e-KYC):** We have introduced a user identification and authentication system for new customers registering for K+ Wallet based on national ID card verification.

- **Upgrade capacity of K PLUS,** the KBank mobile banking app: New functions have been implemented for inviting friends to sign up for K PLUS (Member Get Member), for adding deposit accounts, and for offering specific KBank products to target consumers via Action Feed under the Life PLUS menu. The Bank has also instituted the *Phruan Fun* project - an internal pilot project of creating a channel for marketing farm goods to assist farmers. The channel may be expanded in the future to include other products as well.

- **Develop a mobile financial application designed for visually impaired persons:** Initiated by Beacon Interface Company Limited, a FinTech startup which is a joint venture set up by KBank, this new mobile

app, the features of which are being developed and improved, is slated for completion within the third quarter of 2017.

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.

A large, solid green abstract shape that resembles a stylized leaf or a curved arrow pointing downwards and to the right. It starts with a sharp point at the top left and curves smoothly to a rounded bottom right corner.

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