



Management Discussion and Analysis (MD&A)

For the Year Ended December 31, 2017

ธนาคารกสิกรไทย
井井銀行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary¹
Management Discussion and Analysis
For the Year Ended December 31, 2017

In 2017, Thai economic growth gained traction, buoyed by strong recoveries in tourism and exports. This growth momentum is expected to carry on into 2018, especially amid a brighter outlook in public and private investment. Nonetheless, the business sector remained challenged by new modes of competition in a broader marketplace amid the advancing digital age and its rapid pace of technological advancement. Businesses have also had to cope with Thai Baht volatility and international capital movements. Within this context, KBank has accentuated enhancement of our business capabilities to achieve sustainable growth and maintain our market leadership over the long term. Guided by our core strategies of "Customer Centricity", KBank has decided to redefine our aspiration to become "Customers' Life Platform of Choice", meaning the most-preferred platform that can meet customers' needs in every aspect of their lives by leveraging our strengths as Thailand's number-one digital banking provider and enhancing our services under three-pronged approach: Beyond Banking; Embedded Trust; and, Everyone, Every day, Every way and Everywhere. To this end, we have set our sights on providing all customers with services beyond their expectations to become their trust agent and stay relevant to their daily lives, fulfilling their everyday needs, anywhere, anytime, with an unsurpassed service experience.

Being aligned with our business strategies for 2017, KBank and subsidiaries thus reported Baht 90,484 million in operating profit before provision expense and income tax expense, rising Baht 935 million, or 1.05 percent, over-year. The increase was derived from net interest income that rose Baht 4,483 million, or 5.00 percent, which came mainly from rising interest income from investments and interest income from interbank and money market items, as well as falling interest expenses. Meanwhile, non-interest income decreased Baht 1,030 million or 1.62 percent, due mainly to a decline in net insurance premiums. At the same time, operating expenses rose Baht 2,518 million, or 3.94 percent, over-year. Moreover, KBank has set aside higher allowance for impairment loss on loans to maintain our financial position stability. Therefore, our net profit for 2017 totaled Baht 34,338 million, a decrease of Baht 5,836 million, or 14.53 percent.

Meanwhile, KBank maintained net interest margin (NIM) at 3.44 percent, which was within the set target, and cost-to-income ratio was also close to the target of 42.31 percent. At the same time, our robust capital position was sufficient to cushion against risk, and greater than the Bank of Thailand's requirement. As evidenced, capital adequacy ratio (CAR) of KASIKORNBANK FINANCIAL CONGLOMERATE (the

¹ In the Annual Report, this item is shown under the topic, "Management Report".

Conglomerate) according to the Basel III Accord was 17.96 percent, with a Tier 1 capital ratio of 15.66 percent.

The operating performance of the wholly-owned subsidiaries of KBank was also satisfactory in terms of quantity and quality due to the concerted efforts of all units involved. KASIKORN SECURITIES PCL continued to report favorable operating performance and was able to retain its market leadership. KASIKORN ASSET MANAGEMENT CO., LTD. remained at the top of the mutual fund business. KASIKORN LEASING CO., LTD. saw satisfactory lending business volume in line with the overall domestic automotive industry while also maintaining healthy asset quality. KASIKORN FACTORY & EQUIPMENT CO., LTD. reported higher loan growth than the company's target. In addition, Muang Thai Life Assurance PCL retained its leadership in the bancassurance business, holding the largest market share in new business premiums.

All of the above endeavors and satisfactory operating performance, together with sound corporate governance, allowed KBank and K Companies to meet business targets as we gained wide acceptance and recognition at home and abroad, as reflected in the numerous awards we received in 2017.

Under our redefined strategies for the next three years, KBank aspires to become "Customers' Life Platform of Choice". We will thus work with our partners, both domestic and international, to create ecosystem partnership collaboration under the "KASIKORNBANK and Beyond" concept. Moreover, under the "Segment of One" concept, we focus on strengthening our capabilities by using data and advanced technology to understand and anticipate each individual customer's need and provide smart personalized "Financial and Life Solutions" to the right customer at the right time. We continue our endeavor to deliver an excellent customer experience with ever-greater consideration of consumer protection and customer privacy, taking into account the changing customer expectations for greater convenience and speediness over omni-channel.

Beyond the above strategies, we focus on proactive integrated risk management (IRM), effective capital management and creation of a culture of risk awareness organization-wide. All these efforts are aimed at maintaining KBank's stability as a leading financial institution, enabling us to cope with possible economic fluctuations in a timely manner.

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1. Overview of Operating Environment

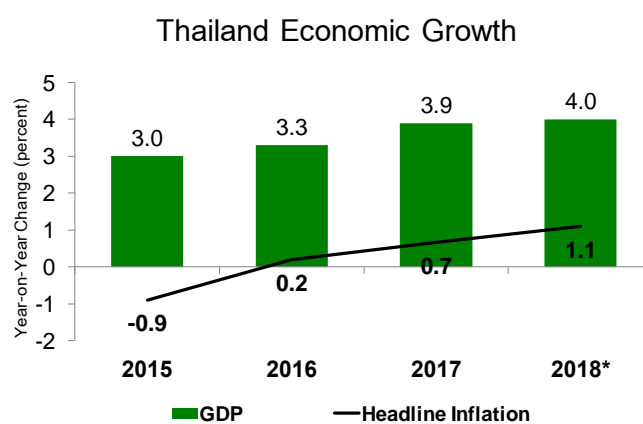
1.1 Global and Thai Economy in 2017 and Outlook for 2018

The global economy maintained its growth momentum throughout 2017. Positive signs were evident in core economies, namely the US, the Eurozone and China, as well as in emerging economies including here in Thailand. These improvements were reflected in the World Economic Outlook of the International Monetary Fund, which revised upward the 2017 global economic projection to 3.7 percent, and projected that the world economy may see even brighter growth of 3.9 percent in 2018.

Looking forward into 2018, economic activity worldwide is expected to show improvement, which is likely to coincide with gradually rising inflationary pressure. Inflation is set to edge up amid soaring oil prices in the global market where this year's average fuel prices are likely to be higher than the level seen in the previous year. This trend may affect monetary policy maneuvering of central banks around the globe. The Federal Reserve is expected to maintain its tightening monetary stance through hikes in its policy rate, along with cutbacks in its balance sheet. Meanwhile, the European Central Bank and the Bank of Japan may be considering the right timing for tapering - or ending - of their accommodative monetary policy frameworks. Certain central Asian banks were seen raising their policy rates at the end of 2017 to ease inflationary pressure.

In Thailand, the economic growth in 2018 is projected to keep its growth momentum at 4.0 percent, driven mainly by brighter outlooks in both public and private investment. The government's budget disbursements, especially for public investment in the 2018 operating plan, are expected to be injected into the economic system in the second quarter of 2018. At the same time, private investment may gradually pick up in keeping with the overall economic activity improvement. Furthermore, exports and tourism will continue to play pivotal roles in the economy even though their growth may subside over-year due to a high 2017 base.

However, close attention should be paid to the government's budget disbursements and global financial markets which may, from time to time, become somewhat volatile. On the inflation front, headline inflation for 2018 is expected to average 1.1 percent, slightly higher than the 0.7 percent in 2017, as a result of soaring energy prices at home in line with higher oil prices in the global market. For the Thai monetary policy, the Bank of Thailand's policy rate is expected to stay low at 1.50 percent for almost



Sources: Office of the National Economic and Social Development Board and Ministry of Commerce
* Projection by KResearch

throughout 2018 to accommodate domestic economic activity, which is continuing along a stable recovery path.

1.2 Banking Industry, Competition and Emerging Risks

● Banking Industry and Competition

Commercial banks' overall performance in 2017 recorded a decline in net profit compared to 2016. Several commercial banks set aside higher allowance for impairment loss on loans and invested for technological development to embrace the advancing digital age. For operating income in 2017, most commercial banks could maintain net interest margin (NIM) due to overall effective cost management despite the deteriorating quality of loans granted to certain groups of customers and limited growth in some types of loans amid an uneven economic recovery. In addition, net fees and service income of the banking system continued to enjoy steady growth.

As of the end of 2017, net loans at 14 domestically-registered commercial banks grew 4.33 percent over-year, accelerating from the growth of 1.26 percent at the end of 2016. Meanwhile, deposits grew at a higher rate of 6.51 percent, compared to 1.46 percent at the end of 2016. KBank ranked fourth in assets, deposits and net loans in the commercial banking system, with the market shares of 13.30 percent, 14.47 percent, and 14.01 percent, respectively. Within the entire commercial banking system, 19 domestically-registered commercial banks and 11 foreign bank branches hold market shares in assets, deposits, and net loans, as shown in the below table.

(Unit: Million Baht)

Bank	Assets	Market Share (%)	Deposits	Market Share (%)	Net Loans	Market Share (%)
Bangkok Bank	2,970,037	16.15	2,252,421	17.37	1,817,136	15.31
Krung Thai Bank	2,781,740	15.13	2,073,594	15.99	1,748,653	14.74
Siam Commercial Bank	2,725,632	14.82	2,087,890	16.10	1,931,839	16.28
KASIKORNBANK	2,444,824	13.30	1,875,729	14.47	1,662,880	14.01
Bank of Ayudhya	1,999,809	10.88	1,316,705	10.15	1,384,880	11.67
Thanachart Bank	954,460	5.19	717,807	5.54	645,628	5.44
TMB Bank	842,976	4.58	611,509	4.72	618,386	5.21
United Overseas Bank	516,964	2.81	370,279	2.86	340,023	2.87
CIMB Thai	296,307	1.61	177,703	1.37	195,872	1.65
TISCO Bank	288,315	1.57	181,499	1.40	234,201	1.97
Kiatnakin Bank	245,088	1.33	133,278	1.03	184,342	1.55
Land and Houses Bank	230,396	1.25	143,742	1.11	150,618	1.27
ICBC (Thai)	179,892	0.98	100,350	0.77	101,088	0.85
Standard Chartered Bank (Thai)	155,373	0.85	56,259	0.43	45,504	0.38

Bank	Assets	Market Share (%)	Deposits	Market Share (%)	Net Loans	Market Share (%)
Sumitomo Mitsui Trust Bank (Thai)	48,455	0.26	16,862	0.13	36,180	0.30
Bank of China (Thai)	45,933	0.25	21,204	0.16	30,455	0.26
Thai Credit Retail Bank	45,230	0.25	37,877	0.29	37,515	0.32
ANZ Bank (Thai)	33,037	0.18	2,414	0.02	8,185	0.07
Mega International	20,271	0.11	11,569	0.09	15,576	0.13
Domestically-registered commercial banks	16,824,739	91.50	12,188,691	94.00	11,188,961	94.30
Foreign bank branches	1,562,055	8.50	778,199	6.00	676,251	5.70
All commercial banks	18,386,794	100.00	12,966,890	100.00	11,865,212	100.00

Source: C.B. 1.1 and C.B 1.2 (Bank-only Financial Statements)

For the outlook of commercial banks in 2018, loans – a core business – are likely to see higher growth than in 2017, bolstered by an expected broad-based economic rebound, which will be seen in both public and private investment. Nonetheless, commercial banks may still adopt a cautious stance in their business operations amid the lingering debt quality problem, which still needs some time to be overcome. Moreover, several other challenges still lie ahead. These include intensified competition between banks and non-bank players amid the fast-changing technology, the National e-Payment Master Plan, which may affect fee income of commercial banks, and preparation for the International Financial Reporting Standards (IFRS9) coming into effect January 1, 2019, and the Basel III capital requirements to be fully enforced in 2019, as well. These new standards may eventually affect provisioning expenses, risk calculation and capital maintenance of commercial banks. All of these factors may change the landscape of commercial banks' business operations, going forward.

● Emerging Risks

Over the next three to five years, the Thai banking system will face numerous challenges. Aside from impacts on economic and business trends, they may have direct and indirect effects on the commercial banking business. In detail:

1. **Cyberattacks:** As technological advancements are taking place, financial institutions have adopted digital banking platforms to support business operations in a bid to facilitate financial and payment transactions for customers, allowing them to gain better access to banking services anytime, anywhere, with any device. Meanwhile, data used by consumers which has been detected and compiled in the digital format is regarded as a business asset which can be further processed and analyzed to shed light on their real needs. Every coin has two sides, however. Technological advances have come with increasing cyber threats. The World Economic Forum ranked cyberattacks as among the world's top 10 risks from 2014 to 2018.

For Thailand, data fraud and theft was placed among the top five categories of cyber threats in 2017, according to the Thailand Computer Emergency Response Team (ThaiCERT). Given the more sophisticated cyber risks, financial institutions as service providers, and customers as users, are increasingly vulnerable to losses. In terms of cyber security readiness, however, financial institutions are ranked first in this category as they have invested in both relevant knowhow and personnel. Cyber risk management processes of financial institutions are, moreover, consistent with international standards, policies and best cyber security practices under the supervision of the Bank of Thailand. Along with this, service users have been continually equipped with beneficial knowledge via various channels, thus ensuring that electronic financial services provided by financial institutions, including commercial banks, are effectively resilient to cyberattacks.

2. Unemployment and Underemployment: Overall, Thailand's unemployment rate rose to 1.0 percent of the 37.7 million total workforce in 2017, from 0.8 percent in 2016, according to the National Statistical Office. Compared to other ASEAN countries, the figure is insignificant. However, one-third of the unemployed persons were university graduates, and this share is on the rise. The situation reflects two major problems. First, the restructuring of Thailand's manufacturing sector remains underway, thus hindering employment of well-educated workers. Second, the Thai educational system cannot accommodate demand in the labor market, as unemployed persons from academic fields are more than double those who completed their study at vocational schools. This represents an opportunity loss to the economy. In addition, underemployment accounts for 0.5 percent of the total Thai workforce. This group of workers falls short of their work potential, having more time and seek to work full-time job. It is a real challenge for Thailand to enhance the potential of the country's human capital. This is particularly true amid demographic change, by which Thailand will become an aged society by 2021 with its low birth rate. Moreover, technology plays an increasingly pivotal role in the labor market, and is replacing human labor at certain levels. Under this context, demand for financial services and business operations of commercial banks will inevitably turn a new face, going forward.

3. Climate change: This is regarded as a long-term risk to economic and social stability, both domestically and internationally. For Thailand, extreme weather events affect agricultural production and farm prices – the main source of income for the majority of Thai people – and thus have repercussions for SME operators dependent mainly on domestic consumption. Harsh weather like severe flooding or heavy monsoon rains also deals a serious blow to households' properties and quality of life. These extreme events would inevitably hurt demand for financial services as well as borrowers' debt servicing ability.

1.3 Regulatory Changes²

Significant regulatory changes in 2017 that may have affected KBank's and K Companies' business operations included:

- **Relaxation of Foreign Exchange Regulation**

The Bank of Thailand undertook relaxations under Foreign Exchange Regulation Reform to enhance ease of doing business by issuing Circular No. ForKorNgor. (21) Wor.45/2560 Re: Notice of the Competent Officer on Rules and Practices regarding Currency Exchange (No. 26), and ForKorNgor. (21) Wor.47/2560 Re: Issue of Notification on Foreign Exchange Payment Transactions with Designated Person, in accordance with the Notification of the Ministry of Finance Re: Ministerial Order given to Authorized Juristic Person No. 11, with salient points as follows.

