



KASIKORNTHAI

Management Discussion and Analysis (MD&A)

For the Quarter Ended June 30, 2018

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary
Management Discussion and Analysis
For the Quarter Ended June 30, 2018

The Thai economy in the second quarter of 2018 gained further traction from the first quarter. The ongoing economic rebound was mainly driven by exports and tourism, whereas domestic spending and investment only gradually picked up. Still, the economy has yet to see strong across-the-board growth. The business sector remained challenged by new modes of competition amid the advancing digital age and the rapid pace of technological advancement, together with the borderless marketplace of the ASEAN Economic Community (AEC). Given the increased degree of uncertainty in global economies, especially pressure from a looming trade war among core economies and their diverging monetary policies, businesses may have to contend with Thai Baht volatility and rising interest rate trends.

Given the changing customer behavior amid new technologies, regulatory changes and heightened competition from other financial institutions and non-bank players, KBank has focused on strengthening customer engagement through digital channels so as to reinforce our digital banking leadership in support of the national policy of making Thailand a cashless society. We always strive to bolster our capabilities in providing services via digital channels to promote increased digital transactions, and thus slash our cash management costs, leading to reduced costs for our customers and within the overall economic system in the long run.

Within this context, KBank and K Companies accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our long-term market leadership. Guided by our core strategies of “Customer Centricity”, KBank has extended 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, in order to deliver an excellent customer experience. We have collaborated with our partners, cross-industry and cross-border, to create ecosystem partnerships under the “KASIKORNBANK and Beyond” concept, taking into account changing customer expectations, consumer protection and customer privacy. Beyond these strategies, we focus on predictive risk management with the aim of maintaining KBank’s stability as a leading financial institution, allowing us to cope with possible economic fluctuations in a timely manner.

Having adhered to our business strategies in the second quarter of 2018, KBank and subsidiaries thus reported Baht 10,917 million in net profit, increasing Baht 151 million or 1.40 percent over-quarter. The increase came from net interest income, which rose Baht 671 million, or 2.83 percent. Net interest margin (NIM) was equal to 3.39 percent, slightly higher than the previous quarter, and still within the target of 3.2-3.4 percent. In addition, non-interest income rose Baht 1,125 million, or 7.45 percent over-quarter, despite decrease in net fees and service income due to cancellation of fees on funds transfer via digital channels.

Other operating expenses rose Baht 686 million, or 4.29 percent over-quarter. However, the growth in expenses was less pronounced than that of net total income. As a result, our cost to income ratio decreased to 41.07 percent compared to the previous quarter, which was still better than the target. In this quarter, our impairment loss on loans and debt securities increased slightly from the prior quarter. 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 Conglomerate) according to the Basel III Accord was 18.05 percent, with a Tier 1 capital ratio of 15.57 percent.

Being aligned with our business strategies, all of the above endeavors allowed KBank and K Companies to meet business targets and at the same time gain wide acceptance and recognition at home and abroad.

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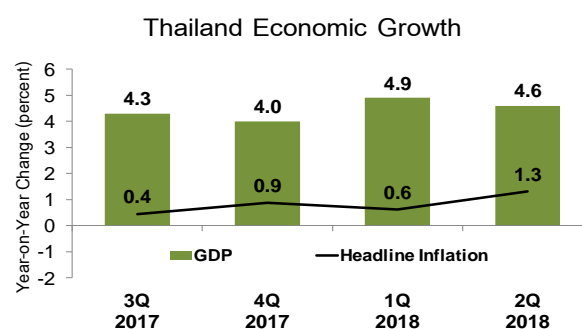
1. Overview of Operating Environment

1.1 Global and Thai Economy in the Second Quarter of 2018

Throughout the first half of 2018, close attention was paid to uncertainty surrounding US trade policy with its major trade partners, especially China. Most recently, the World Economic Outlook of the International Monetary Fund had maintained its global economic projection for 2018 at 3.9 percent given that the US economy is expected to be bolstered by tax cuts and government spending hikes whereas other advanced economies, namely the Eurozone, Japan and Britain, may see an economic slowdown due in part to their political instability. Moreover, global trade tension would further intensify, which may dampen investors' confidence and derail several countries' economic recoveries over the medium term.

Regarding monetary policy direction of central banks worldwide, the US Federal Reserve may gradually raise its policy rate, whereas the European Central Bank and the Bank of Japan may opt for tapering of their quantitative easing stance. Against this backdrop, interest rates in several countries are likely to be on an upward trend. Amid the trade rift which may make the global economic recovery vulnerable, however, many central banks are likely to adopt a cautious stance in their monetary policy while also placing their focus on impacts from volatile international capital flows, which would have repercussions for foreign exchange movements and funding costs.

The Thai economy in the second quarter of 2018 exhibited ongoing growth of 4.6 percent, over-year, following the 4.9 percent growth seen in the first quarter. The expansion was driven largely by exports and tourism, which benefited from trade partners' brighter economic growth in line with improvement in the overall global economy. Moreover, domestic spending enjoyed promising growth,



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

as evidenced by brighter consumption, private investment and public spending. Overall, the Thai economy for 2018 may thus record growth of 4.5 percent, while headline inflation is expected to average 1.1 percent. Meanwhile, the Bank of Thailand's policy rate is expected to stay low at 1.50 percent for almost all of 2018 to accommodate domestic economic activity, which is continuing along a stable recovery path.

1.2 Banking Industry and Competition

In the second quarter of 2018, commercial banks recorded increased net profit over-year and over-quarter. The rise could be attributed to decrease in impairment loss on loan and debt securities coupled with higher growth in overall loans. Therefore, net interest income and net interest margin (NIM) saw an increase. Meanwhile, non-interest income of commercial banks dropped due to cancellation of fees

on financial transactions via digital channels and declining insurance premiums. Non-performing loans to total loans in this quarter was stable from the end of the prior quarter owing to the close monitoring of debts and a proactive approach in asset quality management adopted by commercial banks.

As of the end of the second quarter of 2018, net loans at 14 domestically-registered commercial banks grew 5.02 percent over-year, accelerating from the growth of 4.6 percent at the end of 2018. Meanwhile, deposits grew 5.78 percent, compared to the same period of 2017.

For the outlook of commercial banks during the remainder of 2018, loans are likely to see ongoing growth, buoyed by an expected overall economic rebound. However, non-interest income may remain under pressure from gradual impacts of reduced fees on online transactions. Commercial banks will also have to contend with the implementation of the Basel III capital requirements in 2019 and the International Financial Reporting Standards (IFRS9) going forward. All of these factors may affect business adjustments of commercial banks in terms of provisioning expenses, risk calculation, capital maintenance and their overall business operations. Other challenges also lie in the fast-changing technology which will provide consumers with increased alternatives in conducting financial transactions.

1.3 Regulatory Changes

Significant regulatory changes in the second quarter of 2018 that may have affected KBank's and K Companies' business operations included:

- **The Emergency Decree on Digital Asset Businesses, B.E. 2561 (2018), and Emergency Decree on Amendment to the Revenue Code (No. 19) B.E. 2561 (2018)**

These two acts of legislation stipulate that the Minister of Finance is in charge of the enforcement of these laws, while the Securities and Exchange Commission is empowered to establish policies, criteria and supervision of digital assets and digital asset business operators for the purpose of using these assets as legitimate fund-raising instruments and protecting investors from fraud and embezzlement, as well as preventing the exploitation of digital assets to facilitate illegal transactions. The two laws, coming into effect May 14, 2018, contain salient points as follows.

1. **Definition of digital assets:** Digital assets shall include cryptocurrencies (an electronic data unit created for the purpose of being a medium of exchange) and digital tokens (an electronic data unit used for the purpose of participating in an investment in any project/business, or acquiring specific goods/services/any other specific rights). Securities per the Securities and Exchange Act which are in the form of an electronic data unit shall not be regarded as cryptocurrencies or digital tokens.
2. **Criteria for the offering of newly issued digital tokens to the public:** The public offering of newly issued digital tokens shall be conducted by the issuer which is a limited company or public limited company only. The issuer shall submit a registration statement and draft

prospectus to obtain approval from the Office of the Securities and Exchange Commission. Digital tokens may only be offered to investors of the types and conditions specified by the Securities and Exchange Commission, and offered through the Initial Coin Offering Portal. After the completion of an offering, the issuer of digital tokens is required to prepare and submit reports to the Office of the Securities and Exchange Commission with regard to their operating performance and financial position.