1. Eliminate Foreign Exchange Transaction Form: Foreign exchange transactions valued at USD 50,000 or higher must be reported, and transaction evidence with complete information, as determined by the Bank of Thailand, must be issued and delivered to customers.
2. Eliminate stamp requirement on underlying documents submitted by customers when conducting foreign exchange transactions.
3. Allow a qualified company or a group of qualified companies to submit a request for foreign exchange transactions without presenting supporting documents to banks, in accordance with specified objectives such as for payment of goods and services, for investment abroad, etc.
4. An entity wishing to be a qualified company must seek approval from the Bank of Thailand via a bank from November 15, 2017, to May 13, 2018. Approval may be later granted, as appropriate.

These relaxations will streamline processes and reduce costs of the bank related to documentation or approval and enhance business efficiency.

- **Relaxation of Rules and Practices for Measures to Prevent Thai Baht Speculation**

The Bank of Thailand issued Circular No. ForKorNgor. (21) Wor.1759/2560 Re: Relaxation of Rules and Practices for Measures to Prevent Thai Baht Speculation for the Case of Failure to Deliver Securities via Pending Settlement, to be consistent with the Stock Exchange of Thailand's operational guidelines, and international standards. Salient points include:

1. Non-resident (NR) who receives Thai Baht related to pending settlement transactions such as penalty fee in lieu of securities delivery or penalty fee for failure to obtain benefits is allowed to maintain balance in a Non-resident Baht Account for Securities (NRBS) not exceeding

² Details related to other regulatory changes on KBank business operations during 2017 can be found in the Management Discussion and Analysis (MD&A) reports for the quarters ending March 31, 2017, June 30, 2017 and September 30, 2017.

Baht 300 million at the end of day, for one business day, which must not be higher than the amount obtained in Baht. The bank is required to request supporting documents and report to The Bank of Thailand per established conditions.

2. NR is allowed to use Thai Baht obtained from the transactions per item 1 as underlying funds for purchasing of foreign currencies against Thai Baht value tomorrow or value same day on the following business day.

These relaxations will facilitate management of outstanding balance in Non-resident Baht Account and streamline KBank operating processes. We have put in place the operational procedures necessary to accommodate the new criteria.

- **Payment Systems Act, B.E. 2560 (2017)**

The Payment Systems Act (PSA), B.E. 2560 (2017), published in the Government Gazette on October 18, 2017, and effective April 19, 2018, consolidates provisions of laws concerning the three existing payment systems of Thailand under the supervision of the Bank of Thailand for greater efficiency in synchronization with international standards while keeping abreast of the fast-changing technology. The Act should be conducive to national economic stability. The PSA regulates the following payment systems and services.

- (1) Systemically Important Payment Systems, including Bank of Thailand Automated High-value Transfer Network (BAHTNET) and Imaged Cheque Clearing and Archive System (ICAS)

- (2) Regulated Payment Systems, including interbank cheque clearing and interbank funds transfer. National ITMX Co., Ltd. and Processing Center Co., Ltd. are among the organizations under this category.

- (3) Regulated Payment Services such as debit cards, credit cards, ATM cards, electronic funds transfers currently used by commercial banks and non-bank operators.

As a payment service provider under this Act, KBank must comply with its provisions. We are fully prepared to submit applications for licensing and registration with the Bank of Thailand and to issue operational guidelines for compliance with other requirements stipulated by the PSA and any that may be stipulated in the future. We have conducted studies and informed relevant staff to ensure that operations comply with other requirements of the Act and any that may be established in the future such that KBank conducts business in compliance with the law.

- **International Financial Reporting Standards (IFRS)**

In 2017, KBank continued to implement the IFRS Conversion Project in preparation for compliance with IFRS 9, and progress was steady. We monitored and pushed for operational guidelines appropriate for Thailand via IFRS Club and the Thai Bankers' Association. For our internal management, we have expedited development and improvement of database and the design of work system and IT structure in

order to accommodate these standards with the highest efficiency, taking into account connectivity with other systems and consistency of business process.

2. Risk Management and Risk Factors³

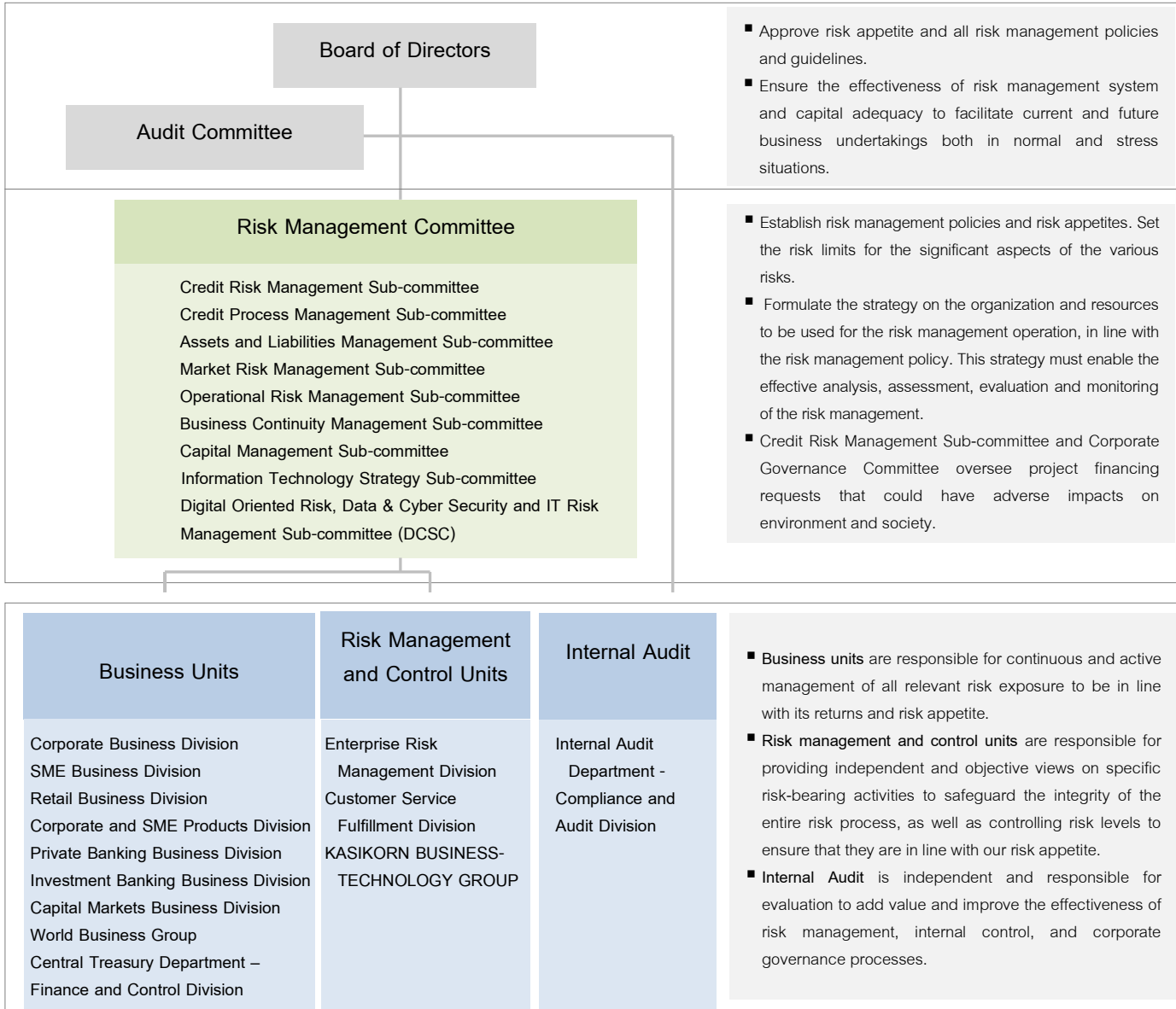
2.1 Overall Risk Management

Regarded as an integral part of our organizational culture, KBank has established risk management policy, together with risk appetite and risk management guidelines at the Board and Senior Management levels. Potential risks are taken into account when formulating our strategies and business undertakings to support business growth, thus ensuring sustainable profitability and maximization of returns to stakeholders. KBank's risk management strategy has been established in line with international guidelines and principles, and applied throughout the Conglomerate. We engage in a consolidated risk management framework that emphasizes management of major risks, e.g., credit, market, liquidity, operational, cyber and strategic risks. KBank's risk management structure clearly determines duties and responsibilities of relevant units, including an independent risk management unit. Risk-adjusted performance measurement has been applied with each business unit.

KBank's risk management and capital management is under the supervision of the Board of Directors, which is responsible for ensuring the appropriate level of capital and managing capital adequacy assessment process to accommodate our present and future business operation. Meanwhile, Senior Management ensures that policies, processes and systems for controlling, monitoring and reporting risks and capital are in place whereas segregation of duties and reporting lines are clearly defined in conformity with the good internal control principle. We also emphasize thorough, accurate and regular disclosures on risk management and capital to the public.

³ Details of various risk management and other related information, in accordance with the Bank of Thailand Pillar 3 requirement and disclosure principles, are shown in "the Basel III Pillar 3 Disclosure" section on KBank's website.

Risk Management Structure



□ Key Developments to Strengthen Risk Management

KBank places a great emphasis on effective and timely risk management. Risk management policies, tools and processes have been developed and reviewed regularly to guard against rising risk trends in line with market volatility, as well as appropriate for changes in regulatory requirements, business undertakings including domestic and global economic policies. Relevant actions taken were as follows.

- **Preparation for Basel regulatory reform.** KBank, together with the Bank of Thailand, continuously monitors Basel regulatory changes, as well as quantifies the impact and prepares data for implementing new criteria, to ensure that our capital adequacy and liquidity position are appropriate for our operations per the business plan.
- **Value-Based Management (VBM)** was applied to credit risk management when setting the direction of credit portfolio and business targets at customer and product levels. In addition, VBM was applied to capital management to strive for the highest capital efficiency while ensuring capital adequacy under normal and stress scenarios.

Moreover, development of short-term and long-term capital allocation strategy and integrated risk appetite was undertaken, considering new regulation landscape as one of strategic alternatives, to ensure appropriate risk-taking level vis-à-vis economic situations, risk trends, and capital and liquidity adequacy under normal and stress scenarios.

- **Enhancement of processes and econometric models for stress testing** to improve efficiency in our risk and reserve management as well as to comply with the Bank of Thailand's regulations and directions.
- **Early warning signs** were developed with the use of transactional data and customer behavioral data for enhanced efficiency in customer risk monitoring as well as recovery and collection processes.
- **Development of risk management system and framework for capital market and treasury business** focusing on overall risk management to cope with sophisticated products amid fast-changing market conditions with the proliferation of business innovations in order to integrate our services in alignment with customer needs, along with maximizing efficiency to KBank under appropriate risk appetite.
- **Development of liquidity risk measurement system per Basel III requirements** In 2017, development of a system for measuring Net Stable Funding Ratio (NSFR), which is used for structural liquidity risk assessment, was completed. We now have in place a system for measurement of liquidity risk in accordance with Basel III requirements.

2.2 Risk Management

KBank has placed an emphasis on comprehensive risk management such as credit risk, market risk, liquidity risk, operational risk, cyber risk and strategic risk which are also covered and properly managed.

□ Credit Risk Management

Credit risk refers to risk whereby a counterparty or borrower may default on contractual obligations or agreements, or have an intention not to abide by an agreement, resulting in losses to KBank. We thus place significance on credit risk management compatible with international standards and regulatory requirements to ensure sustainable growth and reasonable returns to stakeholders.

In 2017, KBank concentrated on balancing between services and credit risk management within each customer segment. As the Thai economic recovery was not yet broad-based, we put in place more stringent customer screening criteria. In particular, more rigorous requirements have been set for small and micro businesses as well as retail customers, while we have acquired customers with stronger financial status and sound debt servicing ability. We have also developed customer early warning signs and behavior monitoring to ensure efficient customer monitoring and recovery and collection processes.

Credit Risk Management Process

A credit risk management process, from portfolio management to recovery and collection, has been established and continuously enhanced to appropriately reflect risk factors, as well as promote capability for business.

- **Portfolio Management**

KBank emphasized active portfolio management based on prevailing circumstances, particularly economic factors that could affect our customers and our portfolio quality. Via Active Credit Portfolio Management (ACPM) and stress testing, we ensured timely portfolio management towards any deviation against our planned targets. Meanwhile, KBank has focused on portfolio management so as to control credit concentration within the established limits. Close monitoring of customer risk profile across industries has been undertaken through the establishment of loan growth target in alignment with prevailing economic conditions, taking into account our customer segments, product domains and industries, to maximize returns from each customer segment portfolio under defined risk appetite. Over the past year, we maintained loan concentration within an acceptable level.

We have adopted credit risk management mechanisms as follows:

- **Credit risk management has been overseen by Credit Risk Management Sub-committee and Credit Process Management Sub-committee** to ensure efficiency and effectiveness in all relevant processes, thus allowing KBank to deliver a good customer experience and appropriately creating balance between credit risk management and process efficiency.

- **Customer screening criteria have been revised on a regular basis to reflect customer risk profile.** Credit policy has been tailored for each customer segment. Industry pre-screening criteria, which can be used as a guideline for customer selection, have been established to classify customers based on sector risk levels.
- **A risk management mechanism has been established in response to risk events which may affect our customers.** Early warning sign monitoring will trigger actions of responsible departments to assess impacts on affected customers and KBank by conducting in-depth analysis and stress testing. Thus, KBank shall be able to proactively prevent and solve any problems which may arise in a timely manner prior to deterioration of customers' debt servicing capability and overall credit quality of KBank.
- **Customers' credit line utilization has been reviewed and customer status has been monitored** via early warning signs. Guidance has been provided for Relationship Managers (RMs) to contact customers at the early stage when unfavourable signs are detected.
- **Credit concentration risk management**, in terms of both borrower group concentration and sectoral concentration, has been effectively managed so that exposures are maintained within limits, per the Bank of Thailand's Single Lending Limit (SLL) framework and Basel Pillar 2 credit concentration guideline. As of December 31, 2017, large borrower concentration was within the established limit. Industry concentration has been monitored and controlled to prevent over-exposures in particular sectors, taking into account trend of industry growth and capital impact.

- **Credit Underwriting and Approval**

KBank has formulated lending policy to ensure uniformity of good credit underwriting practices and comply with the Bank of Thailand's consolidated supervision guidelines. Apart from credit underwriting principles, guidelines for preferable and discouraged practices are defined to ensure quality of credit extension.

Our credit risk management is based mainly on current, transparent and qualified data. The credit approval processes and systems are tailored to align with customers' characteristics. Medium and Large Business customers with sophisticated financial needs are served by RMs with thorough understanding of customers' business and financial profile. RMs are responsible for analyzing and proposing suitable credit products and services to match customer needs, presenting credit write-ups to credit underwriters according to the defined approval authorities, and monitoring of customer status continually.

For our consumer loan customers whose main products comprise home loans, credit cards and other types of financing, including loans for small and micro businesses, KBank deploys credit scoring as a credit approval tool, focusing on verification of income and liability

information of each customer. We have also focused our efforts on credit approval process improvement to manage risk level under defined risk appetite.

Aside from the above practices, we realize the importance of Corporate Social Responsibility practices in our credit underwriting. Guidelines and policies for environmental and social impacts have been established for project finance requests at home and abroad. KBank will consider both environmental & social impacts and project sponsor's action plan in handling such impacts, which requires project monitoring throughout the credit term.

- **Post-Credit Approval Operations**

To achieve standardized and efficient credit operations, KBank has centralized all necessary functions after customers' credits have been approved, including legal and contract-related matters, preparation of collateral agreements, credit limit setup, credit disbursement, credit-related document storage and credit data support. We monitor customer credit-utilization behavior, their business performance, compliance with contractual conditions as well as their debt servicing ability.

- **Allowance for Impairment Losses**

KBank has set aside allowance for impairment losses based on the Thai Financial Reporting Standards criteria, taking into account indications of impairment and expected recovery value.