3. **Criteria for digital asset businesses:** Digital asset businesses are categorized into three types: (1) Digital Asset Exchange; (2) Digital Asset Broker; and (3) Digital Asset Dealer. Those who intend to operate a digital asset business shall be approved by the Minister of Finance. Digital asset businesses operating before these two laws became effective which intend to continue operations must file an application for approval within 90 days of the effective date of these statutes. Approval shall be granted to existing digital asset business operators who have complied with regulations stipulated by the Securities and Exchange Commission.
4. **Criteria for personal income tax collection:** An income payer shall be responsible for deducting a 15-percent withholding tax from taxable income which shall include (1) a share of profit or any other benefits of the same characteristics derived from the holding or having possession of digital tokens; (2) capital gains from the transfer of cryptocurrencies and digital tokens.

KBank shall perform in accordance with the Bank of Thailand's circular Ref. No. BOT.ForNorSor.(23)c.276/2561 Re: Request for Cooperation from Financial Institutions to Refrain from Making or Being Involved with Cryptocurrency Transactions, dated February 12, 2018. The Bank of Thailand and the Office of the Securities and Exchange Commission are now in the process of issuing the notification on digital asset business operation to be consistent with these two laws. In the meantime, KBank, as a regulated financial institution, is awaiting the clarification of the forthcoming Bank of Thailand's notification in order to perform in compliance with the mandatory guidelines.

- **Corporate Governance Criteria for Financial Institutions**

The Bank of Thailand issued Notification of the BOT No. SorNorSor.10/2561(2018) Re: Corporate Governance of Financial Institutions; and SorNorSor. 11/2561 (2018) Re: Criteria for Approval of the Appointment of Directors, Managers, Persons with Managing Authority or Financial Advisors, both of which came into effect June 23, 2018. Salient points of the notifications can be summarized as follows.

1. Directors and senior management are required to dedicate their time and ability to the full performance of their duties. For instance, each director shall take part in submitting inquiries and expressing beneficial opinions in a meeting, to the best of their abilities; senior management shall not serve as full-time employees at other organizations, and shall supervise risks and uphold good corporate governance principles, among others.

2. Independent directors are required to hold the position for no more than nine consecutive years, and there must be at least one director with IT knowledge or experience, while a Risk Supervision Committee must be established to provide assistance to the Board of Directors with regard to risk supervision.

3. Approval of the highest ranking management must be sought from the Bank of Thailand every four years.

4. Disclosure of additional corporate governance information is required, such as information on significant fine payment made to the Bank of Thailand, the Office of the Securities and Exchange Commission and the Office of Insurance Commission.

KBank has made preparations to comply with these new regulations.

- **Criteria Related to Recovery Plan for Enhanced Stability and Problem-Solving**

The Bank of Thailand issued Notification of the BOT No. SorNorSor. 16/2561 (2018) Re: Commercial Banks Required to Prepare Recovery Plan for Enhanced Stability and Problem-Solving, effective June 23, 2018, which contains the following major points.

1. Banks are required to establish a recovery plan for enhanced stability and problem-solving as a mechanism for dealing with potential financial crises in a systematic manner. Such plan must appropriately take into account the characteristics and complexity of structures and business operations of its particular bank and its financial conglomerate, transaction volume and related risks and must be reviewed at least once a year and upon any significant change. In addition, close monitoring is required, and the preparation and review of the plan must be reported to the Board of Directors or the committee that is responsible for the task.

2. The recovery plan must be submitted to the Bank of Thailand within 30 days of its approval by the Board of Directors, which must be within June every year. The first submission will be made in June 2019.

KBank is now preparing relevant procedures to accommodate these criteria, which are expected to be completed within the timeline required by the Bank of Thailand.

2. Risk Management and Risk Factors

2.1 Credit Risk Management

The Thai economy in the second quarter of 2018 is expected to have gained further traction from the first quarter. The economic rebound was mainly driven by exports and tourism, whereas domestic spending and investment only gradually picked up. Even then, such growth remained uneven; improvement was seen only in certain businesses and in some areas. On the downside, however, trade policy uncertainty, in particular, protectionist measures of core economies, bullish interest rates and impacts of digital disruption, may adversely affect income and operating costs of certain businesses.

Under these circumstances, KBank put in place more stringent customer approval criteria for commercial lending policies towards small and micro businesses, focusing on area-based strategies amid the uneven economic recovery. We also prioritize risk assessment through prudent screening and close monitoring of borrowers. At the same time, KBank has focused mainly on borrowers with good track records, as well as existing low-risk customers. Overall, we always provide support to commercial loans and lending for energy efficiency as well as the harnessing of clean energy in place of fossil fuels, based on sound corporate governance practices.

2.2 Market Risk Management

Overall, movements in foreign exchange and interest rates at home and abroad remained highly volatile during this quarter. At the end of the quarter, the Thai Baht weakened in line with other regional currencies due to concern over the looming trade war between the US and China. Meanwhile, the Monetary Policy Committee (MPC) resolved to keep the key policy rate unchanged at 1.50 percent, though this was the first time in 22 meetings that the vote was split, prompting the market to be anxious that a policy rate hike may occur relatively soon. Meanwhile, US 10-year bond yields rose above 3.0 percent for the first time in four years, in line with brighter US leading indicators. As a result, Thai bonds – especially short-term ones – recorded net sales, thus leading to capital outflows from the Thai market.

Given the healthy Thai economic fundamentals, as evidenced by revived economic activity, a rising inflation rate and current account surplus, however, Thailand may experience the return of capital inflows, which may cause the Thai Baht to resume its appreciation.

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

2.3 Liquidity Risk Management

Overall liquidity in the Thai banking system was stable. Loans and deposits rose as most banks focused mainly on management of deposits, which must be kept at levels appropriate for loan demand, while raising the proportion of low-cost deposits in savings and current accounts for the highest efficiency in cost management.

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

2.4 Cyber Risk Management

KBank always prioritizes cyber threat and digital risk management. To cope with severe and significantly complex digital risk and cybersecurity challenges, we have established a Digital-Oriented Risk and Cyber Security Risk Management Framework in alignment with the strategy of maintaining our leadership in digital banking services. We have assessed risk management and status, and set the risk target and 2018 Cyber Risk Management Roadmap for enhanced efficiency in work process, control and systematic risk management in sync with related international standards, in accordance with the Bank of Thailand's policies and best practices.

Overall, KBank's digital risk management in the second quarter of 2018 showed that criteria for digital risk monitoring remained within the pre-defined threshold, and there was no cyber incident which had significant impacts on our business operation. Meanwhile, KBank has placed our focus on upgrade of digital risk management capabilities along with continual monitoring of developments, to be in line with KBank's objectives and the overall work plan which involves six-pronged cyber capabilities i.e., effective risk identification, advanced cyber threat prevention, real-time data protection, proactive situation awareness and detection, effective incident response and crisis management, cyber security capabilities and risk-aware culture.

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

KBank has made sustainable development a core principle of business operations not only to mitigate risks that may affect our business undertakings, but also to brace for unpredictable, emerging risks and to create for ourselves new business opportunities with the aim of delivering excellent products and services surpassing basic needs and expectations of all stakeholders over the long-term.

In recognition of our firm adherence to sustainable development practices, KBank, in the second quarter of 2018, was selected for the Thailand Sustainability Investment (THSI) List for 2018 by the Stock Exchange of Thailand, and is one of 45 companies to be included in the SET THSI Index – which was first launched in Thailand. KBank was also named one of the top 100 publicly listed companies (ESG 100) that are most outstanding in Environmental, Social and Governance (ESG) performance, by the Thaipat Institute, out of a total of 683 listed firms. All of these accolades show that KBank has gained recognition for its exceptional performance in terms of environmental, social and governance aspects, its strong financial position, and its commitment to meeting the demands of all stakeholders.