- **Debt Quality Monitoring**

KBank has developed risk indicators to monitor and control asset quality, as well as credit-utilization behavior as early warning signals to prevent deterioration in credit quality. Credit bureau data is used to support credit limit renewals and credit quality management, thus achieving greater efficiency.

In the matter of debt collection from large business customers, KBank assesses debt quality closely, using established indicators to ensure timely management prior to delinquency. KBank also set up guidelines, such as on credit review, limit suspensions, specific to each customer segment, according to segment risk characteristics.

Regarding small and micro business as well as retail customers, likely to be affected by the slowing economy and mounting household debts, we have enhanced our recovery and collection strategies to better respond to varying risk levels of different customer groups. Customers are managed in such a way as to prevent them from becoming NPLs, with a focus on swift and efficient management of recovery and collection.

- **Asset Quality Review**

KBank has conducted a review of credit policy and process including credit proposal presentation, credit underwriting, contract preparation and credit quality monitoring to assure credit policy and procedure consistency and efficiency. We also utilize information from the review to support our management towards better credit management standards.

- **Market Risk Management**

Market risk may arise from changes in interest rate, foreign exchange, equity and commodity prices, as well as credit spreads. These changes affect KBank's and K Companies' present and future income, capital, as well as the value of financial assets and liabilities. KBank engages in a consolidated risk management framework through development of essential infrastructures and processes to appropriately and timely manage market risk of financial products. In addition, we have established market risk management processes for new financial products, and improved related processes for existing products.

In 2017, global financial markets were volatile amid a number of key events. These included US fiscal policy and uncertain timing of the Federal Reserve's policy rate hikes, as well as geopolitical rifts on the Korean peninsula and ongoing Middle East tension. These factors caused the Baht's value and Thai interest rates to be on a volatile course. The Thai Baht steadily strengthened in line with other regional currencies while interest rates were declining, which could be attributed mainly to capital influx into Thailand. These uncertainties and the maneuverings of the Federal Reserve and the European Central Bank (ECB)'s monetary policy are expected to cause fluctuations in the global economy and financial markets, including Thailand, going forward.

- **Market Risk in Trading Book Activities**

KBank's trading activities are exposed to interest rate, foreign exchange, equity risks and credit spreads. Moreover, KBank has chosen not to retain any position when dealing with commodity prices by managing market risk through a back-to-back policy. Our equity risk stems from equity underwriting and non-directional trading business, which we undertake only for serving customer needs. KBank has processes in place to measure and control risks within the established limits, under the supervision and control of the Enterprise Risk Management.

- **Market Risk in Banking Book Activities**

KBank is exposed to interest rate, equity price and foreign exchange risks in banking book transactions, i.e.:

— **Interest Rate Risk in Banking Book Activities**

Interest rate risk refers to risk incurred from changes in interest rates of assets and liabilities, as well as off-Statement of Financial Position transactions that are susceptible to interest rates. These may, therefore, have an adverse impact on net interest income and economic value of KBank.

KBank manages financial position to increase net interest income and underlying economic value, based on adequacy of liquidity position. Therefore, KBank has established an interest rate risk management framework to ensure that our financial position is within the pre-specified risk appetite and the impact of interest rate changes on net interest income or underlying economic value of KBank is under control.

KBank continually monitors interest rate risk in banking book activities by preparing interest rate risk gap report for monitoring interest rate risk and assessing net interest income sensitivity over the next 12 months, based on an assumption of a 1.00-percent change in interest rates on all types of assets and liabilities at their re-pricing periods. The results of that risk assessment are shown below:

Net Interest Income Sensitivity to Interest Rate Change

(Unit: Million Baht)

For the Year Ending	Dec. 31, 2017
	+100 bps
THB	177
Foreign Currencies	(35)
Total Effect of Interest Rate Change	142

— **Equity Risk in Banking Book Activities**

KBank has no policy to increase equity investments that are not directly related to our core financial business operations. Data analyses and close assessments of relevant events have been employed in managing existing equity to ensure maximum benefit of KBank.

— **Foreign Exchange Risk in Banking Book Activities**

KBank is exposed to foreign exchange risk of foreign currency position incurred from our overseas operations. KBank has chosen not to retain foreign currency position stemming from such activities, except where there is market limitation of risk hedging, or for the purpose of appropriate cost management in risk hedging during certain periods, with monitoring process and control measures in place to ensure that risk is within an acceptable level.

□ Liquidity Risk Management

Liquidity risk is defined as the risk caused by an inability to meet obligations when they come due because of a failure to obtain sufficient funds to meet funding needs at appropriate costs within a pre-specified time period, and/or to convert assets into cash.

KBank closely monitors liquidity risk status and situations that could have an impact on our liquidity status. We have also adopted a Business Continuity Plan (BCP) to guard against disruptions to important operations and systems, allowing us to fulfill our obligations in emergencies, while continually assessing and analyzing liquidity risk to ensure that there is sufficient liquidity for business operations. KBank conducts liquidity gap analyses covering both normal and crisis situations, as well as events that may significantly affect our liquidity, by employing liquidity stress tests covering three scenarios, i.e., a bank-specific liquidity crisis, a market-wide liquidity crisis, and a combination liquidity crisis. In addition, KBank applies world-class standards for liquidity risk indicators, such as the Liquidity Coverage Ratio (LCR), in our liquidity risk control and management.

KBank has also developed tools to assess and analyze liquidity risk that meet international standards, as well as assisting in the achievement of our business growth. This allows us to devise an effective plan for overall liquidity management, including foreign currencies. Liquidity risk management processes have also been reviewed and enhanced together with our funding structure in response to changing market conditions and liquidity in the banking system, so that we are able to cope with the ever-changing global economy and/or volatility in financial markets.

We also monitor, analyze and manage foreign-currency liquidity risk, while seeking short- and medium-term liquidity to support present and future demand. We determine appropriate strategies to maintain a suitable level of foreign currency liquid assets, consistent with growth in foreign-currency deposits, and to guard against any heightened liquidity risk stemming from volatility in the global economy.

Factors that potentially affect our liquidity and interest rate risks, which are closely monitored include:

- Global and Thai economic outlook over the short and medium terms.
- The Bank of Thailand and major central banks' timeframe for their key policy rate decision.
- Direct and indirect foreign capital movements triggered by business confidence towards consumption and investment.
- Intensified competition among financial institutions in savings and investment products that may affect overall liquidity in the banking system.
- Increasing demand for loans due to Thai economic recovery, which could generate pressure to liquidity in the system.
- Consequences of the Basel III Net Stable Funding Ratio (NSFR) reserve requirements on liquidity status.

□ Operational Risk Management

Operational risk refers to the risk of direct or indirect losses to a bank's revenue or capital resulting from incorrect or inadequate processes, personnel, operating and/or IT systems, or external events. KBank has thus placed importance on operational risk management through the development of policies and operational risk frameworks to enhance our operational risk management as a unified standard, prompting enhancements that allow us to assess risk and proactively seek preventative measures. Operational risk management is under the supervision of the Operational Risk and Fraud Management Department.

KBank focused on operations to create results per the target of sound risk management of key business processes and in conformity with policies and operational regulations implemented in 2017. This is to ensure confidence towards our operational risk management efficiency. Key developments included:

- **Implement Market Conduct Policy and monitor compliance** to ensure that KBank's sales and service management is fair to all customers, with consideration of customer needs and ability.
- **Continually Develop the Fraud Management and Intelligent System** to enhance our potential in investigating potential transaction fraud related to Bank customers, via transaction fraud module and internal fraud module, for increased fraud detection capacity.
- **Improve key operational systems to ensure stringent internal controls at branches.** Policies and standards for the development of new authentication technologies were introduced to prevent risk stemming from fraud and errors.
- **Conduct internal communications to continuously promote a good Market Conduct Culture** via various media under the "Honest KBank People" campaign, as part of our K-Culture program.

□ Cyber Risk Management

Cyber risk refers to risk that may arise from financial transaction service provision via digital channels, data management, cyber threats and the use of IT to support business operations. It may come from internal or external factors, possibly having adverse impacts on, or causing monetary or non-monetary losses to, KBank and our customers, directly or indirectly.

KBank aims to maintain our growth and our leadership of digital banking services in the market. To achieve this challenging goal, customer trust holds the key; customers must feel confident and secure when using our services. Recognizing the importance of cyber risk management, we have put in place measures for managing relevant risks under operational risk management framework and established additional IT risk management policies and framework for enhanced efficiency in work processes, control and systematic risk management in synchronization with related international standards such as ISO 27001 and ISO 31000, in accordance with the Bank of Thailand's policies and best practices.

In 2017, KBank formulated a cyber risk control system development plan that will lead us to achieve the target of sound risk management. We prioritize risk control including protection and detection of, and response to, potential risks across our four key areas of business processes and work systems, i.e., supervision, policies, IT processes and systems, and personnel. Key developments included:

- **Governance**

- **Establishment of the Digital Oriented Risk, Data and Cyber Security and IT Risk Management Sub-committee (DCSC)** to act as a cornerstone in a drive towards, and to give support to, services via digital channels so as to meet customer needs and enhance our competitiveness in the banking business, with the aim of maintaining our leadership in digital banking services under effective DCSC risk management, and control within the established risk limit.

- **Policies**

- **Improvement of IT Risk Management Policy** to ensure efficiency in our application, data and IT infrastructure, in keeping with KBank's vision of maintaining our growth and our leading position in the Thai digital banking service market.
- **Improvement of policies to better respond to cyber risk management** through establishment of management framework, scope, roles and responsibilities and clearer details for risk management concerning digital business, data security and cyber threats.

- **Processes and Technology**

- **Ongoing IT operational risk management** by closely monitoring preparation of control measures to maintain continuity of system services, mitigate IT risk and prevent the causes of system malfunction, to efficiently and effectively support KBank operations.
- **Preparation of data protection measures, currently** in the process of implementing Data Protection program as a security measure and for the prevention of risks related to customers' and KBank's important data, primarily taking into account proper data storage and use. To this end, we prioritize data classification, assessment of risk from data use, and installation of a system for detecting potential data risk, which can thus be managed more efficiently in a timely fashion.
- **Preparation, improvement and enhancement of advanced threat prevention** to ensure that digital and cyber risks can be proactively managed, focusing on concrete results and effective control in order to stay ahead of cyber threats that have seen rapid change, becoming both more varied and more sophisticated.

- **People and Culture**
 - **Creating Cyber Risk Awareness** by providing knowledge and understanding of potential cyber risks to our customers, employees and executives, as well as preventative guidelines or solutions to cyber threats that may occur from digital transactions.

□ **Strategic Risk Management**

Strategic risk management has been highlighted and integrated into organization strategy formulation and implementation process by KBank. The process begins with systematic data collection and analysis for use in review and determination of appropriate bank-wide strategies, which are then translated into those for business and support units, and key performance measurement. It also involves efficient resource allocation, organization-wide communication of strategic plans, establishment of clear operational plans and monitoring processes, as well as identification of problems and resolutions.

Strategic risk management refers to management of risks that arise from formulation and implementation of strategic and business plans that are inappropriate for and inconsistent with internal factors and external environment, which may affect earnings, capital fund or viability of the business. For 2017, material factors affecting strategic risk included economic growth – both local and global, volume of international trade and investment, consumer behavior in response to various forms of digital technologies, expansion of electronic trade, volume of payment via electronic channels, adjustment to the advancing digital age and in-depth understanding of customer behavior for strengthened relationships with KBank. Our strategic risk management can be divided into two parts, as follows:

Part 1 Strategic risk management for strategic content is conducted by monitoring changes in key assumptions used for strategy formulation. By setting up Key Risk Indicators (KRIs) for Strategic Content, KBank is able to regularly monitor and review bank-wide strategies as well as business units' strategic plans in a timely and orderly manner.

Part 2 Strategic risk management for strategy execution is conducted by:

- Preparing monthly financial performance reports and biannual Balanced Scorecard (BSC) reports; we also arrange meetings in line with our strategies to address and manage specific issues, in order to achieve unified solutions.
- Establishing KRIs for strategy execution so as to identify problems/obstacles which may arise during the execution of strategies.

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

□ Sustainable Development in Action⁴



KBank has given particular attention to nine of the 17 United Nations Sustainable Development Goals (SDGs), as being in harmony with our sustainable business operations in accordance with our Material Issues with the aim of generating sustainable value to all our stakeholders.

In 2017, the Corporate Governance Committee proposed to KBank’s Board of Directors revisions to the 15 items of the Sustainable Development Policy, streamlining them into 12 items to be in alignment with our business undertakings amid the changing environment and technology-driven competition. The issue of “Customer Data Security and Privacy” has been added to our Sustainable Development Policy to better conform to our new strategic goals and Material Issues. The elements of “Professionalism”, “Participation in the Development of Sustainable Economy”, and “Building on Awareness and Organizational Culture in Environmental Protection” have been removed as they are incorporated into the prevailing KBank functions and Core Values. Matters regarding “Youth and Educational Personnel Development”, and “Community and Social Development” have been merged into “Youth Education Development and Community and Social Development”. KBank’s sustainable development structure cascades development targets down to the implementation level in all divisions, and integrates action plans within the organization to harmoniously generate maximum benefits for all stakeholders.

⁴ More details on Materiality for both KBank and stakeholders can be found in Sustainability Report 2017.



Our Sustainable Development Policy, comprising 12 items, are categorized into three main aspects, i.e., economic, social and environmental aspects.

1. Economic Aspect

- Business operations defined by good corporate governance practices
- Adherence to the “Customer Centricity” philosophy and effective customer responsiveness
- Product and service enhancements via value-added innovations
- Sharing of financial knowledge with the general public
- Efficient risk management
- Customer data security and privacy

2. Social Aspect

- Fairness of labor relations management and employee caring
- Employee development
- Promotion of occupational health and safety for employees
- Youth education development and community and social development

3. Environmental Aspect

- Environmentally-friendly business operations
- Conservation and reduction of use of natural resources; and waste reduction

Materiality Assessment

KBank has managed our material aspects through establishment of four assessment steps to be used as operational guidelines which enable us to effectively respond to our stakeholders' requirements.

1. Identification of material aspects is based on two sources, i.e.,

- Review of 2016 material aspects
- Studies of related aspects set out in other sustainability standards, for example, Dow Jones Sustainability Indices (DJSI) and the sustainability aspects emphasized by banks worldwide per Sustainability Accounting Standard Board (SASB) guidelines
- KBank then compiled and screened all material aspects that are significant to KBank and the external stakeholders' decision making, and submitted the findings to all KBank divisions and stakeholders for review and assessment, as mentioned below:

- **Internal Divisions of KBank**

KBank used brainstorming sessions with all divisions, in the forms of meetings, conferences and questionnaires; the information gained was compared with KBank's strategies and key risk factors over the short and long terms. External stakeholders were identified to jointly determine the sustainable material aspects and information disclosure boundaries of KBank.

- **External Stakeholders**

Officially and unofficially, KBank gathered the opinions and expectations of external stakeholders, including customers, investors, supervisory agencies and officers in sustainable units of various institutions, using meetings, questionnaires and in-depth interviews with individuals. With that information, KBank learned about factors towards decision making and sustainability issues that our stakeholders deem important.



2. Prioritization of Material Aspects



- KBank analyzed and reviewed the information gained from internal and external stakeholders.
- Prioritization was made into 13 aspects of three magnitudes of impact significance: large, moderate and small. Those issues have been prioritized on the Materiality Matrix, as follows:
 - Horizontal axis: Issues that are significant to KBank
 - Vertical axis: Issues that are significant to stakeholders

3. Validation

- KBank explained the derived prioritization to all divisions, so that they acknowledge the stakeholders' opinions and use them to define operational guidelines that cater to the stakeholders' requirements.
- KBank reported to the Corporate Governance Committee and KBank Board of Directors on the material aspects for validation and approval, and also incorporated them in KBank's Sustainability Report and website.

4. **Review:** KBank has in place an information review process after the Sustainability Report has been disseminated to the stakeholders. Their views and recommendations will be used to modify the contents of further reports.

KBank firmly believes that making sustainable development a core principle of business operations will not only mitigate risks that may affect our business undertakings in the future, but also create opportunity for KBank and all stakeholders. Throughout 2017, KBank maintained its commitment to

management of numerous challenges, especially business model transformation, technological advancement and changing customer behavior with the aim of delivering excellent products and services surpassing basic needs and expectations, while also creating value addition for positive social and environmental change in a sustainable manner.

□ Corporate Governance

Good corporate governance is essential for sustainable business operation. Aside from creating confidence among all shareholders and stakeholders, it is instrumental in making KBank a Bank of Sustainability. In 2017, KBank reviewed the Code of Conduct to be consistent with KBank's Statement of Business Conduct. Our Articles of Association, Statement of Corporate Governance Principles as well as Corporate Governance and Sustainable Development Policies were updated to suit well to our business in alignment with laws and good corporate governance practices. KBank also reviewed our CG performance based on the criteria of the Corporate Governance Report of Thai Listed Companies and ASEAN CG Scorecard. Moreover, we placed great importance on our operations in conformity with the Statement of Corporate Governance Principles. To this end, KBank continually undertook various activities to promote good corporate governance practices, organized training courses for our executives and employees, and held meetings to equip K Companies and P Companies representatives with relevant knowledge to ensure effective CG operations and common practices.

3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK in 2017 and Outlook for the Next Three Years

In 2017, Thai economic growth gained traction, buoyed by strong recoveries in tourism and exports. This growth momentum is expected to carry on into 2018, especially amid a brighter outlook in public and private investment. Nonetheless, the business sector remained challenged by new modes of competition, a broader marketplace within the ASEAN Economic Community (AEC), and the advancing digital age amid the rapid pace of technological advancement, economic uncertainties, Thai Baht volatility and interest rate trends. Businesses have also had to contend with rapid changes in both rules and regulations, and consumer behaviors.

Within this context, KBank and K Companies will, for the next three years, accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our market leadership over the long-term. Guided by our core strategies of "Customer Centricity", KBank has decided to redefine our aspiration to become "Customers' Life Platform of Choice", meaning the most-preferred platform that can meet customer's needs in every aspect of their lives by leveraging our strengths as Thailand's number-one digital banking provider and enhancing our services under three-pronged approach: Beyond Banking; Embedded Trust; and, Everyone, Every day Every way and Everywhere. To this end, we have set our sights on providing all customers with services beyond their

expectations to become their trust agent and stay relevant to their daily life to fulfill their everyday needs, anywhere, anytime with an unsurpassed service experience.

To achieve this redefined aspiration, KBank has thus worked with our partners, both domestic and international, to create ecosystem partnership collaboration under the “KASIKORNBANK and Beyond” concept. Moreover, under the “Segment of one” concept, we focus on strengthening our capabilities by using data and advanced technology to understand and anticipate each individual customer’s need and provide smart personalized “Financial and Life Solutions” to the right customer at the right time. We continue our endeavor to deliver an excellent customer experience with ever-greater consideration of consumer protection and customer privacy, taking into account the changing customer expectations for greater convenience and speediness over omni-channel.

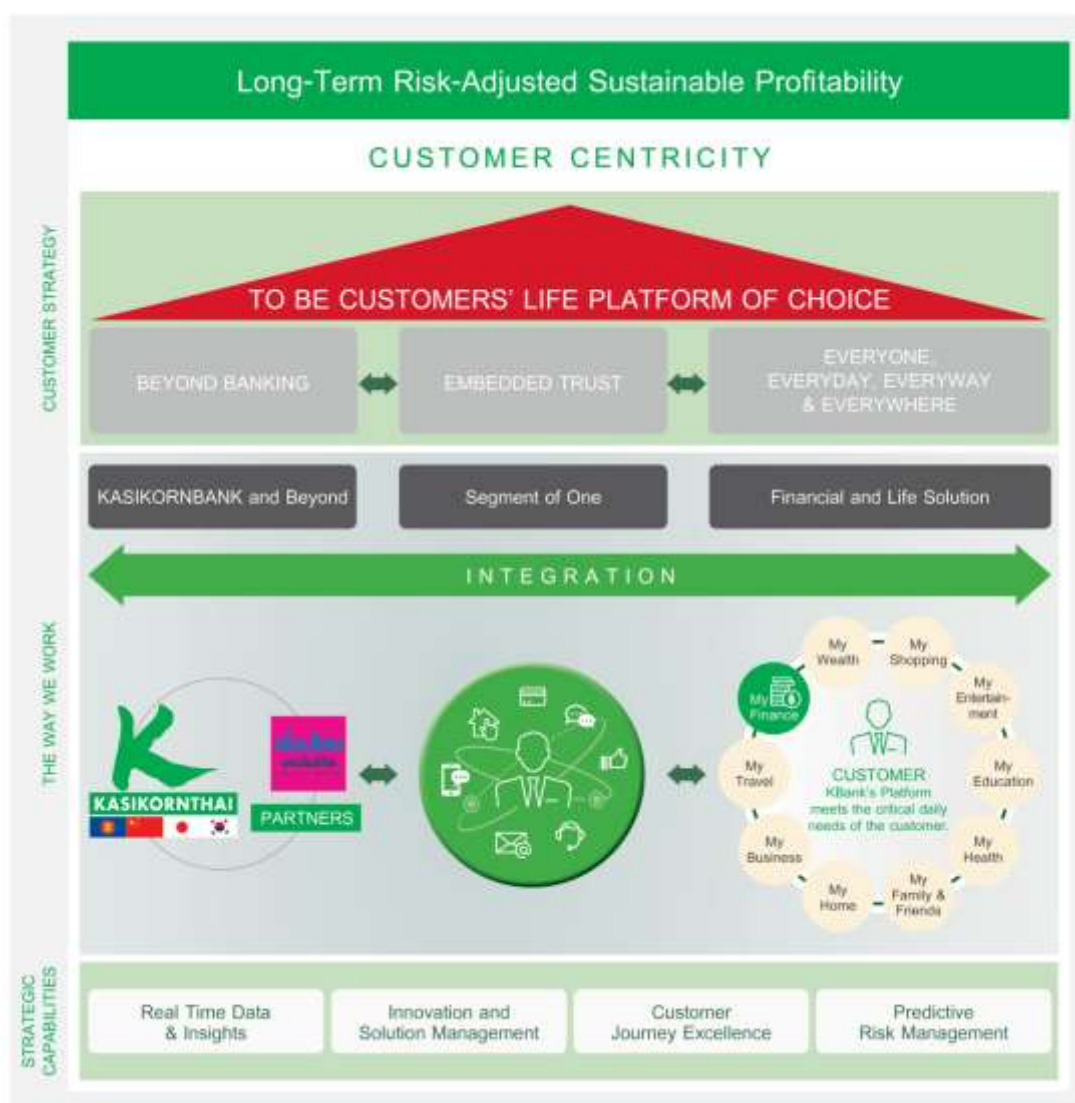
Regarding our business operations, we prioritize comprehensive customer service and care across all segments to effectively accommodate their demands. Our endeavors for each business will be as follows.

- Retail Business: We aim to remain at the top as Customers’ Main Bank for all segments while also maintaining our market leadership, guided by our core strategy of Customer Centricity. In parallel, we will make the most out of diverse customer data through analysis to gain better understanding of our customers’ needs and thus achieve the best responsiveness in terms of products and services available via all KBank channels. Under the redefined aspiration of becoming “Customers’ Life Platform of Choice” – the most-preferred platform that can meet customers’ needs in every aspect of their lives through the combination of our branch and digital channels – KBank focuses on collaborating with our partners in various businesses to create ecosystem partnerships, which will not only respond to customers’ demands but also expand our horizons to new businesses for enhanced competitiveness and sustainable business operations over the long term. Meanwhile, we highlight the upgrade of our KBank Private Banking in conformity to international standards through comprehensive advisory services, the offering of products and services for asset management across all dimensions – ranging from family business planning to investment in Thailand and abroad in alignment with the needs of our High Net Worth Individual clients.
- SME Business: Being the “Bank for SME Customers”, we also aim to become their Total Solution Provider. Through our Relationship Managers (RMs), who are well-versed in KBank products and have in-depth understanding of our customers’ businesses and needs, we will also deploy innovative digital technologies along with offering knowledge-based assistance and business networking for their sustainable business growth.
- Corporate Business: KBank is determined to meet all of our corporate customers’ business needs, especially through funding support, advisory services and multiple formats of fund

mobilization to ensure their cost effectiveness under appropriate risk management. Along with this, we have given staunch support to their transactions via all electronic channels for increased competitiveness and effective business management in a comprehensive manner.

- International Business: KBank continues to gear up for being an “The Bank of AEC+3 ” via “Dual Track Regional Digital Expansion” to build up our long-term competitiveness. Through our international banking network under the policy of partner bank connectivity, we work diligently to develop digital channels in order to support our SME clients seeking to expand their trade and investment, Thai and local corporate clients as well as retail customers within the AEC+3 region. Moreover, KBank aims to upgrade our three representative offices, i.e., the Yangon Representative Office in the Republic of the Union of Myanmar, and the Hanoi Representative Office and Ho Chi Minh Representative Office in the Socialist Republic of Vietnam, to the status of foreign branches. The move is aimed at expanding our service scope and becoming our Customers’ Main Bank for cross-border transactions and settlements in AEC+3 countries, especially through the Exotic Currency Settlement Initiative. Another major effort will involve development of Issuing and Acquiring Business with electronic devices in parallel with strengthened collaboration with fintech companies and other businesses within the global network for full coverage of cross-border settlement services.

Beyond the above strategies, we focus on proactive integrated risk management (IRM) through the establishment of principles and policies for management of all risks, effective capital management and creation of a culture of risk awareness organization-wide. All these efforts are aimed at maintaining KBank’s stability as a leading financial institution, enabling us to cope with possible economic fluctuations in a timely manner, while also adhering to good corporate governance practices and strictly complying with regulations and relevant laws.



3.3 Customer Segments and Services

During 2017, our key operations in eight customer segments are as follows.

- **Multi-Corporate Business**

Throughout 2017, KBank prioritized development of products and services in response to the government's drive towards a cashless society under the National e-Payment Master Plan, which initiated PromptPay for corporate customers, expansion of card use via electronic data capture (EDC), and QR code payment schemes. We worked with our Multi-Corporate Business customers to introduce lifestyle payment solutions such as Cross-Border Payment Solution for Tourists via Alipay and WeChat applications to facilitate Chinese travelers visiting Thailand, and the Dynamic QR Code payment system under collaboration with PTT PCL.

The Thai and global economy enjoyed ongoing growth last year. Our Multi-Corporate Business customers were thus in need of funding for their business operations at home and expansion abroad. KBank acted as a financial advisor to this group of clients, and offered financing and fund-raising support

in various forms, including via debt and capital markets, to our customers in numerous industries such as energy and consumer goods. We also recommended them to appropriately use risk management products to hedge against Baht volatility.

KBank also focused on strengthening business networks of our customers and their trade partners through value chain connectivity for value addition from upstream to downstream. To this end, loan products and cash management solutions were offered, and response was satisfactory. Moreover, knowledge enhancement activities were organized throughout the year to equip our clients with expertise beneficial to their business operations amid rapid technological change and ever-changing consumer behavior. Notable efforts included a KBank Exclusive Seminar: Capitalizing on Cambodia, a seminar entitled, “Winning in the Disruptive Game”, and an international trade seminar on “Staying Ahead of Fraud”.

■ Large Corporate Business

To optimize the customer experience, KBank places importance on truly knowing and understanding our clients so as to offer financial products and services satisfying their demands. Focus is on customer relationship management (CRM) efforts and better customer care, wherein their feedback contributes to the continual development and improvement of our work processes.

In 2017, the Thai economy posted healthy growth, driven mainly by exports and tourism. Nonetheless, our Large Corporate Business customers were exposed to Baht volatility, as their income and expenses are in foreign currencies. KBank thus strived to fulfill their needs through financial advisory services together with the offering of financial products and services as tools for effective risk management.

In response to ever-changing consumer needs and the government’s National e-Payment Master Plan, we launched e-Wallet and QR Code payment while also encouraging our customers and their trade partners to make electronic payment for enhanced efficiency in cash management. In collaboration with our customers who directly sell goods and products to their clients (B2C) such as restaurants and convenience stores, we have encouraged the public to switch to QR code payment in lieu of cash.

Meanwhile, KBank initiated full-service K CONNECT-LG for enhanced efficiency in LG management. The service enables customers to issue or renew a letter of guarantee and check their credit exposure online anytime.

Throughout 2017, we continued to hold activities to promote family business management, especially for effective business succession to the next generation, which is instrumental in sustainable business growth. In keeping with the fast-changing world, KBank provides knowledge-based support to our clients. Notable efforts included Family Business Disputes and Transfer Solutions, Professional Family Business Management and a seminar entitled, “Winning in the Disruptive Game”.

■ Medium Business

KBank prioritizes development of products and services along with the offering of digital banking innovations as total solutions to support our customers' business operations. We have also continued to enhance the knowledge of our SME customers to strengthen their business undertakings, especially through business networking and partnership. In 2017, our customers within value chains recorded growth over the past year. Notably, KBank continually gave support to business operators across various value chains. Of note were value chain solutions catered for service stations - ranging from the construction and remodeling of service stations, to fuel purchase, and broadening of their business opportunities to non-oil businesses. In the latest development, we extended our financial support to restaurant franchisees, especially those seeking to open a franchised restaurant within petrol station compounds or stand-alone establishment.

For digital banking innovations, we developed and launched K CONNECT-LG to facilitate customers in conducting letter of guarantee (LG) transactions at reduced operating cost. The service allows our clients to view their LG exposure, issue an LG report and request an issue or renewal of LG anywhere, anytime 24 hours.

Moreover, KBank held a seminar entitled, "FX Risk Management Project for SMEs", for importers and exporters with income not exceeding Baht 400 million, to equip them with knowledge of FX risk management and hedging while also building awareness of risk prevention for their business operation. In cooperation with various government agencies, namely the Bank of Thailand, the Ministry of Industry, the Office of Small and Medium Enterprises Promotion (OSMEP) and the Thai Bankers' Association, this event was held in many provinces across the country.

■ Small and Micro Business

KBank focuses on providing funding support along with enhancing competitiveness and business opportunities for our Small and Micro Business clients, especially those in promising franchise businesses. To this end, we have expanded our assistance to various franchise businesses, notably pharmacies and restaurants, by giving them K-SME Franchise Credit. In addition to our services provided to customers throughout their value chain, we aim to facilitate their business operations. To this end, KBank offered QR code payment service via K PLUS SHOP application and installation of electronic data capture (EDC) machines to enhance payment convenience for both merchants and customers. Along with this, we staged the "Pip Jang on Tour" PR campaign in big provinces to promote QR code payment. We also partnered with Sun 108 and Alipay to pioneer QR code payment via vending machines, with the aim of providing greater convenience for Chinese tourists. Moreover, KBank worked with Bangkok Bank PCL to install EDC for merchants under the e-Payment Joint Venture as part of the local card scheme to install EDC for merchants. We also offered special privileges under the K-Merchant service for retailers installing EDC

machines during the year as part of our push for a cashless society, in keeping with the National e-Payment Master Plan.