KBank strongly believes that good corporate governance is essential for sustainable business operations. Aside from creating confidence among all shareholders and stakeholders, it is instrumental in making KBank a Bank of Sustainability. In the second quarter of 2018, KBank organized CG promotional activities focusing on CG-based performance of duties. These included orientation sessions held on good corporate governance and government regulations for new directors, a lecture on Governance, Risk Management and Compliance (GRC) for executives, training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via the KBank e-Learning system on a continual basis, and communicating to employees the Anti-Corruption Policy and informing them of communication channels for accepting information, suggestions or complaints via internal electronic network and closed-circuit TV systems. We also provided recommendations on compliance with the Statement of Corporate Governance Principles and best practices to departments within KBank and K Companies, as well as inviting external organizations to undertake KBank corporate governance assessment.

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

The Thai economy in the second quarter of 2018 gained further traction from the first quarter. The ongoing economic rebound was mainly driven by exports and tourism, whereas domestic spending and investment only gradually picked up. Still, the economy has yet to see strong across-the-board growth. Meanwhile, the business sector remained challenged by new modes of competition, the borderless marketplace of the ASEAN Economic Community (AEC), and the advancing digital age amid the rapid

pace of technological advancement. Given the increased degree of uncertainty in global economies and trade policies, especially pressure from a looming trade war between the US and China, businesses may have to contend with Thai Baht volatility and rising interest rate trends.

Other factors which may affect banking business operations include changing customer behavior amid new technologies, regulatory changes and heightened competition from other financial institutions and non-bank players. In order to strengthen customer engagement through digital channels and reinforce our digital banking leadership in support of the national policy of making Thailand a cashless society, KBank, in the second quarter of 2018, launched a “No Fees” campaign for funds transfer, top-up and bill payment transactions made via our four digital banking channels, i.e., K PLUS, K PLUS SME, K-Cyber and K-Cyber SME; these are the most sought-after services among our retail and SME customers - now surpassing 15 million. The number of digital transactions is therefore expected to grow steadily, thus slashing our cash management costs over the long-term, which will in turn help reduce costs within the economic system.

Within this context, KBank and K Companies accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our long-term market leadership. Guided by our core strategies of “Customer Centricity”, KBank has decided to extend 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. We thus place emphasis on leveraging our strength as the number-one digital banking service provider to offer products and services “Beyond Banking”, stay relevant to “Everyone, Every Day, Every Way and Everywhere”, and strengthen customers’ perception towards KBank as an “Embedded Trust” agent in order to deliver an excellent customer experience. We will collaborate with our partners, cross-industry and cross-border, to create ecosystem partnerships under the “KASIKORNBANK and Beyond” concept. All of these endeavors aim to understand and anticipate each individual customer’s needs under the “Segment of One” concept, and to provide smart, personalized financial and life solutions to the right customer at the right time, with ever-greater consideration of consumer protection and customer privacy, taking into account the changing customer expectations.

Beyond the above strategies, we focus on predictive risk management 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 the second quarter of 2018, KBank and K Companies focused mainly on strengthening our customers' business and financial standing, as well as supporting their growth and opportunities, led by the government's economic stimulus measures and other factors. Guided by the core strategy of "Customer Centricity", we continued to place our focus on making KBank our Customers' Main Bank. We have therefore developed our business in various dimensions – from eight customer segments to product domains and multiple service channels – so that customers' financial service needs are efficiently met by our solutions. These undertakings helped us to achieve our business goals, while also appropriately maintaining asset quality. Major initiatives in this quarter are as follows.

- **Multi-Corporate Business**

Prioritizing customer needs in the digital age, KBank has developed numerous financial innovations in support of the drive towards a cashless society for service efficiency enhancement and reduced costs. Of note was the QR code payment acceptance service via Electronic Data Capture (EDC) catered to businesses with a high volume of daily cash transactions such as hospitals, beauty salons, hotels, restaurants, convenience stores, department stores, gold shops, car dealers, airlines, piers, universities and insurance companies.

Moreover, we have exploited our technological expertise gained in developing the K PLUS application – now trusted by 8.4 million users – to innovate via an e-Wallet application as an added e-payment channel for our Multi-Corporate Business clients.

- **Large Corporate Business**

KBank emphasizes the importance of enhancing our employees' knowledge and understanding of business formats and customer needs. This is to ensure that they are able to introduce financial products and services to be better suited to demand in the 4.0 era while also bolstering business competitiveness to brace for future change. Evidently, various universities which are our customers have well adapted to the changing business environment. As technology enters every aspect of our lives, it has been embraced and applied to match students' lifestyles. Notable endeavors include the launch of an application for enhanced learning efficiency and support of cashless transactions among on-campus shops and surrounding areas. Furthermore, KBank held a training session to provide students with knowledge on startup businesses in order to broaden their perspectives, which may encourage their future innovations.

- **Medium Business**

KBank prioritizes development of financial innovations and application of data in analyzing and planning of work to assist our clients in a more efficient and timely manner. Focus has also been placed on analysis of data on both income and expenditure of trade partners with the aim of expanding the customer

base within value chains, especially businesses with brighter growth prospects, namely construction, automobiles and parts, electronics and consumer goods.

We also offer our clients total solutions which include loan support, efficient cash management system, advisory service and in-depth knowledge from our relationship managers (RMs) to encourage them to apply innovations and digital tools to their business undertakings, as well as ongoing seminars organized for various businesses to give them business management know-how. These initiatives are intended to fully meet their business needs for sustainable growth.

■ **Small and Micro Business**

We emphasize application of data in loan underwriting, especially through our SME Business Sales Agents and digital channels. As a breakthrough in lending, KBank has employed machine learning techniques to offer loan to our SME customers via mobile phone. A smart model has been created for analysis of customer data in terms of financial behaviors and lifestyles to facilitate our clients in gaining access to loan anytime as desired. The machine lending product grants a credit limit of up to Baht 1 million with no collateral or documentation required. Upon approval, the loan is credited to the borrower's account immediately.

To bolster our customers' competitiveness, KBank has worked with tech startups and experts in various fields in organizing "K SME Good to Great", a seminar-cum-workshop for restaurants, retailers and apartments. The event featured a workshop and advisory service entailing production process, product development and business networking with KBank partners, as well as advice on the use of various technologies such as point-of-sale (POS) systems as a management tool for enhancement of business efficiency.

For card accepting merchant business, KBank launched a PR campaign to broaden the K PLUS SHOP customer base via mobile phone. One notable endeavor was development of a Social Payment feature on the K PLUS SHOP application, which enables payment via QR code and automatically sends a payment status alert to merchants, while also accepting payment from Alipay and WeChat to accommodate Chinese tourists.

■ **High Net Worth Individual**

KBank teamed up with Muang Thai Life Assurance PCL to launch "The Ultimate Endowment 15/1" as an alternative tool for our customers in their asset management and transfer to successors. Popular among international private banks, this type of product guarantees the full amount of savings upon maturity plus tax-free return of not less than 1.85 percent per year while also offering life insurance coverage of 110 percent on premium paid throughout the contract term. Investors may gain higher returns in line with the US stock and debt markets.

Moreover, our cooperative efforts with various partners are ongoing. Of note was “UGG: Global Long-term Growth Opportunity among Innovative Economies”, an event jointly held with One Asset Management Co., Ltd. to equip our customers with knowledge about investment in international markets. We also collaborated with Lombard Odier to organize “Navigating the World in Transition”, wherein the private bank’s leading economists imparted knowledge at the international level to participants, and the session was broadcast live via digital channels for customers who could not personally attend the event. Meanwhile, the fourth training course designed specifically for our private bankers was held at Lombard Odier’s head office in Switzerland, as part of our effort to develop our personnel.

■ **Affluent**

KBank continued to place our focus on becoming our Customers’ Main Bank. We prioritized portfolio quality improvement in a comprehensive manner via collaboration of relevant divisions, branches and relationship managers (RMs). Along with this, “Big Data” has been processed and analyzed for developing products, services and privileges that better meet each sub-segment’s specific needs for enhanced efficiency in personal financial planning services and advice for other financial products such as business loans, home loans for large clients, electronic data capture (EDC) service including its installation and fees, K-Payroll Benefits as well as business opportunities that meet their needs.