■ High Net Worth Individual

In 2017, KBank Private Banking service experienced remarkable growth across all products and services in conformity to international standards. To extend happiness to our High Net Worth Individual clients, we engaged in numerous endeavors. Notable developments in 2017 included:

1. Investment innovation: We employed international investment innovation to develop mutual funds specifically for our High Net Worth Individual customers. Of note was the K Equity Absolute Return Fund (K-ART), which uses “Big Data” and machine learning for analyzing and selecting securities to generate positive returns regardless of market conditions. Teaming up with Lombard Odier and KASIKORN ASSET MANAGEMENT CO., LTD., we introduced the K Global Risk-Enhanced Asset Allocation Fund (K-GREAT) – a risk-based asset allocation fund, which is a new form of mutual fund that uses leveraged derivatives to enhance returns and optimize risk management mechanisms.

2. Provision of world-class services: With the aim of providing services attaining international standards, we have clearly segregated duties of Quality Assurance and Settlement teams. While Quality Assurance team is responsible for checking and confirming transactions, and Settlement team conducts transactions which have been verified for customers. KBank also worked with Lombard Odier to organize training courses, designed specifically for private bankers and support teams for the delivery of world-class services to our customers.

3. Access to data: To expand opportunities for our High Net Worth Individual customers to gain better access to data, we introduced the LINE@, providing channel for quick investment and financial information update, to support private bankers. In 2017, we also organized activities and seminars related to investment techniques appropriate for market conditions, moderated by qualified experts. Outstanding events included “Innovative Core Investment Strategy”, wherein representatives of securities company and asset management company, namely BlackRock, J.P. Morgan and Lombard Odier, were invited to share their expertise.

■ Affluent

We always adhere to our core strategies of making KBank the Customers’ Main Bank along with maintaining our customer base. With “Big Data” processing and analyzing to provide insights on customer behavior, we are able to develop products and services that better meet each customer’s specific needs. 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 who are well-versed in all fields of investment, THE WISDOM ONWARD e-Newsletter – an online monthly newsletter, and quarterly seminars.

Meanwhile, KBank teamed up with KASIKORN ASSET MANAGEMENT CO., LTD. to launch more than 110 mutual funds with varied investment policies. Of note were K Selective Emerging Markets Equity Fund (K-SEMQ), K Asia Pacific Bond Fund (K-APB) and K FIT Allocation Fund (K-FIT). To provide greater convenience to our customers, we added to the K PLUS – a mobile banking application functions for immediate opening of mutual fund accounts and purchase of LTF and RMF. The K-My Funds application was also introduced to serve as a personal advisor on mutual fund investment. Meanwhile, life insurance products were offered as savings alternatives for our clients. These included Whole Life 99/1 (with maturity benefit) targeting customers seeking to transfer assets to their heirs with no inheritance tax, and Life Insurance: Endowment 510 Guarantee for short-term investors seeking high returns.

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. One lifestyle activity of note was “THE WISDOM Exclusive Experience: Appreciating Thai-Chinese Art Heritage at Lhong 1919”, arranged for this customer group.

▪ **Middle Income**

Guided by our core strategy of “Customer Centricity”, we aim to completely accommodate the demands of each customer group, along with strengthening THE PREMIER as an exclusive brand for new-generation customers whose investments range between Baht 2-10 million. To increase customers’ product holdings and maintain our “Main Bank” status, KBank emphasizes the offering of personal financial advice and planning services.

In 2017, we developed innovative financial products in alignment with customer lifestyles in the digital age. A notable initiative was K-eSavings Account offered via K PLUS – a mobile banking application, which allows customers to conduct financial transactions on their own – from opening and use, to closing of accounts. Having continually encouraged customers to save, plan for retirement and take out life insurance with tax benefits, we launched Taweessup Extra plus Pro Saving 615 Guarantee or Retirement 60/5 and Whole Life 99/5.

Regarding loan products, KBank prioritizes customer screening per our prudent credit policy in order to maintain overall portfolio quality. We focused on new products and promotional campaigns to achieve the loan target. For K-Home Loan, KBank launched home loans with special interest rates and a low installment payment plan to ease burdens of our customers seeking to purchase new homes, including custom-built residential units, or to refinance their mortgage. We also partnered with property developers which received pre-finance assistance from KBank in conducting co-promotion activities to expand our home loan customer base in viable areas. In response to the government’s measures, we debuted a home

loan campaign catering for senior citizens. Moreover, comprehensive home-related data is available via the K Home Smiles Club website and via mobile phone.

For new credit cards, KBank focused on acquiring new high-income customers through the launch of credit card products to meet the lifestyle needs of each customer group. Notable products were THE PASSION Credit Card, PTT Blue Credit Card, and KBank JCB Credit Card. Throughout the year, more than 590 campaigns were staged to spur all spending categories, i.e., dining, traveling and shopping across all areas throughout Thailand, including spending in foreign currencies, online shopping, as well as spending in line with the government campaign “Shopping for the Nation” or year-end tax break for shoppers which aimed to promote shopping activity to stimulate the economy. For personal loan, we focused on helping our customers harness financial self-discipline through the offering of a zero-percent special interest rate or a 50-percent discount on interest rate per established conditions for K-Express Cash Card payment, along with K-Personal Loan with preferential interest rates at Baht 2.34 per Baht 10,000 daily or 16 percent, p.a., granted to KBank Payroll customers. Furthermore, we initiated the Machine Lending Program for KASIKORNBANK Personal Loans – a loan program offered via K PLUS – a mobile banking application to customers who will receive loan within one minute after they tap to agree to the established conditions. KBank has also revised our operational procedures for credit card and personal loan extension in alignment with the Bank of Thailand’s new regulations for credit card and personal loan supervision which took effect during the second half of 2017.

To support the government’s National e-Payment Master Plan, KBank introduced the PromptPay funds transfer service for individual customers via various channels and conducted PR campaigns to promote PromptPay funds transfer and registration, including a no-fee promotion offered to individuals making funds transfer via KBank PromptPay to any bank.

■ 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 acquiring new customers and seeking opportunities to do business with our partners, especially leading companies and universities, in order to attract their personnel to use KBank as their main bank. In addition to this, we are diligent in developing new user-friendly products and services in response to the financial and lifestyle needs of customers. In 2017, we focused on encouraging our customers to use services and conduct financial transactions via electronic channels, especially via mobile phone. To this end, we provided an added channel to sign up for K-Debit Card via the K PLUS – a mobile banking application. Among notable initiatives was the introduction of three new designs of K-Debit Card for specific groups of customers who are cartoon fans, namely the K-ONE PIECE Debit Card, the K-Shinchan Debit Card, and the K-Pokémon Debit Card, as well as the specially designed Chang Suek KASIKORNTHAI Debit Card. Moreover, we organized a promotional 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 them more user-friendly, affordable and convenient to buy. Notable products were Travel Protection via K PLUS – a mobile banking application, and KBank website, and PA365 via K-ATM.

3.4 Service Channels

In 2017, 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 2017 included:

- **Domestic branch network:** Our focus was on enhancement of service efficiency and maximization of our sales and service quality in alignment with changing consumer behavior, as evidenced by the increased use of more convenient service channels, especially our mobile banking application. We also continued to consolidate branches with relatively low traffic and to expand service channels at viable locations. The number of branches now available is therefore sufficient to meet demands of customers covering all areas.

Meanwhile, we took into account the appropriate consolidation of foreign exchange booths in certain areas such as airports, new department stores and major tourist attractions, while also adjusting business hours in each location, to be in accordance with the number of travelers and high season, especially at popular tourist spots where FX Mobile Vans were also added.

- **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 so as to respond to customers seeking to venture into other Asian countries, in alignment with the national agenda to embrace the AEC. In 2017, KBank upgraded our representative branch in the People's Republic of China to a locally incorporated institution (LII), under the name of "Kai Tai Yin Hang (Zhong Guo)", or KASIKORNBANK (CHINA) COMPANY LIMITED, with its headquarters in Shenzhen, Guangdong Province, allowing KBank to accommodate burgeoning trade and investment between China and Thailand. Another noted endeavor was KBank's strategic partnership with Bank Maspion of Indonesia.

Branches and Financial Service Offices/Centers

Domestic Service Network	Number of Locations		Overseas Service Network	Number of Locations		
	2017	2016		2017	2016	
Branch Network ¹⁾	1,026	1,107	Branches and Overseas Service Network:	17	16	
Foreign Exchange Booth	142	146	Branches of Locally Incorporated Institution			
THE WISDOM	105	105	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	1	
Corporate Business Center	8	8	KASIKORNBANK (CHINA) CO.,LTD.	4	0	
SME Business Center ²⁾	121	121	Branches	3	6	
International Trade Service Center	58	58	Representative Offices	8	9	
Cheque Direct Service	33	31	Electronic Banking Services	Number of Units		
				2017	2016	
				Self-Service Channel (K-ATM and K-CDM)	11,891	11,683
				K-ATM (Automated Teller Machines)	9,302	8,973
				K-CDM (Cash Deposit Machines)	2,589	2,710
			K-PUM (Passbook Update Machines)	1,109	1,249	

Note: 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, along with installation of self-service machines with various languages available for greater convenience of our foreign clients. At the same time, we prioritized machine management for broader service coverage to effectively meet the needs of customers, who were also encouraged to conduct financial transactions at self-service machines.

- **Digital Banking Services:** To highlight our digital banking leadership, K-MOBILE BANKING PLUS was renamed K PLUS, and its logo was also changed for easier recognition. We are diligent in developing full-service digital innovations to facilitate transactions anywhere, anytime, in line with changing consumer lifestyles. Major initiatives of our digital banking in 2017 included:

1) **K PLUS:** Self-service functions have been developed to allow customers to conduct transactions other than the basic banking transactions now available (funds transfer, top-up and bill payment), without going to a bank branch. They include opening of a mutual fund account for the first purchase of LTF and RMF, and opening of K-eSavings Account to simplify financial management.

A new QR code reading function was developed in keeping with the government's National e-Payment Master Plan. The service, which is initially available only at Siam Square, Chatuchak Weekend Market and Platinum Fashion Mall, Pratunam, will be further expanded for nationwide coverage. To promote greater use of QR code payment, promotional campaigns were staged including the "PeepTival Program – Donate Baht 8 to Siriraj Hospital" and the "Get Baht 50 Cash Back when Making QR Code Payment of Baht

300 per Transaction”. We also added a Quick Pay function to K PLUS as a menu shortcut option for QR code payment. Another new function of note is My QR, which enables customers to accept payment by scanning QR code without the need for an account number or PromptPay data.

Furthermore, we launched K PLUS SME – a 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.

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

- **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, which will be used as input for development and upgrades to our service quality. Meanwhile, we have developed K-Contact service procedures for enhanced customer security through improvement of identity authentication processes, while also setting up a Customer Solution Hub to better respond to diverse customer needs which are sometimes different from KBank’s standard offerings.

3.5 Awards and Commendation

Through these efforts, KBank and K Companies have achieved good business performance, earning the recognition in various organizations at home and abroad, proven by many awards granted in 2017, notably:

Awards to KBank¹⁾

- Six awards: Best IPO, Thailand, Best Mid-Cap Equity, Top Bank Arrangers Investors' Choices for Corporate Primary Issues, Thailand, Top Bank in the Secondary Market Government Bonds, Thailand, Best Individual Research, Thailand, and Top Bank in the Secondary Market Corporate Bonds, Thailand, from The Asset magazine
- Two awards: Best IPO Deal in Southeast Asia for Banpu Power and Best IPO Deal for Retail Investors in Southeast Asia from Alpha Southeast Asia magazine
- Two awards: Thailand Capital Markets Deal of the Year for Banpu Power and IFR Asia Frontier Market Issue Award for the Lao PDR's Baht 11 Billion Transaction from IFR Asia magazine

Awards to KBank¹⁾

- Five awards: **SME Bank of the Year, Best Retail Bank in Thailand** for eight successive years, **Mobile Payment Product of the Year, Best Private Wealth Bank in Thailand** and **Best Data & Analytics Project** from The Asian Banker journal
- Three awards: **No. 1 Brand Thailand Awards 2016-2017** in the categories of **Bank for SME** for two successive years, **Credit Card** for four consecutive years, and **Debit Card and Bank Saving Account** for the second consecutive year from Video Research International (Thailand) Ltd. and Marketeer magazine
- **Best Private Bank for Ultra High Net Worth Clients** from Euromoney private banking and wealth management survey
- **Highly Commended: Best Customer Experience - Wealth Management** from Private Banker International and Retail Banker International
- **Best Private Banker for Customer Service in Asia** from Professional Wealth Management awards (PWM) and The Banker magazine
- Eight awards: **The Best Contact Center of The Year (Over 100 seats), The Best Effective Technology Contact Center (Over 100 seats), The Best Effective Software Contact Center (Over 100 seats), The Best Corporate Social Responsibility Contact Center (Over 100 seats), The Best Contact Center Manager of The Year, The Best Contact Center Supervisor of The Year, The Best Contact Center Agent of The Year** and **The Best Contact Center HR Support Professional of the Year** from Thai Contact Center Trade Association (TCCTA)
- Three awards: **Domestic Retail Bank of the Year in Thailand** for four successive years, **Mobile Banking Initiative of the Year in Thailand** and **Credit Card Initiative of the Year in Thailand** from Asian Banking & Finance journal
- Four awards: **Best Merchant Product Offering, Best Merchant Acquiring Technology Solution, Highly Commended: Best Debit Card Product for Asia-Pacific** and **Highly Commended: Best Marketing Campaign – Overall** from Cards International & Electronic Payments International journal
- Selected for inclusion in two internationally recognized indices of **Dow Jones Sustainability Indices (DJSI) 2017**, namely DJSI World and DJSI Emerging Markets indices, organized by S&P Dow Jones and RobecoSAM, KBank is the first and only bank in Thailand, as well as ASEAN, to have been included for second year running
- Listed in the **FTSE4Good Emerging Index 2017**, organized by FTSE and Russell, among firms with good management of Environmental, Social, and Governance (ESG) risks, for the second consecutive year
- **Outstanding Sustainability Award** and selected to be on the list of **Thailand Sustainability Investment (THSI) 2017** by the Stock Exchange of Thailand
- Rated “**Excellent**” in **Corporate Governance Report of Thai Listed Companies 2017** by Thai Institute of Directors (IOD)
- Graded “**Excellent**” level in quality assessment of **Annual General Meeting arrangement 2017**, organized by Thai Investors Association
- **Outstanding Sustainability Report Award 2017** by the Office of the Securities and Exchange Commission, Thai Listed Companies Association and Thaipat Institute
- **The ESG 100 Certificate 2017** bestowed to KBank, which was named one of the top 100 companies that are most outstanding in terms of Environmental, Social and Governance (ESG) performance by Thaipat Institute
- **IR Global Top 50** from IR Magazine for three consecutive years

¹⁾ In the Annual Report, this item is shown under the topic “Awards and Commendations Granted to KASIKORNBANK and K Companies in 2017”

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated operating profit before provision expense and income tax expense for 2017 increased Baht 935 million, or 1.05 percent over-year. The increase was derived from net interest income that rose Baht 4,483 million, or 5.00 percent, which mainly resulted from rising interest income from investments and interest income from interbank and money market items, as well as falling interest expenses. Meanwhile, non-interest income decreased Baht 1,030 million or 1.62 percent, due mainly to a decline in net insurance premiums. At the same time, operating expenses rose Baht 2,518 million, or 3.94 percent, over-year. In 2017, KBank has set aside higher allowance for impairment loss on loans to maintain our financial stability. Therefore, our net profit for 2017 totaled Baht 34,338 million, a decrease of Baht 5,836 million, or 14.53 percent over-year.

Operating Performance for 2017

(Unit: Million Baht)

	2017	2016	Change	
			Million Baht	Percent
Net Interest Income	94,161	89,678	4,483	5.00
Non-Interest Income	62,695	63,725	(1,030)	(1.62)
Total Operating Income - net	156,856	153,403	3,453	2.25
Total Other Operating Expenses	66,372	63,854	2,518	3.94
Impairment Loss on Loans and Debt Securities	41,810	33,753	8,057	23.87
Net Profit (attributable to equity holders of KBank)	34,338	40,174	(5,836)	(14.53)
Basic Earnings per Share (Baht)	14.35	16.79	(2.44)	(14.53)

Major financial ratios that reflected operating performance of KBank and our subsidiaries in 2017 and 2016 are as follows:

(Unit: Percent)

Financial Ratio	2017	2016	Change
Return on Assets (ROAA)	1.20	1.49	(0.29)
Return on Equity (ROAE)	10.24	13.23	(2.99)
Net Interest Margin (NIM)	3.44	3.52	(0.08)
Non-Interest Income to Average Assets	2.18	2.36	(0.18)
Non-Interest Income Ratio	39.97	41.54	(1.57)
Cost to Income Ratio	42.31	41.63	0.68

(Unit: Percent)

Financial Ratio	2017	2016	Change
Net NPLs to Total Loans	1.85	1.74	0.11
Gross NPLs to Total Loans	3.30	3.32	(0.02)
Coverage Ratio	148.45	130.92	17.53
Loans ¹⁾ to Deposits Ratio	95.96	94.58	1.38
Loans ¹⁾ to Deposits and B/E Ratio	95.96	94.57	1.39
Capital Adequacy Ratio ²⁾	17.96	18.84	(0.88)
Tier 1 Capital Ratio ²⁾	15.66	15.16	0.50

¹⁾ Loans refer to loans to customers less deferred revenue.

²⁾ KASIKORNBANK FINANCIAL CONGLOMERATE's Capital Adequacy Ratio (CAR)

□ Net Interest Income

KBank's consolidated net interest income for 2017 was Baht 94,161 million, increasing Baht 4,483 million or 5.00 percent over-year, due mainly to rising interest income from investments and interest income from interbank and money market items. Meanwhile, interest expenses decreased due to early redemption of subordinated debentures of KASIKORNBANK PCL No.1/2012 in the first quarter of 2017 and a decline in average deposit rates. Our NIM for 2017 equaled 3.44 percent, lower than the previous year, which was in line with the declining interest rate trend, and the set target owing to cost of fund management that was better than the target.

(Unit: Million Baht)

	2017	2016	Change	
			Million Baht	Percent
Interest Income				
Interbank and Money Market Items	7,011	5,892	1,119	18.99
Deposits	1,068	364	704	192.92
Loans without Repurchase Agreements	483	439	44	9.96
Repurchase Agreements	5,460	5,089	371	7.31
Investments	16,820	15,032	1,788	11.90
Trading Investments	262	258	4	1.65
Available-for-Sale Investments	2,719	2,846	(127)	(4.44)
Held-to-Maturity Investments	13,839	11,928	1,911	16.02
Loans	90,434	89,923	511	0.57
Finance leases	5,059	5,014	45	0.90
Others	13	12	1	7.89
Total Interest Income	119,337	115,873	3,464	2.99
Total Interest Expenses	25,176	26,195	(1,019)	(3.89)
Total Interest Income – net	94,161	89,678	4,483	5.00
Yield on Earning Assets (percent)	4.37	4.55		(0.18)
Cost of Fund (percent)	1.22	1.32		(0.10)
Net Interest Margin (NIM) (percent)	3.44	3.52		(0.08)

□ Non-Interest Income

For 2017, KBank's consolidated non-interest income totaled Baht 62,695 million, decreasing Baht 1,030 million, or 1.62 percent over-year. The decrease was due mainly to lower net insurance premiums. Meanwhile, net fees and service income rose in line with continual expansion of the new customer base and revenue from capital market products. In 2017 and 2016, non-interest income of KBank and our subsidiaries accounted for 39.97 percent and 41.54 percent of total income, respectively. This was in alignment with KBank's set target, wherein non-interest income would be around 40 percent of total income.

(Unit: Million Baht)

	2017	2016	Change	
			Million Baht	Percent
Non-Interest Income				
Fees and Service Income	51,757	48,631	3,126	6.43
Fees and Service Expenses	10,451	9,688	763	7.88
Fees and Service Income – net	41,306	38,943	2,363	6.07
Gain on Trading and Foreign Exchange Transactions	8,411	8,746	(335)	(3.84)
Loss on Financial Liabilities Designated at Fair Value through				
Profit or Loss	(2)	(4)	2	63.04
Gain on Investments	3,491	1,588	1,903	119.87
Share of Profit from Investments using Equity Method	158	117	41	35.01
Dividend Income	1,991	1,609	382	23.72
Net Premiums Earned	99,786	94,445	5,341	5.65
Other Operating Income	1,405	2,462	(1,057)	(42.93)
<u>Less</u> Underwriting Expenses	93,851	84,181	9,670	11.49
Total Non-Interest Income	62,695	63,725	(1,030)	(1.62)
Non-Interest Income to Average Assets (percent)	2.18	2.36		(0.18)
Non-Interest Income Ratio (percent)	39.97	41.54		(1.57)
Net Fee Income to Net Total Operating Income Ratio (percent)	26.33	25.39		0.94

□ Other Operating Expenses

KBank's consolidated other operating expenses for 2017 was Baht 66,372 million, rising Baht 2,518 million, or 3.94 percent over-year. Our cost to income ratio of 2017 was at 42.31 percent, higher than 41.63 percent in the previous year, and close to the set target.

(Unit: Million Baht)

	2017	2016	Change	
			Million Baht	Percent
Employee Expenses	31,008	30,202	806	2.67
Directors' Remuneration	140	138	2	1.01
Premises and Equipment Expenses	12,917	12,434	483	3.89
Taxes and Duties	4,525	4,476	49	1.08
Others	17,782	16,604	1,178	7.09
Total Other Operating Expenses	66,372	63,854	2,518	3.94
Cost to Income Ratio (percent)	42.31	41.63		0.68

□ Impairment Loss on Loans and Debt Securities

— Classified loans, Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

KBank classifies consolidated loans into six categories, in accordance with the Bank of Thailand's regulations. Minimum allowance for doubtful accounts is set according to the loan classification criteria, with period overdue being the key classification criterion. Maximum collateral value, used for calculation of allowance for doubtful accounts, depends on the type of collateral.

KBank's consolidated classified loans and allowance for doubtful accounts, as of December 31, 2017, are shown in the table below:

Classified loans, Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

(Unit: Million Baht)

	Loans and Accrued Interest Receivables	Allowance for Doubtful Accounts	
		Percent per BOT's Regulations	Total Provision
Normal	1,668,501	1	5,481
Special Mention	46,633	2	250
Sub-Standard	23,000	100	10,779
Doubtful	17,651	100	8,385
Doubtful of Loss	29,148	100	11,560
Loss	-		-
Total	1,784,933		36,455
Revaluation Allowance for Debt Restructuring			1,451
Total	1,784,933		37,906
Excess Allowance			65,214
Credit Balance Transaction	2,708		46
Loans from Life Insurance Business	18,534		269
Total	1,806,175		103,435

As of December 31, 2017, KBank's consolidated allowance for doubtful accounts, comprising allowance for doubtful accounts of customers and financial institutions of Baht 101,984 million and

revaluation allowance for debt restructuring of Baht 1,451 million, totaled Baht 103,435 million. This amount was greater than the level required by the Bank of Thailand.

The setting of allowance for doubtful accounts is in accordance with the Bank of Thailand's criteria and requirements as well as our loan analysis and evaluation of each individual debtor's financial status, based on KBank's experience in risk and collateral value assessment.

— Impairment Loss on Loans and Debt Securities

During 2017, KBank and our subsidiaries set aside impairment loss on loans and debt securities at Baht 41,810 million, an increase of Baht 8,057 million or 23.87 percent over-year to maintain our financial stability. Thus our credit cost for 2017 stood at 2.39 percent, higher than 2.04 percent in the previous year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	2017	2016	Change	
			Million Baht	Percent
Impairment Loss on Loans and Debt Securities	41,810	33,753	8,057	23.87
Credit Cost (percent)	2.39	2.04		0.35

Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of December 31, 2017, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 103,435 million. This amount was equivalent to 272.87 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of December 31, 2017, KBank's consolidated NPLs stood at Baht 69,674 million, 3.30 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 67,624 million, 3.25 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 Year Ending	Dec. 31, 2017	Dec. 31, 2016
Consolidated NPLs	69,674	65,087
Percent of total outstanding credit, including that of financial institutions	3.30	3.32
Bank-only NPLs	67,624	63,018
Percent of total outstanding credit, including that of financial institutions	3.25	3.23

Net Non-Performing Loans

As of December 31, 2017, KBank's consolidated net NPLs stood at Baht 38,570 million – 1.85 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 37,834 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 Year Ending	Dec. 31, 2017	Dec. 31, 2016
Consolidated net NPLs	38,570	33,553
Percent of total outstanding credit, including that of financial institutions	1.85	1.74
Bank-only net NPLs	37,834	32,727
Percent of total outstanding credit, including that of financial institutions	1.84	1.70

Debt Restructuring

As of December 31, 2017, KBank's consolidated restructured debts which incurred losses totaled Baht 62,240 million, increasing by Baht 3,940 million, or 6.76 percent when compared to 2016.

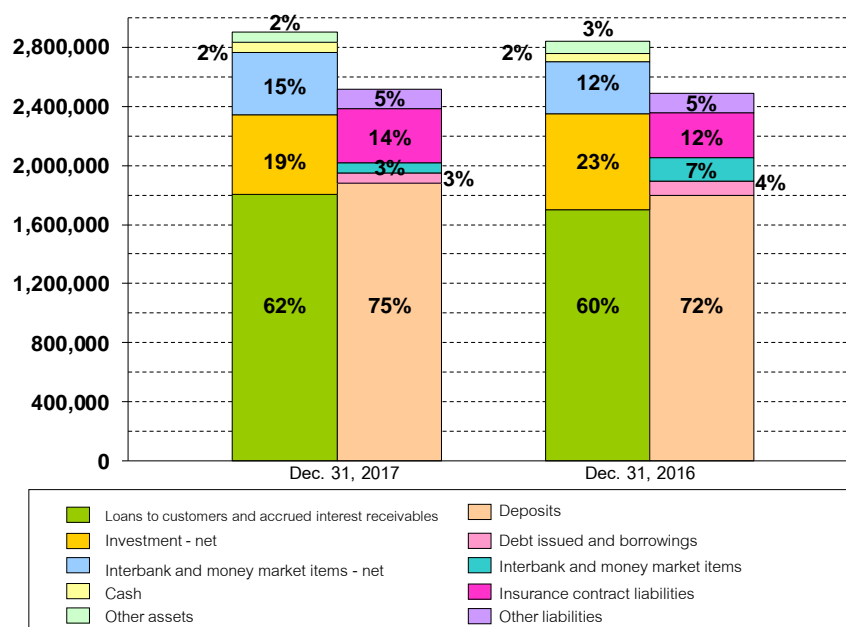
Foreclosed Properties

As of December 31, 2017, our consolidated foreclosed properties had a cost value of Baht 19,630 million, thus being 0.68 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,186 million, equivalent to 11.14 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)



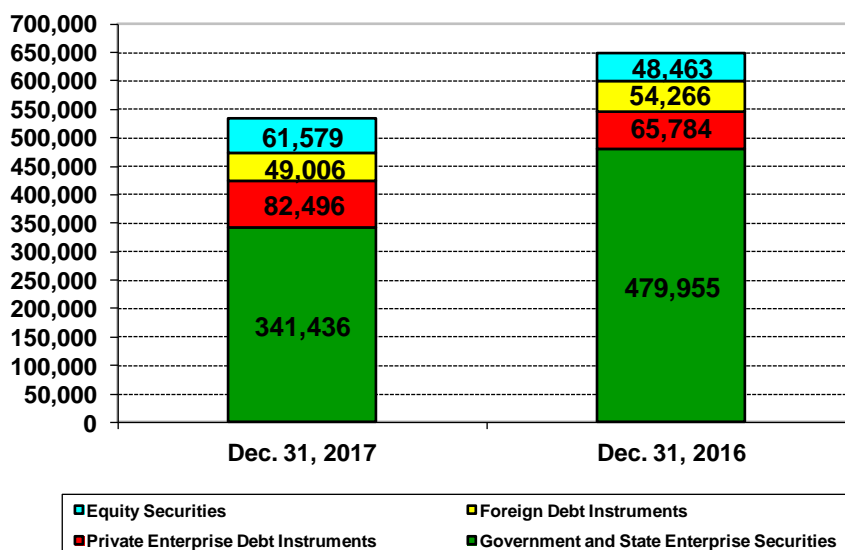
□ Assets

At the end of 2017, KBank's consolidated assets totaled Baht 2,900,841 million, increasing Baht 57,563 million or 2.02 percent from the end of 2016. The rise was due mainly to increase in loans and net interbank and money market items (assets) whereas net investment decreased. Key details are as follows:

- Our consolidated loans (less deferred revenue) at the end of 2017 amounted to Baht 1,802,783 million, increasing by Baht 105,202 million or 6.20 percent from the end of 2016. Loan growth was higher than the set target. Most increases were seen in commercial loan, working capital, and housing loan. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net interbank and money market items (assets) totaled Baht 426,092 million at the end of 2017, increasing by Baht 76,886 million or 22.02 percent from the end of 2016, due mainly to KBank's liquidity management.
- Net investment totaled Baht 535,560 million at the end of 2017, decreasing by Baht 114,038 million or 17.56 percent from the end of 2016 due mainly to sales of government bonds.

Investments in Securities

(Unit: Million Baht)



□ Liabilities and Equity

Our consolidated liabilities, at the end of 2017 amounted to Baht 2,513,019 million, which rose Baht 23,652 million or 0.95 percent from the end of 2016. The increase was mainly attributable to increased deposits and insurance contract liabilities whereas interbank and money market items (liabilities) and debt issued and borrowings declined. Significant changes in our consolidated liabilities included:

- Deposits at the end of 2017 equaled Baht 1,878,672 million, increasing Baht 83,837 million or 4.67 percent from the end of 2016, mainly as a result of increased in savings deposit. KBank's deposits ranked the fourth-largest among Thai commercial banks.
- Insurance contract liabilities at the end of 2017 registered Baht 363,515 million, an increase of Baht 57,691 million or 18.86 percent from the end of 2016, in line with the growth in life insurance business.
- Interbank and money market items (liabilities) at the end of 2017 equaled Baht 69,289 million, decreasing Baht 90,763 million or 56.71 percent from the end of 2016, due largely to decrease in private REPO transactions.
- Debt issued and borrowings at the end of 2017 equaled Baht 70,575 million, decreasing Baht 25,801 million or 26.77 percent from the end of 2016, due largely to early redemption of subordinated debentures of KASIKORNBANK PCL No.1/2012, amounting to Baht 22,000 million, in the first quarter of 2017

At the end of 2017, total equity attributable to equity holders of KBank amounted to Baht 348,625 million, rising by Baht 26,879 million or 8.35 percent from the end of 2016, largely driven by net operating

profit for 2017 at Baht 34,338 million despite the interim dividend payment from net profit for the first half of 2017 that was made in September 2017, totaling Baht 1,197 million.