In the second quarter of 2018, KBank introduced special programs for deposit and investment products, a life insurance plus saving plan and a health insurance rider – the Elite Health Plus – which caters to our customers and their family members, with medical coverage of as high as Baht 100 million. We also teamed up with KASIKORN ASSET MANAGEMENT CO., LTD. to launch mutual funds focusing on asset allocation that are suited to different circumstances and time periods to minimize risk from market volatility. Of note were the K Complex Return 3YA Fund Not For Retail Investor (KCR3YA-UI) and K Special Fixed Income 6MA Fund Not for Retail Investor (KSF6MA-UI), both of which invest in debt instruments and/or deposits within Thailand or abroad which may be non-investment grade or unrated.

We are elevating THE WISDOM brand along with maintaining our leadership status. Our customers were delivered exclusive privileges via services at branches and other channels, including special activities. Of note were “The Symbol of Your Journey”, an exclusive trip to pay homage to the Triple Gem of Buddhism at monasteries, the “Happening Holiday Season by PAÑPURI”, and a gift of THE WISDOM 10th Anniversary Amenity Travel Set to our THE WISDOM clients, for their enjoyment during long holidays.

■ **Middle Income**

Aiming to establish “THE PREMIER” brand as the brand of millennial customers whose investments range from Baht 2-10 million, KBank, in this quarter, held THE PREMIER Advisory activities to provide knowledge and in-depth information on real estate investment. Meanwhile, we continue with our

aspiration to become “Customers’ Life Platform of Choice” - the most-preferred platform that can meet customers’ needs in every aspect of their lives. Notable initiatives were the debut of Pay with K PLUS to facilitate our customers in purchasing goods or services via Facebook, and PR campaigns for the Request to Pay service, which provides alerts when a transaction is conducted via the K PLUS application, as well as ongoing promotional campaigns to promote QR code payment.

We also launched a life insurance product for customers seeking to save money for children’s future under Life Insurance: Endowment 1020 which offers an annual cash benefit of three percent plus health insurance for children. Regarding loan products, KBank prioritizes customer screening per our prudent credit policy in order to maintain overall portfolio quality. In parallel with this, we focused on promotional campaigns for K-Home Loan, K-Credit Card and K-Express Cash to achieve the loan target. We also conducted PR campaigns for loan projects via ATM screen, KBank website and other digital channels such as KBank Live and QR Code. Another notable initiative was the offering of personal loan via K PLUS application under the Machine Lending Program for KASIKORNBANK Personal Loans, wherein technology allows an instant credit check. Via this online channel, KBank Payroll customers receive a loan offer and give e-Consent, and their account is credited immediately after loan approval.

■ Mass

Guided by a strategy of upgrading customers with the potential to become Middle Income clients, KBank remains committed to acquiring new customers, especially via Thailand’s leading companies. To this end, customers were offered numerous benefits for loans, deposits, investment and other lifestyle privileges via the K-Payroll Benefits program. Meanwhile, we placed our focus on universities to strengthen relationships with their personnel, in order to attract them to use KBank as their main bank. KBank took part in the launch of pilot projects designed for the development and upgrading of education quality, especially the promotion of technology-related skills. Of note was a cooperative effort with the National Innovation Agency (Public Organization) in a project to promote the creation of startups within institutions of higher education. Moreover, KBank has continuously encouraged our customers to use electronic services and conduct transactions via electronic channels, especially the K PLUS application, along with the introduction of new designs of character cards to promote the application for debit card via mobile phone and spur greater card spending.

3.4 Service Channels

In the second quarter of 2018, KBank maintained our commitment to developing efficiency in all our core service channels, in order to raise our capacity to reach our customers and deliver them excellent service.

(1) **Branch Network:** Key initiatives for branch network management in the second quarter of 2018 included:

- **Domestic branch network:** Our focus was on enhancement of service efficiency and our sales and service quality in alignment with changing consumer behavior, as evidenced by the increased use of digital banking transaction, instead of visits to bank branches. We therefore continued to consolidate branches with relatively low traffic and to expand service channels at viable locations, especially in provinces outside Bangkok, including the opening of a mini branch in a BaNANAStore – our partner which is a large IT retailer. The number of branches available is now sufficient to meet demands of customers in all areas.

Meanwhile, we took into account the appropriate management of foreign exchange booths, especially in viable areas; more foreign exchange booths were therefore opened in airports and at major tourist attractions. KBank also initiated a promotional campaign to promote the use of K-Credit Card for purchase of foreign currencies, and payment can be made under a four-month installment plan with no fee or interest charged.

- **International branch network:** In adherence to our strategy of becoming “The Bank of AEC+3”, we remained committed to expanding our business network and upgrading services within the region in response to customers seeking to venture into other Asian countries. As our foreign bank branch in the People’s Republic of China has been approved to be a locally incorporated institution (LII) under the name KASIKORNBANK (CHINA) COMPANY LIMITED, we now plan to seek approval from the Chinese authorities for operating additional businesses to allow us to offer full-scale services to customers.

Branches and Financial Service Offices/Centers

Domestic Service Network	Number of Locations		Overseas Service Network	Number of Locations		
	Jun. 2018	Mar. 2018		Jun. 2018	Mar. 2018	
Branch Network ¹⁾	1,032	1,031	Branches and Overseas Service Network:	17	17	
Foreign Exchange Booth	144	149	Branches of Locally Incorporated Institution			
THE WISDOM	108	108	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2	
Corporate Business Center	0	0	KASIKORNBANK (CHINA) CO., LTD.	4	4	
SME Business Center ²⁾	121	121	Branches	3	3	
International Trade Service Center	58	58	Representative Offices	8	8	
Cheque Direct Service	33	33	Electronic Banking Services	Number of Units		
				Jun. 2018	Mar. 2018	
				Self-Service Channel (K-ATM and K-CDM)	11,806	11,868
				K-ATM (Automated Teller Machines)	9,191	9,270
				K-CDM (Cash Deposit Machines)	2,615	2,598
			K-PUM (Passbook Update Machines)	1,131	1,118	

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. Customers were also encouraged to conduct financial transactions at self-service machines. For greater convenience of our foreign clients, we had self-service machines installed with various languages available. At the same time, we prioritized machine management for broader service coverage to effectively meet the increased needs of customers, especially through installation of new machines, machine relocations to more appropriate and accessible sites, and removal of worn-out machines. Moreover, new PR campaigns of our business partners were conducted via ATM screen to offer the highest benefits to our clients.

- **Digital Banking Services:** To highlight our digital banking leadership, we focus on development of full-service digital innovations for the highest efficiency of financial transactions in line with changing consumer lifestyles. Notably, we have teamed up with our business partners to develop features and new payment channels, as part of our ongoing effort to promote more digital banking transactions following the announcement of the “No Fees” campaign for funds transfer, top up and bill payment transactions conducted via our digital channels. Major initiatives of our digital banking included:

- 1) **K PLUS:** The Pay with K PLUS service was debuted to enable payment in Facebook, where sellers are automatically provided an e-Slip for payment confirmation. A “Member Card” feature was added to the K PLUS application where customers can register to accumulate points earned from merchants. The new feature was first linked to the PTT Blue Card, which is equipped with a system for accumulating points in the form of e-Stamp when payment is made via QR code at participating K PLUS SHOP merchants.
- 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:** Focus has been on service quality enhancement through procedural improvement in three major areas, i.e., 1) Accessibility to ensure prompt service and efficient queue management; 2) Fulfillment for enhanced service responsiveness through systematic coaching of our K-Contact Center representatives; and 3) Effort to accommodate customer needs via the close monitoring of major processes for our clients.

We have also collaborated with National ITMX Company Limited, Thai Bankers’ Association, and the Bank of Thailand in an effort to implement a recovery plan in case of emergencies and crises that may arise from the Interbank Transaction Management and Exchange (ITMX). Criteria for severity levels have

been established in a concrete manner, including guidelines for crisis response, problem-solving, remedial action and communications, as well as appointment of crisis coordinators to respond to incidents and prepare for potential impacts, and to prevent any repetition.

3.5 Awards and Commendation

Through these efforts, KBank and K Companies have achieved good business performance, earning the recognition of various organizations at home and abroad, proven by many awards granted during the second quarter of 2018, notably:

Awards to KBank and K Companies
Awards to KBank
<ul style="list-style-type: none">● Best Cash Management Bank in Thailand from Alpha Southeast Asia magazine● Three awards from The Asset magazine: Best Service Provider-Cash Management for the second consecutive year, Best Service Provider- E-Solutions Partner, and Best in Treasury and Working Capital-LLCs● The Best Cash Management Bank in Thailand from The Asian Banker journal● Best DCM House in Thailand from FinanceAsia magazine● Five awards from Marketeer magazine: No. 1 Brand Thailand Awards 2017-2018 in the categories of Credit Card for five consecutive years, Bank Saving Account & Debit Card/ATM Card (two awards) for three consecutive years, and Mobile Banking & Internet Banking (two awards) which was surveyed for the first year● Two awards for K PLUS film advertising “Friendshi(t)p” from D&AD (Design and Art Direction): Graphite Pencil in the category of Film Advertising Crafts/ Direction for Film Advertising/ 2018 and Wood Pencil in the category of Branded Content Entertainment/ Fiction Film 5-30 mins/ 2018● Selected for inclusion in the Thailand Sustainability Investment (THSI) List for 2018, and the SET THSI Index – which was first launched by the Stock Exchange of Thailand.● Named one of the top listed companies that are most outstanding in Environmental, Social and Governance (ESG) performance for 2018, by the Thaipat Institute
Awards to K Companies
<ul style="list-style-type: none">● No.1 Brand Thailand Award 2017-2018 in the category of Mutual Fund, from Marketeer magazine, for the fifth consecutive year

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for the second quarter of 2018 totaled Baht 10,917 million, slightly increasing Baht 151 million or 1.40 percent over-quarter. Operating profit before provision expense and income tax expense also increased Baht 1,110 million, or 4.86 percent, over-quarter, due largely to an increase of Baht 1,796 million or 4.63 percent in net total operating income. Meanwhile, other operating expenses increased Baht 686 million, or 4.29 percent. However, the growth in expenses was less pronounced than that of net total income. Our cost to income ratio therefore dropped slightly from the previous quarter to 41.07 percent, which was better than the set target.

Net operating income increased Baht 1,796 million or 4.63 percent over-quarter. Non-interest income rose Baht 1,125 million or 7.45 percent, derived mainly from one time revenue from capital market products as a result of one time sales of securities, net insurance premiums and dividend income. Meanwhile, net fees and service income decreased due to a waiver of fee on funds transfer via digital channels. Net interest income increased Baht 671 million, or 2.83 percent. Net interest margin (NIM) was equal to 3.39 percent, slightly higher than the previous quarter, and still within the set target of 3.2-3.4 percent.

Operating Performance for the Second Quarter of 2018

(Unit: Million Baht)

	Q2-2018	Q1-2018	Change		Q2-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	24,367	23,696	671	2.83	23,343	1,024	4.38
Non-Interest Income	16,237	15,112	1,125	7.45	15,967	270	1.69
Total Operating Income - net	40,604	38,808	1,796	4.63	39,310	1,294	3.29
Total Other Operating Expenses	16,675	15,989	686	4.29	15,851	824	5.20
Impairment Loss on Loans and Debt							
Securities	7,995	7,819	176	2.26	10,626	(2,631)	(24.76)
Net Profit (attributable to equity							
holders of KBank)	10,917	10,766	151	1.40	8,986	1,931	21.49
Basic Earnings per Share (Baht)	4.56	4.50	0.06	1.40	3.75	0.81	21.49

When compared to the same quarter of the previous year, an increase of Baht 1,931 million in our consolidated net profit, or 21.49 percent, was due to a decrease of Baht 2,631 million or 24.76 percent in impairment loss on loans and debt securities. Operating profit before provision expense and income tax expense rose Baht 470 million or 2.00 percent, over the same quarter of previous year, due to an increase of Baht 1,024 million or 4.38 percent in net interest income which was derived mainly from interest income from loans and repurchase agreement transactions. Despite cancellation of fees via digital channels, non-

interest income rose Baht 270 million or 1.69 percent thanks to increased revenue from capital market products as a result of one time sales of securities and gains on trading and foreign exchange transactions. Other operating expenses rose Baht 824 million, or 5.20 percent, over the same period of previous year.

Major financial ratios that reflected operating performance of KBank and our subsidiaries in the second quarter of 2018 compared to the previous quarter and the same quarter of last year included:

(Unit: Percent)

Financial Ratio	Q2-2018	Q1-2018	Change	Q2-2017	Change
Return on Assets (ROA) ¹⁾	1.45	1.46	(0.01)	1.26	0.19
Return on Equity (ROE) ¹⁾	12.10	12.14	(0.04)	10.78	1.32
Net Interest Margin (NIM) ¹⁾	3.39	3.37	0.02	3.43	(0.04)
Non-Interest Income to Average Assets ¹⁾	2.16	2.05	0.11	2.24	(0.08)
Non-Interest Income Ratio	39.99	38.94	1.05	40.62	(0.63)
Cost to Income Ratio	41.07	41.20	(0.13)	40.32	0.75

¹⁾ Annualized

(Unit: Percent)

Financial Ratio	Jun. 30, 2018	Mar. 31, 2018	Change	Jun. 30, 2017	Change
Net NPLs to Total Loans	1.93	1.84	0.09	1.87	0.06
Gross NPLs to Total Loans	3.29	3.30	(0.01)	3.31	(0.02)
Coverage Ratio	150.08	149.72	0.36	141.17	8.91
Loans ²⁾ to Deposits Ratio	96.63	94.93	1.70	95.28	1.35
Capital Adequacy Ratio ³⁾	18.05	17.70	0.35	17.63	0.42
Tier 1 Capital Ratio ³⁾	15.57	15.41	0.16	15.25	0.32

²⁾ Loans = Loans to customers less deferred revenue

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

□ Net Interest Income

KBank's consolidated net interest income for the second quarter of 2018 was Baht 24,367 million, increasing Baht 671 million, or 2.83 percent over-quarter due mainly to higher interest income from loans as a result of increasing average loans, and higher interest income from investment in line with rising average investments. Our NIM for the second quarter of 2018, therefore, equaled 3.39 percent, slightly increasing from the previous quarter, and remained within the set target range of 3.2-3.4 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 1,024 million, or 4.38 percent, due largely to higher interest income from loans and repurchase agreement transactions. However, our NIM in this quarter was lower than the same period of 2017.

(Unit: Million Baht)

	Q2-2018	Q1-2018	Change		Q2-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Interest Income							
Interbank and Money Market Items	1,975	2,026	(51)	(2.53)	1,601	374	23.35
Deposits	162	236	(74)	(31.48)	275	(113)	(41.08)
Loans without Repurchase Agreements	153	156	(3)	(2.00)	121	32	26.15
Repurchase Agreements	1,660	1,634	26	1.60	1,205	455	37.76
Investments	4,352	3,991	361	9.06	4,342	10	0.25
Trading Investments	67	60	7	12.40	67	-	1.06
Available-for-Sale Investments	570	402	168	41.83	868	(298)	(34.33)
Held-to-Maturity Investments	3,715	3,529	186	5.27	3,407	308	9.04
Loans	23,137	22,576	561	2.48	22,529	608	2.70
Finance leases	1,287	1,301	(14)	(1.07)	1,252	35	2.82
Others	4	3	1	7.06	3	1	13.37
Total Interest Income	30,755	29,897	858	2.87	29,727	1,028	3.46
Total Interest Expenses	6,388	6,201	187	3.01	6,384	4	0.07
Total Interest Income – net	24,367	23,696	671	2.83	23,343	1,024	4.38
Yield on Earning Assets (percent)	4.28	4.26		0.02	4.36		(0.08)
Cost of Fund (percent)	1.21	1.20		0.01	1.25		(0.04)
Net Interest Margin (NIM) (percent)	3.39	3.37		0.02	3.43		(0.04)

□ Non-Interest Income

For the second quarter of 2018, KBank's consolidated non-interest income totaled Baht 16,237 million, increasing Baht 1,125 million, or 7.45 percent over-quarter. The increase was due mainly to revenue from capital market products as a result of one time sales of securities, net insurance premiums and dividend income. Meanwhile, net fees and service income decreased due to cancellation of fees on funds transfer via digital channels and declining fee income from asset management business and brokerage fee from securities trading. In the second and first quarter of 2018, non-interest income ratio of KBank and our subsidiaries accounted for 39.99 percent and 38.94 percent, respectively. This was in alignment with KBank's target wherein non-interest income ratio would be around 40 percent of total income.