□ Relationship between Sources and Uses of Funds

As of December 31, 2017, the funding structure as shown in the consolidated financial statement comprised Baht 2,513,019 million in liabilities and Baht 387,822 million in total equity, resulting in a debt-to-equity ratio of 6.48. The main source of funds on the liabilities side was deposits, which equaled Baht 1,878,672 million, or 64.76 percent of the total source of funds, as of December 31, 2017. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 2.39 percent and 2.43 percent of the total, respectively.

KBank's and subsidiaries' major use of funds was loans less deferred revenue, which as of December 31, 2017, amounted to Baht 1,802,783 million, resulting in loan-to-deposit ratio and loan-to-deposit plus bills of exchange ratio of 95.96 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			
	Dec. 31, 2017	Percent	Dec. 31, 2016	Percent	Dec. 31, 2017	Percent	Dec. 31, 2016	Percent
≤ 1 Year	1,858,490	98.93	1,783,984	99.40	786,318	43.61	772,897	45.53
> 1 - 5 Years	20,182	1.07	10,851	0.60	479,836	26.62	415,263	24.46
> 5 Years	-	-	-	-	536,629	29.77	509,421	30.01
Total	1,878,672	100.00	1,794,835	100.00	1,802,783	100.00	1,697,581	100.00

As of December 31, 2017, deposits with maturities within 1 year were larger than loans with remaining maturities within 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.

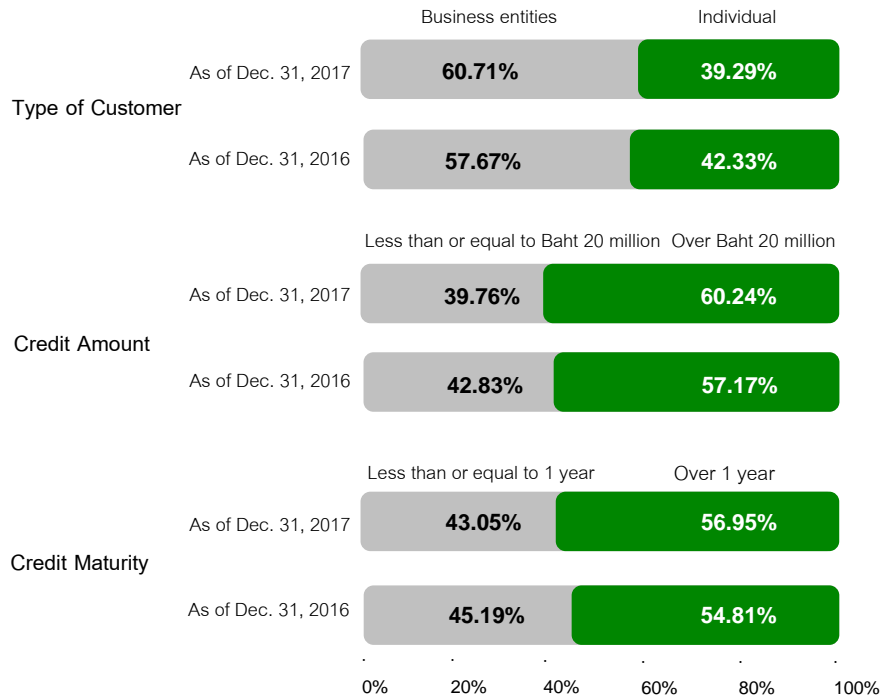
4.3 Loans and Deposits

□ Loans

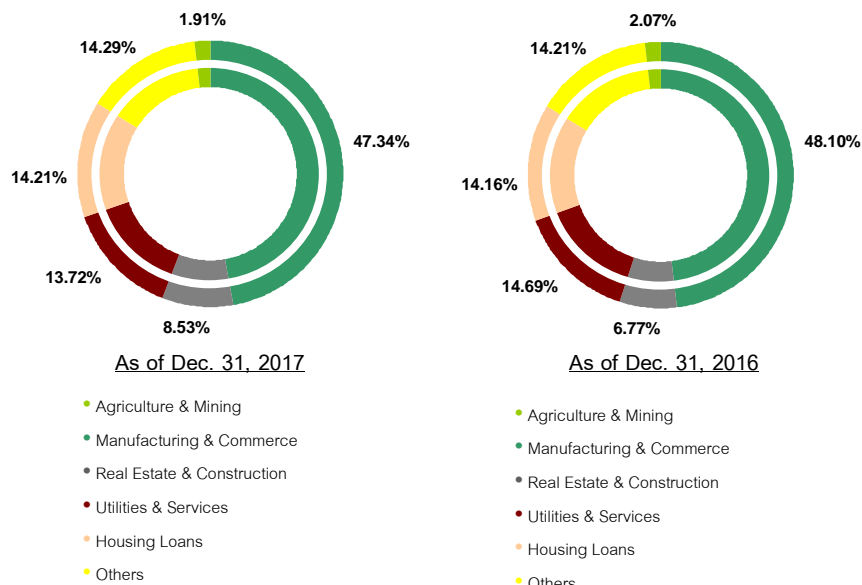
As of December 31, 2017, KBank's consolidated outstanding loans stood at Baht 1,802,783 million, increasing by Baht 105,202 million, or 6.20 percent, compared to Baht 1,697,581 million at the end of 2016.

As of December 31, 2017, 60.71 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,038,167 million, or 60.24 percent of the total; 39.76 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 43.05 percent of our total loans.

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



KBank's Consolidated Lending Portfolio

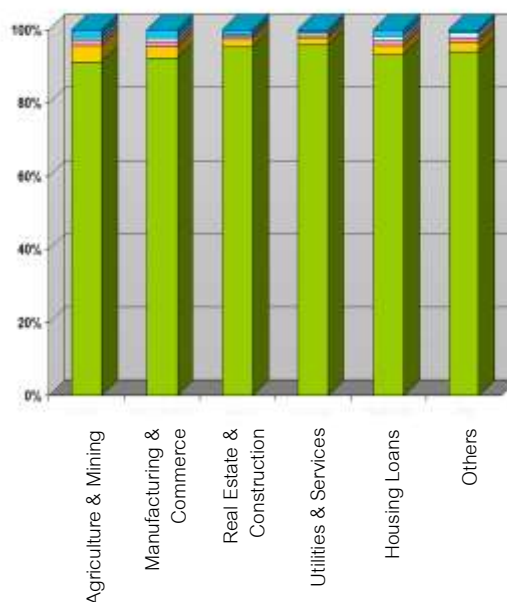
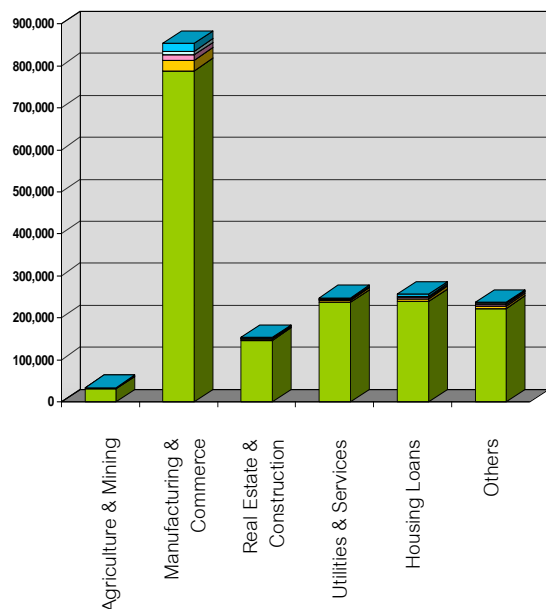


As of Dec. 31, 2017

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, 93.48 percent were classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 47.34 percent; of that 92.43 percent were classified as "Normal" loans.

Loans Classified by Business

(Unit: Million Baht)

	Dec. 31, 2017		Dec. 31, 2016	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,271,411	443,779	1,169,583	428,680

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.

Overall, our corporate business loans enjoyed growth in 2017 thanks to consistent demand amid brighter economic growth both at home and abroad compared to the previous year. As of the end of 2017, our corporate business loans (Corporate and SME customers) increased by Baht 101,828 million, or 8.71 percent, from the end of 2016. The increase was derived from real estate and related industries, especially construction, as well as food and beverages, where loan demand rose with thriving exports.

Our retail business loans increased by only Baht 15,099 million, or 3.52 percent, over the end of 2016 due to KBank's cautious credit policy amid hefty household debt to GDP and the fragile economic recovery. We were determined to manage loan growth in alignment with market conditions, with a continued focus on loan quality to maintain our market leadership in major loan products. In 2017, home loans remained our core product with the highest growth in our portfolio, thanks to our strengthened alliances with business partners in staging marketing campaigns to meet the needs and ease burdens of our customers residing in Bangkok and other strategic provinces, as well as those using our services via digital channels. Meanwhile, our consumer loans enjoyed higher growth, especially other types of personal loans, owing to KBank's focus on customer screening.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Dec. 31, 2017	Dec. 31, 2016	Million Baht	Percent
Total Deposits	100.00	1,878,672	1,794,835	83,837	4.67
Current accounts	5.77	108,468	100,977	7,491	7.42
Savings accounts	73.08	1,372,947	1,285,001	87,946	6.84
Fixed-term deposit accounts	21.15	397,257	408,857	(11,600)	(2.84)

At the end of 2017, total deposits – comprising those of Corporate Business and Retail Business – increased by Baht 83,837 million, or 4.67 percent, over the end of 2016. The increase was in line with loan growth. This was due mainly to increased savings accounts of both Corporate Business and Retail Business customers in line with our management of deposits, which were maintained at appropriate levels for our business operation in order to remain competitive. We continued to launch deposit products, through various types of special fixed deposit programs along with products aimed at savers seeking life insurance. We also focused on the launch of other investment alternatives with higher returns and risks acceptable to customers, to replace certain fixed deposits that gradually reached maturity.

4.4 Treasury Operations

□ Treasury Operations

From the beginning to the end of 2017, overnight interbank lending rates mostly stayed at 1.40 percent p.a. Those steady rates were influenced by the MPC meeting resolutions, wherein the key policy rate was kept at 1.50 percent, p.a. throughout the year.

KBank's liquidity position and investment portfolios were managed primarily to cope with future changes in business conditions and in line with the domestic economy as well as money and capital markets both at home and abroad. In 2017, our liquidity position was appropriately managed, and we were able to enhance returns on investments by using excess liquidity to invest in short-term Thai government bonds in order to cushion against volatility from the domestic interest rate trend, which was affected by changes in internal and external returns. When market returns were favorable, we shifted to invest in long-term government bonds. In addition, KBank invested in top-rated short-term foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	2017	2016	Change	
				Million Baht	Percent
Interest income¹⁾					
Interbank and money market items ²⁾	66.58	6,282	5,557	725	13.05
Investments	33.42	3,153	3,375	(222)	(6.58)
Total	100.00	9,435	8,932	503	5.63

Notes: ¹⁾ Managerial figures

²⁾ Including loans

During 2017, total interest income stood at Baht 9,435 million, rising by Baht 503 million, being 5.63 percent higher than in 2016 due to higher liquidity.

□ 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 December 31, 2017, our deposits at the Bank of Thailand and cash at cash center averaged Baht 27,188 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	2017	2016
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management	1,302,686	1,240,206
	Market Share (Percent)	18.72	19.47
KASIKORN SECURITIES PCL (KSecurities)	Trading Volume	811,883	868,068
	Market Share (Percent)	3.71	3.78
KASIKORN LEASING CO., LTD. (KLeasing)	Loans	97,055	90,696
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Loans	17,633	14,798
Muang Thai Life Assurance PCL (MTL)	Net Premiums Earned	102,681	97,013
	Market Share (Percent)	17.06	17.07

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

During 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 20.11 percent. Total market share of assets under management (AUM) was 18.72 percent. The excellent performance benefited from its synergy with KBank for product development to match consumers' needs. Notable efforts were the launch of new funds including K FIT Allocation Fund (K-FIT) that allocates investment in various assets to meet customer needs, and K Global Risk-Enhanced Allocation Fund (K-GREAT) which manages investment in line with customer risk appetite. Along with this, K-My Funds – a new electronic service channel via mobile application – was introduced to provide customers greater convenience when doing transactions, and to more effectively communicate with them. Its distinctive feature is to clearly display return on investment. To assist our existing and new clients in their investment, the company offered various investment tools such as My Port Simulator – a tool for portfolio analysis and management based on customer risk appetite, and Fund Navigator – a tool for funds selection in accordance with investment target. Moreover, K-My PVD was offered, designed specifically for provident fund members to monitor return on investment, allowing them to set an effective investment and retirement plan.

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 tool for portfolio analysis and monitoring with portfolio adjustment advisory service. Through these endeavors, KSecurities maintained its market leadership in 2017, with a market share of 3.71 percent.

KLeasing's outstanding loans posted over-year growth of 7.01 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 1.52 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 19.16 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 18.51 percent, and the number-two market share in total premiums at 17.06 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

Placing great emphasis on capital as a significant funding source for business operations that also reflects the financial strength and credibility of a financial institution, KBank's and the Conglomerate's capital management frameworks are consistent with Basel III requirements. KBank's Capital Management Sub-committee is responsible for planning and overseeing capital adequacy, while the Risk Management Committee supervises overall risk management. KBank has assessed our capital adequacy based on economic outlook, our business plans and regulatory changes while also regularly undertaking stress tests to ensure that we have adequate capital for operations under normal and crisis situations.

□ Overview of Minimum Capital Requirements

After the global financial crisis, the Basel Committee on Banking Supervision (BCBS) undertook a great effort to review capital supervision framework (Basel III) to reinforce the stability of the global banking system. The framework is intended to increase financial institutions' ability to absorb losses that may be incurred in both normal and stressed situations. Basel III places focus on higher minimum capital requirement. The Bank of Thailand has adopted the reforms in Thailand as follows:

Minimum Capital Requirements comprise two parts, i.e.

1. Minimum Capital Requirement – Total capital ratio must be maintained at not less than 8.5 percent, comprising Common Equity Tier-1 ratio (CET1 ratio) and Tier-1 ratio at not less than 4.5 percent and 6 percent, respectively.
2. Capital Buffer – Beyond the minimum capital requirement, the Bank of Thailand requires that a conservation buffer be maintained as an additional requirement. The conservation buffer began at 0.625 percent CET1 ratio on January 1, 2016 and increases each subsequent year by an additional 0.625 percent, to reach its final level of 2.50 percent CET1 ratio in 2019.

Additional Minimum Capital Requirements

In addition to the capital ratio requirements as above, the Bank of Thailand announced higher loss absorbency for Domestic Systematically Important Banks (D-SIBs Buffer) in order to align banking supervision with Basel standard and strengthen stability of the financial system. D-SIBs are required to maintain the additional CET1 of 1 percent of risk weighted assets and the ratio will be gradually phased-in 0.5 percent by January 1, 2019 and 1 percent by January 1, 2020. KBank is one of the D-SIBs, which are identified by the large size, high connection with other financial institutions and the financial system, complex financial products offering and a role as major provider of financial products and financial infrastructure. KBank's and the Conglomerate's capital ratio level are above regulatory requirements currently adopted, and to be adopted in the future.

As of the end of 2017, KASIKORNBANK FINANCIAL CONGLOMERATE, under the Basel III capital requirements, had capital funds of Baht 350,097 million, consisting of Baht 305,360 million in Tier-1 capital and Baht 44,737 million in Tier-2 capital. The capital adequacy ratio of KBank was 17.96 percent, which is above the Bank of Thailand's minimum requirement and conservation buffer of 9.75 percent. Details are shown in the following table.