When compared to the same quarter of last year, consolidated non-interest income for the second quarter of 2018 increased Baht 270 million, or 1.69 percent due mainly to rising revenue from capital market products as a result of one time sales of securities, and gains on trading and foreign exchange transactions. Meanwhile, net fees and service income decreased 9.74 percent as a result of cancellation of fees on funds transfer via digital channels.

(Unit: Million Baht)

	Q2-2018	Q1-2018	Change		Q2-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Non-Interest Income							
Fees and Service Income	12,491	13,470	(979)	(7.27)	12,705	(214)	(1.69)
Fees and Service Expenses	3,271	2,911	360	12.37	2,490	781	31.34
Fees and Service Income - net	9,220	10,559	(1,339)	(12.68)	10,215	(995)	(9.74)
Gain on Trading and Foreign Exchange Transactions	2,675	2,155	520	24.10	2,209	466	21.10
Loss on Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	1	(1)	(612.60)
Gain on Investments	1,355	394	961	243.99	577	778	134.74
Share of Profit from Investments using Equity Method	26	(2)	28	1,140.36	32	(6)	(18.94)
Dividend Income	831	499	332	66.46	773	58	7.52
Net Premiums Earned	24,445	24,730	(285)	(1.15)	29,727	(5,282)	(17.77)
Other Operating Income	368	411	(43)	(10.30)	365	3	0.93
<u>Less</u> Underwriting Expenses	22,683	23,634	(951)	(4.02)	27,932	(5,249)	(18.79)
Total Non-Interest Income	16,237	15,112	1,125	7.45	15,967	270	1.69
Non-Interest Income to Average Assets (percent)	2.16	2.05		0.11	2.24		(0.08)
Non-Interest Income Ratio (percent)	39.99	38.94		1.05	40.62		(0.63)
Net Fee Income to Net Total Operating Income Ratio (percent)	22.71	27.21		(4.50)	25.99		(3.28)

□ Other Operating Expenses

KBank's consolidated other operating expenses for the second quarter of 2018 was Baht 16,675 million, rising Baht 686 million, or 4.29 percent over-quarter, which was derived mainly from rising premises and equipment expenses and other expenses. Our cost to income ratio was equal to 41.07 percent, down slightly from 41.20 percent in the previous quarter due largely to greater growth of income than that of expenses. The figure was better than the set target.

When compared to the same quarter of the previous year, other operating expenses increased by Baht 824 million, or 5.20 percent due in part to marketing and employee expenses which increased in line with salary hike. Our cost to income ratio of the second quarter of 2018 was thus higher than the 40.32 percent in the same quarter of last year.

(Unit: Million Baht)

	Q2-2018	Q1-2018	Change		Q2-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	7,677	7,768	(91)	(1.16)	7,462	215	2.88
Directors' Remuneration	85	17	68	401.13	83	2	2.41
Premises and Equipment Expenses	3,155	2,849	306	10.73	3,300	(145)	(4.39)
Taxes and Duties	1,231	1,208	23	1.89	1,130	101	8.94
Others	4,527	4,147	380	9.15	3,876	651	16.80
Total Other Operating Expenses	16,675	15,989	686	4.29	15,851	824	5.20
Cost to Income Ratio (percent)	41.07	41.20		(0.13)	40.32		0.75

□ Impairment Loss on Loans and Debt Securities

During the second quarter of 2018, KBank and our subsidiaries had Baht 7,995 million of impairment loss on loans and debt securities, an increase of Baht 176 million or 2.26 percent, over-quarter. However, this item declined from the same period of last year. Thus, our credit cost in the second quarter of 2018 stood at 1.74 percent, slightly higher than 1.72 percent in the previous quarter but lower than 2.46 percent in the same quarter of last year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q2-2018	Q1-2018	Change		Q2-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	7,995	7,819	176	2.26	10,626	(2,631)	(24.76)
Credit Cost (percent)	1.74	1.72		0.02	2.46		(0.72)

Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of June 30, 2018, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 108,730 million. This amount was equivalent to 289.90 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of June 30, 2018, KBank's consolidated NPLs stood at Baht 72,446 million, 3.29 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 70,451 million, 3.24 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2018	Mar. 31, 2018
Consolidated NPLs	72,446	71,106
Percent of total outstanding credit, including that of financial institutions	3.29	3.30
Bank-only NPLs	70,451	69,101
Percent of total outstanding credit, including that of financial institutions	3.24	3.25

Net Non-Performing Loans

As of June 30, 2018, KBank's consolidated net NPLs stood at Baht 41,895 million – 1.93 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 41,248 million – 1.92 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2018	Mar. 31, 2018
Consolidated net NPLs	41,895	39,088
Percent of total outstanding credit, including that of financial institutions	1.93	1.84
Bank-only net NPLs	41,248	38,457
Percent of total outstanding credit, including that of financial institutions	1.92	1.83

Debt Restructuring

As of June 30, 2018, KBank's consolidated restructured debts which incurred losses, totaled Baht 61,690 million, decreasing by Baht 1,126 million, or 1.79 percent when compared to the first quarter of 2017.

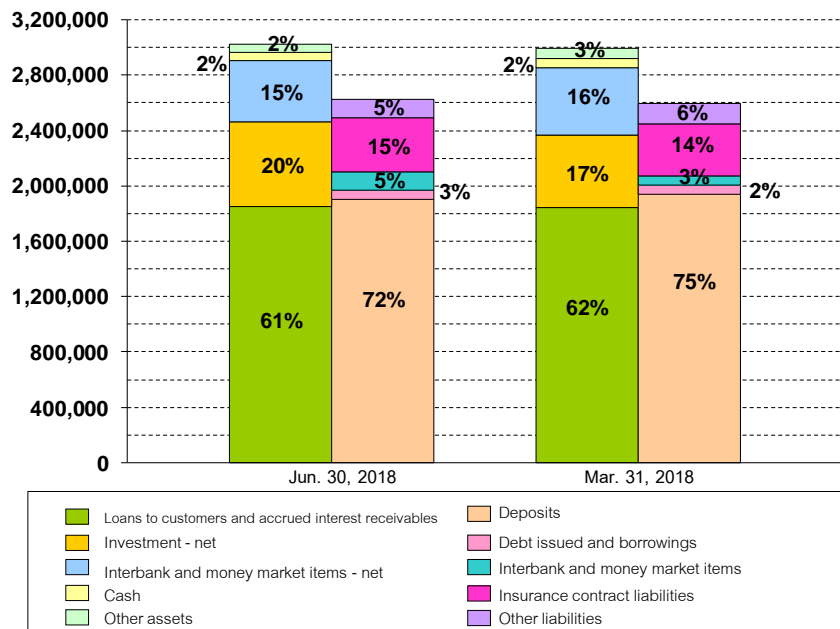
Foreclosed Properties

As of June 30, 2018, our consolidated foreclosed properties had a cost value of Baht 22,053 million, thus being 0.73 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,446 million, equivalent to 11.09 percent of the cost value of those foreclosed properties, which is believed to be sufficient to cover holding, maintenance and disposal expenses, as well as losses on liquidations.

4.2 Financial Position Analysis

Assets and Liabilities Structure

(Unit: Million Baht)

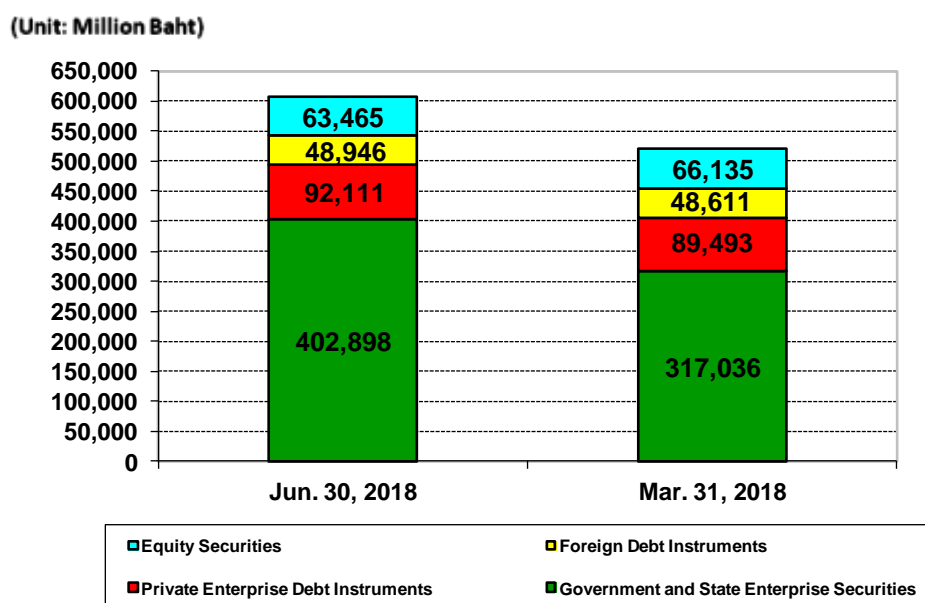


□ Assets

At the end of the second quarter of 2018, KBank's consolidated assets totaled Baht 3,025,197 million, increasing Baht 30,712 million or 1.03 percent from the end of the first quarter of 2018. The rise was due mainly to increase in net investment whereas net interbank and money market items (assets) and loans to customers decreased. In detail:

- Net investment totaled Baht 608,385 million, increasing by Baht 86,115 million or 16.49 percent from the previous quarter, due mainly to greater investment in government bonds
- Net interbank and money market items (assets) totaled Baht 443,228 million, decreasing Baht 44,524 million or 9.13 percent from the previous quarter, due mainly to KBank's liquidity management.
- Loans to customers (less deferred revenue) amounted to Baht 1,838,402 million, slightly decreasing Baht 1,490 million or 0.08 percent over-quarter. Our consolidated loans were the fourth-largest among Thai commercial banks.

Investments in Securities



□ Liabilities and Equity

Our consolidated liabilities, at the end of the second quarter of 2018, amounted to Baht 2,624,010 million, increasing Baht 30,280 million or 1.17 percent, from the end of the first quarter of 2018. The increase was mainly attributable to increase in interbank and money market items (liabilities) and insurance contract liabilities while deposits decreased. Significant changes in our consolidated liabilities included:

- Interbank and money market items (liabilities) equaled Baht 133,604 million, increasing Baht 66,520 million or 99.16 percent from the first quarter of 2018, due largely to an increase in borrowings per private repurchase transactions.
- Insurance contract liabilities were registered at Baht 389,953 million, up Baht 12,907 million or 3.42 percent from the previous quarter, in line with growth in life insurance business.
- Deposits totaled Baht 1,902,535 million, decreasing by Baht 35,636 million or 1.84 percent from the prior quarter. The decrease came mainly from savings deposit. KBank's deposits were the fourth-largest among Thai commercial banks.

At the end of this quarter, total equity attributable to equity holders of KBank amounted to Baht 361,247 million, increasing Baht 612 million or 0.17 percent from the previous quarter, driven largely by net operating profit for the second quarter of 2018, totaling Baht 10,917 million, despite payment of dividend of Baht 8,376 million derived from net profit of 2017 that was made in April 2018.

□ Relationship between Sources and Uses of Funds

As of June 30, 2018, the funding structure as shown in the consolidated financial statement comprised Baht 2,624,010 million in liabilities and Baht 401,187 million in total equity, resulting in a debt-to-

equity ratio of 6.54. The main source of funds on the liabilities side was deposits, which equaled Baht 1,902,535 million, or 62.89 percent of the total, as of June 30, 2018. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 4.42 percent and 2.25 percent of the total, respectively.

As of June 30, 2018, KBank's and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,838,402 million, resulting in loan-to-deposit ratio of 96.63 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, and investments in securities.

KBank and Subsidiaries' Major Sources and Uses of Funds

(Unit: Million Baht)

Period	Deposits				Loans			
	Jun. 30, 2018	Percent	Dec. 31, 2017	Percent	Jun. 30, 2018	Percent	Dec. 31, 2017	Percent
≤ 1 Year	1,879,198	98.77	1,858,490	98.93	814,602	44.31	786,318	43.61
> 1 - 5 Year	23,337	1.23	20,182	1.07	486,980	26.49	479,836	26.62
> 5 Year	-	-	-	-	536,820	29.20	536,629	29.77
Total	1,902,535	100.00	1,878,672	100.00	1,838,402	100.00	1,802,783	100.00

As of June 30, 2018, deposits with maturities of less than or equal to 1 year were larger than loans with remaining maturities of less than or equal to 1 year. This is considered normal for commercial banks in Thailand, as they normally fund their lending or investments in long-term assets from short-term liabilities. However, since most deposits are renewed upon maturity, it is considered likely that they will remain with KBank longer than their stated contractual term, thereby helping to support funding for KBank's lending.

4.3 Loans and Deposits

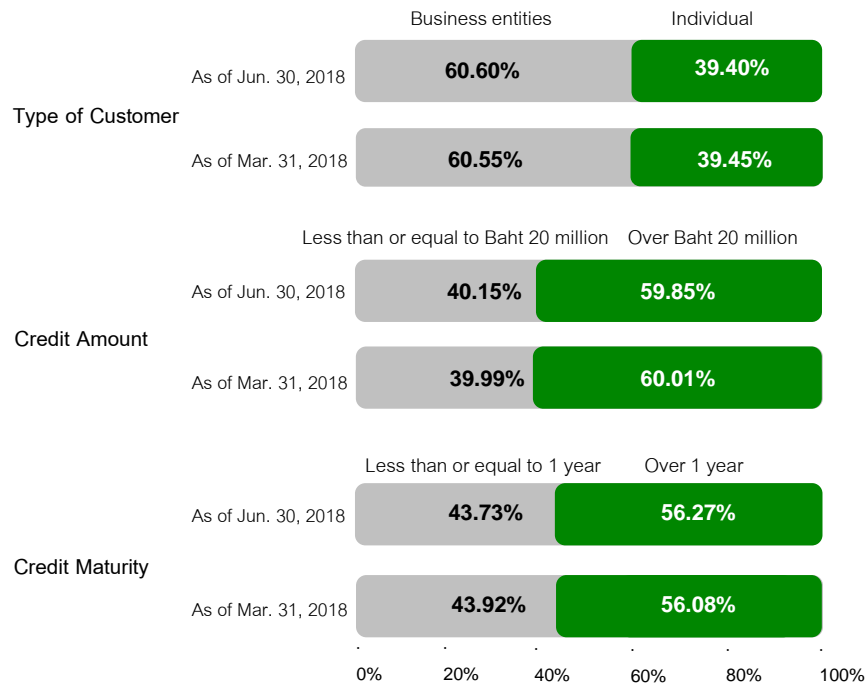
□ Loans

As of June 30, 2018, KBank's consolidated outstanding loans stood at Baht 1,838,402 million, decreasing by Baht 1,490 million, or 0.08 percent, compared to Baht 1,839,892 million as of March 31, 2018.