Capital Adequacy Ratio¹⁾

- KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2016
Tier-1 Capital Ratio ³⁾	7.25	15.66	15.91	15.25	15.03	6.625	15.16
<i>Common Equity Tier-1 Ratio</i>	5.75	15.66	15.91	15.25	15.03	5.125	15.16
Tier-2 Capital Ratio	-	2.30	2.32	2.38	2.48	-	3.68
Capital Adequacy Ratio	9.75	17.96	18.23	17.63	17.51	9.125	18.84

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2016
Tier-1 Capital Ratio ³⁾	7.25	14.62	14.81	14.25	14.17	6.625	14.27
<i>Common Equity Tier-1 Ratio</i>	5.75	14.62	14.81	14.25	14.17	5.125	14.27
Tier-2 Capital Ratio	-	2.58	2.59	2.62	2.68	-	3.90
Capital Adequacy Ratio	9.75	17.20	17.40	16.87	16.85	9.125	18.17

- 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 Bank of Thailand'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.

□ Performance Measurements using Risk-Adjusted Return on Capital (RAROC) and Economic Profit (EP)

During 2017, we continued to implement Value-Based Management (VBM), which is a management practice that aims to achieve the highest value creation in accordance with our business strategies and goals. In achieving this objective, the Risk-Adjusted Return on Capital (RAROC) and Economic Profit (EP) – showing net profit after adjusting for both the risk charge and cost of capital – have been adopted as key measurements.

Moreover, we have developed guidelines for performance measurements consistent with various management aspects, including business direction, strategic and business planning that takes into consideration risk-adjusted returns, risk-based pricing and efficient resource management. In addition, we measure our business performance and analyze value-based profit, along with our "Customer Centricity" strategy to strengthen our competitive advantage in the dimension of customer segments and product domains, paying attention to the linkages between them while also monitoring risk via Active Credit Portfolio Management (ACPM) Dashboard and Stress Test Dashboard which are used by business units for decision making on analysis and management of at both bank-wide and each customer level. Meanwhile, related business units have adopted value-based analyses for their viability assessments on

investment projects, allowing them to effectively adjust their business strategies in alignment with fast-changing market conditions and attain the highest efficiency in the use of capital.

4.7 Credit Ratings

At the end of December 2017, KBank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of December 2016.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Dec. 31, 2017
Moody's Investors Service ¹⁾	
<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)
Baseline Credit Assessment	Baa2
<u>Domestic Currency</u>	
Outlook	Stable
Long-term - Deposit	Baa1
Short-term - Debt/Deposit	P-2
<hr/>	
Standard & Poor's ^{1) 2)}	
<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+
<hr/>	
Fitch Ratings ¹⁾	
<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-

National Credit Ratings

Outlook	Stable
Long-term	AA+(tha)
Short-term	F1+(tha)
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.

²⁾ Standard & Poor's removed ASEAN Regional Scale Ratings of Thai banks, including KBank, in September 2017.

5. Operations of Support Groups

5.1 Human Resource Management

KBank has placed emphasis on human resource management to support our operations in four key areas, namely KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG), business expansion within the AEC+3, support of KBank operations in the digital age and other related operations, to ensure greater efficiency in our human resource management operations.

- **KBTG Human Resource Management**

We prioritize recruitment and selection of students and experienced personnel with IT skills to be part of KBTG's workforce through activities held with leading universities in Thailand. As an added personnel recruitment channel, a trainee program was also held for university students, providing them opportunities to work with KBTG for self-development through hands-on experience, especially regarding our workplace culture. Concentrating on personnel development and retention, we designed an IT program focusing on enhancement of IT skills and abilities, along with soft skills, especially interpersonal and communication skills, which are key attributes for performance improvement of KBTG employees.

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

As support for our business operations as a locally incorporated institution (LII) in the People's Republic of China, KBank designed a manpower structure and allocation appropriate for the business model and size under the set strategic plan, in accordance with local regulations and laws. We also plan to link the results from the "Competency to Career" program, using a competency model, to efficiency enhancement in personnel recruitment, performance assessment and employee development.

In order to support KBank business expansion abroad, we continued to work towards the development of employees at all levels. We set sights on enhancing knowledge among our executives to accommodate our presence in Indonesia, where KBank is a strategic partner of Bank Maspion. Moreover, an Intensive Development Program was organized for expatriate employees who were assigned to stations at our representative offices in the Socialist Republic of Vietnam and the Republic of the Union of Myanmar. The program, featuring a training course and a test on credit knowledge, professional presentation skills, dialect classes and on-the-job training, was designed to equip the target staff members with cultural and economic background of their host countries as well as knowledge about customer segments and industries, as they must serve as coordinators with business partners and local government agencies.

To promote KBank branding and our local staff members' well-being, we provided our staff members working in overseas offices with uniforms similar to those worn at the head office.

- **Human Resource Management in Support of KBank Operations in the Digital Age**

KBank has built up our IT infrastructure to enable staff of KBank and K Companies to access data and work anywhere, anytime via the Digital Workplace Project. Tools have been enhanced for more effective and efficient teamwork, and databases have been upgraded and redesigned for easier search and access. The change in basic work system applies to both KBank and K Companies, while the database for internal communications and work has been upgraded accordingly for broader coverage of all units within KBank.

To become a world-class financial institution and maintain KBank's status as the number-one digital banking provider, we have dedicated ourselves to our own digital transformation via human capital development with the launch of the KBank Digital Academy program, co-designing several educational programs with expert partners to deliver modern content that helps to leverage digital skills across our organization. As part of the official launch event, ten of Thailand's "digital influencers" were invited to demonstrate their vision, sparking employee creativity so that they can reach new goals in digital banking skills.

- **Other Human Resource Management Operations**

- **Employee recruitment:** Emphasis is placed on selection and recruitment of high-potential personnel to meet business needs, along with the implementation of KBank branding programs. Notable activities included the KBank Campus Roadshow and Career Day under the theme "K Career Connect: Strive for the Best", and a referral program under the theme, "Digital DNA". These activities drew many participants. Moreover, we continued to cultivate relationships with tech talent abroad through KASIKORNTHAI x TALENT ENGAGEMENT activities.
- **Employee and leadership development:** To maximize our employees' potential and leadership abilities, we organized the K-Coaching Academy, an ongoing program with curricula based on international standards which provides our executives – from team leaders to high-level management – with professional coaching skills. To promote a good coaching environment within the organization, we launched campaigns via various activities and media, including the "Coach Me Please!" KASIKORNTV program. Furthermore, high-ranking executives from leading organizations were invited to share their perspectives on management in the seminar entitled, "Leader on Stage: Critical Turning Point". Meanwhile, learning activities on leadership development were arranged for employees through movies that helped broaden their horizons and develop analytical thinking which can be applied to their work.
- **Promotion and maintenance of employee engagement:** KBank carried out the Employee Engagement Survey 2017 with 100-percent participation of KBank and K Companies staff. Overall, our employee engagement increased from the previous survey. The findings were in

accordance with KBank expectations, being better than the employee survey results of peers in Thailand and the Asia-Pacific region (APAC). The survey results will feed into guidelines for developing a plan to enhance employee engagement in a sustainable manner.

- **Organizational culture creation:** Focusing on teamwork, KBank organized activities to promote cooperation and creativity at the management level via the “Executive Retreat” activity during the annual Executive Seminar 2017, and at the corporate-wide level via “K-Spirit Sport Night” under the theme, “New Possibilities Start from Doing Differently”. These activities were designed to encourage KBank executives and employees to show their readiness for the massive transformation of the digital age, to cater to customer needs by offering fresh and valuable experiences.
- **Employee relations and benefits:** The fourth Employees’ Committee meeting for 2017 was held to allow for consultations and problem-solving discussions between KBank and the Employees’ Committee, deepening our bond with the workforce. 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 factors were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks. We also established practical guidelines on various key issues in compliance with labor laws of AEC countries and the People's Republic of China so that our employees can perform their work correctly, thus mitigating compliance risk in those countries.
- **Communication management for economic, social and environmental sustainability under the “Green DNA” resolution:** KBank organized the “50,000 Chuamong Tham Di Tham Dai (50,000 Volunteer Hours)” project to encourage our employees to accumulate hours of good deeds, with a collective goal of 50,000 hours, per our “Green DNA resolution” KBank supported the effort financially and timewise in the form of one workday per person, per year. Thanks to continuous efforts to encourage our staff to participate in this activity, the staff served more than 66,182 hours during 2017. In addition, KBank continued the “KBank People Care for Bangkok's Green Lung” project by hosting an open house activity to welcome students from schools in the Bang Krachao Sub-district and adjacent areas, who came to learn about KBank’s operations and gain practical knowledge about financial literacy that they could apply in real life.

5.2 IT Management

In 2017, KBTG conducted studies in technological development, in alignment with our strategy of maintaining KBank's competitiveness together with 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.

- **K PLUS Platform:** KBank mobile banking platform comprises the following three services:
 1. K PLUS: KBank mobile banking application: Key initiatives are i.e.,
 - 1.1 Added functions for full use via WiFi
 - 1.2 Fingerprint scan via both iOS and Android systems in lieu of PIN for identity authentication when using the application
 - 1.3 Opening of a mutual fund account with no need to go to a bank branch
 - 1.4 Registration for K PLUS Shop allowing immediate use
 - 1.5 Personal loan offering via K PLUS where customers will receive loan within one minute of accepting loan conditions
 - 1.6 Opening of K-eSavings account in addition to to simplify financial management.
 - 1.7 Marketing campaigns were also conducted via K PLUS such as a Baht 8 donation via QR code for the account "For Patients, Navamintrabophit 84 Years Building, Siriraj Hospital". Other initiatives included redesign of K PLUS Lifestyle 4.0 allowing easier search for Reward PLUS shops, and the addition of My QR function to Quick Pay allowing customers to either make or accept payment via scanning.
 - 1.8 Goods were offered via Life PLUS on a trial basis within KBank, allowing employees to place orders with a delivery service.
 2. K PLUS SME: KBank mobile banking application for SMEs: We elevated K PLUS SME capability with added functions to enable full use via WiFi, including fingerprint scan in lieu of PIN for identity authentication when using the application, request for 30-day history data on cheques, including cheque payment and deposit, as well as stopping of cheques and viewing of cheque images.
 3. K PLUS SHOP: KBank mobile banking application for merchants that accommodates payment with QR code via any mobile banking application, and serves as an e-wallet. Cashless payment function was developed to better meet the needs of both shops and customers, who can use the service on a single application by scanning the QR code of a K PLUS Merchant when making bill payments. Moreover, we added a function that allows customers to place an order and sends bills to them with payment reconciliation if payment is made via K PLUS – a mobile banking application. Merchants may choose a billing function by entering the amount for customers to pay by scanning a QR code, and they are alerted as soon as customers make payment.

- **K PLUS Beacon:** Thailand's first application that empowers the visually impaired. KBank and Beacon Interface Co., Ltd. – a fintech startup which is a joint venture set up by KBank – worked together to develop the K PLUS Beacon application, which is designed specifically for the blind, people with low vision, the elderly or any other users to perform financial transactions on their mobile phones with confidence, without viewing the screen. The application – which provides users privacy, convenience, swiftness and security – offers services for balance inquiry, funds transfer, top up and bill payment under a system matching the security standard of K PLUS – a mobile banking application. At the initial stage, K PLUS Beacon is being tested with four groups of 300 volunteers, i.e., those with total vision loss, those with low visual acuity, senior citizens, and others in the general populace, from December 5, 2017, to the end of the second quarter of 2018. Their input will be valuable to KBank in further development of the application.

- **Study and develop an Application Programming Interface (API) Manager system:** We are in the process of compiling data and mapping out strategies in response to the FinTech requirements. Initially, the system structure has been developed for further connectivity, with prominence given to data suitability and security.

- **Develop technology to apply machine learning techniques to KBank businesses:** We employed machine learning techniques to analyze demand of customers who have fixed monthly income based on database of K PLUS – a mobile banking application, before conducting customer screening under the conditions determined by KBank, Then, we set the target group for the offering of machine lending via our K PLUS application.

- **Develop functions of blockchain to better respond to business needs:** The Hyperledger blockchain platform was further developed for letter of guarantee issuance service, which is provided to our Multi-Corporate Business customers. We are now in talks with other commercial banks to design a common standard for document confirmation via blockchain.

- **Study and develop Electronic Know Your Customer (National Digital Identity):** KBank, the Electronic Transactions Development Agency and other banks have established a working group to design formats for sharing data among banks via a Digital Identity Platform as a common standard for electronic transactions, for all banks. Rollout of the initiative is expected in the second quarter of 2018.

6. KASIKORNBANK's Investments in Subsidiaries and Associated Companies

□ Subsidiaries and Associated Companies

The definitions of subsidiaries and associated companies are in alignment with those specified in Thai Financial Reporting Standards, which KBank discloses in the Notes to the Financial Statements.

□ Investment Policy

Our investment policy can be summarized as:

● Strategic Investments

KBank invests in companies for strategic benefits. KBank and such companies collaborate in the review of business strategies and synergies through the sharing of various resources, equipment, tools and channels to efficiently meet the needs of customers, with minimal operational redundancies.

● Outsourcing Investments

KBank invests in companies that support our operations. These are companies providing services that are not the core business of KBank, and thus would be relatively inflexible if they were to remain a part of KBank. Our executives are appointed as directors of these companies to oversee their management and operating policies, with one director having control over each such firm's operations. This helps ensure standardized service quality, and maximized efficiency and benefit to KBank.

In 2017, KBank was granted approval by the China Banking Regulatory Commission (CBRC) to operate a locally incorporated institution (LII) under the name of "Kai Tai Yin Hang (Zhong Guo)", or KASIKORNBANK (CHINA) COMPANY LIMITED, with its headquarters in Shenzhen, Guangdong Province, and a service network comprising the Shenzhen Branch (and Longgang Sub-Branch), Chengdu Branch, Shanghai Branch, Hong Kong Branch, Beijing Representative Office and Kunming Representative Office.

KBank also established KASIKORN X Co., Ltd., with registered capital of Baht 5 million, to conduct technology research and innovation labs in search of new business models that are beneficial to the digital banking system in the digital economy; the prototype systems created by the company will be further applied to KBank products. Moreover, Fuchsia Venture Capital Co., Ltd. was incorporated, with 75 percent of shares held by Muang Thai Group Holding Co., Ltd., and registered capital of Baht 300 million. The objective of this venture capital company is to cultivate business collaboration with insurtech/healthtech startups through financial support, so as to acquire strategic capabilities that enable us to be at the forefront in accessing and developing innovations for the launch of our products and services in the market.

7. Shareholder Risk Management

Investments in KBank shares may incur shareholder risk, as the returns on investment, which vary with KBank share prices, share liquidity and investment overall, may not meet shareholders' expectation. KBank dividend payments are also dependent upon KBank operating results. Therefore, shareholders may have returns that are higher or lower than their expectations.

Key risks and risk management practices employed by KBank are identified in this Management Discussion and Analysis. However, KBank may incur risks other than those specified therein; shareholders are urged to study all risk factors and cautiously deliberate upon any investment before making a decision. Shareholders must accept that KBank may not be able to prevent all risks that could arise, and that there are numerous factors that have the potential to affect KBank performance and dividend payments, e.g., domestic and international economic conditions, political situations, capital movements, changes in government policies, and other unpredictable incidents. Furthermore, the diversity among KBank shareholders, with its high incidence of foreign shareholding, could induce fluctuations in KBank share prices, particularly when there is incidental market concern towards the economic and political environment that could result in capital outflows.

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 towards the bottom right, ending in a vertical edge.

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