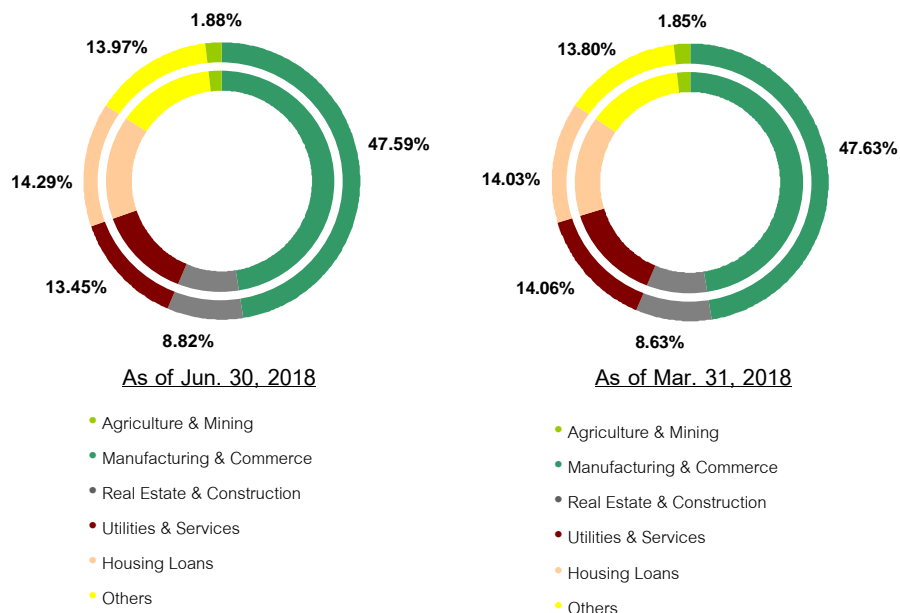
As of June 30, 2018, 60.60 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,074,805 million, or 59.85 percent of the total; 40.15 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 43.73 percent of our total loans.

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

(The Bank)



KBank's Consolidated Lending Portfolio

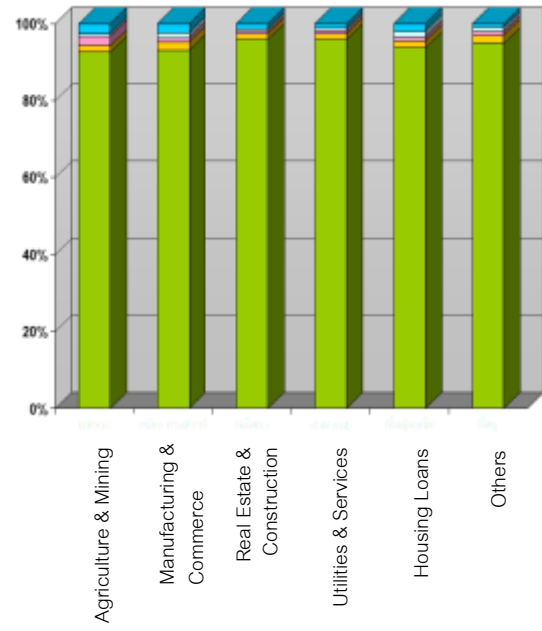
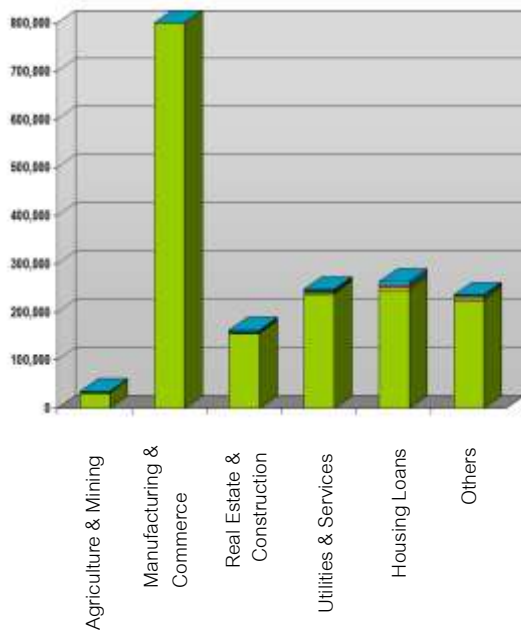


As of Jun. 30, 2018

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, 94.02 percent were classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 47.59 percent; of that 93.06 percent were classified as "Normal" loans.

Classified by Business

(Unit: Million Baht)

	Jun. 30, 2018		Mar. 31, 2018	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,306,864	447,411	1,314,782	441,874

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, letters of guarantee, trade finance solutions, syndicated loans, cash management solutions and value chain solutions.

²⁾ Retail Business refers to private individual customers using KBank products and services, e.g., deposit accounts, debit cards, credit cards, personal loans, housing loans, financial advisory services, investment products and other transactional services.

As of the end of the second quarter of 2018, our corporate business loans (corporate and SME customers) dropped slightly from the end of the first quarter in line with decreased SME loans due to loan repayment. Meanwhile, loans extended to corporate customers continued to rise, especially in retail and construction businesses, buoyed by brighter exports and investment in the government's infrastructure projects.

Meanwhile, retail loans grew slightly, in line with overall market conditions and the economy. We continued with a cautious growth policy so as to maintain our loan quality as well as our market leadership in major loan products. For home loans – our core product – KBank continued collaborative efforts with our business partners to launch special interest rate campaigns for our customers seeking to purchase new or custom-built homes, or to refinance their mortgage, along with marketing activities in strategic areas, as well as comprehensive home-related services via mobile banking application. At the same time, we prioritized campaigns aimed at promoting financial discipline among our K-Personal Loan and K-Express Cash customers, on a continual basis. Of late, personal loans have been offered via K PLUS application through the use of a machine learning program for analyzing customer data, which enables KBank to extend loans suited to their needs with greater convenience.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Jun. 30, 2018	Mar. 31, 2018	Million Baht	Percent
Total Deposits	100.00	1,902,535	1,938,171	(35,636)	(1.84)
Current accounts	5.46	103,940	104,311	(371)	(0.36)
Savings accounts	71.92	1,368,229	1,428,118	(59,889)	4.19
Fixed-term deposit accounts	22.62	430,366	405,742	24,624	6.07

During the second quarter of 2018, total deposits decreased from the previous quarter due to shifts of deposits by our state enterprise and business customers. However, deposits of our retail clients kept rising from the prior quarter. KBank has focused on the opening of K-eSavings Account via K PLUS and the launch of special fixed-term deposit products to meet the needs of customers seeking to save their money. In parallel, we offer other investment vehicles – especially a myriad of life insurance and mutual fund products yielding attractive returns with an acceptable risk appetite – as alternatives to matured fixed deposits.

4.4 Treasury Operations

□ Treasury Operations

During the second quarter of 2018, average overnight interbank lending rates were at 1.46 percent p.a. Those rates were influenced by the resolutions from the MPC meetings held on May 16 and June 20, 2018, wherein the key policy rate was kept at 1.50 percent p.a.

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 the second quarter of 2018, our liquidity position was appropriately managed and suited to changes in businesses and financial markets, and we were able to enhance returns on investments by using excess liquidity to invest in short-term Thai government bonds when market returns were on par with or higher than the policy rate, while reducing the holding of short-term bonds of which returns were lower than the policy rate. In addition, KBank invested in long-term Thai bonds when market returns were favorable.

Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q2-2018	Q1-2018	Change	
				Million Baht	Percent
Interest income¹⁾					
Interbank and money market items ²⁾	74.64	1,795	1,836	(41)	(2.29)
Investments	25.36	610	436	174	39.91
Total	100.00	2,405	2,272	133	5.85

Note: ¹⁾ Managerial figure

²⁾ Including loans

Total interest income for the second quarter of 2018 stood at Baht 2,405 million, increasing Baht 133 million, over the previous quarter due to portfolio adjustment by shifting interbank and money market items to investments to be consistent with the changing economic conditions.

□ Liquid Asset Ratio

KBank maintains average fortnightly current deposits at not lower than 1.00 percent of total deposits and certain types of borrowings in accordance with the Bank of Thailand's regulations. For the fortnight of June 30, 2018, our deposits at the Bank of Thailand and cash at cash center averaged Baht 26,645 million.

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

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

(Unit: Million Baht)

	Performance Measurement	First Half of 2018	First Half of 2017	2017
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management	1,312,048	1,255,372	1,302,686
	Market Share (Percent)	18.96	19.08	18.72
KASIKORN SECURITIES PCL (KSecurities)	Trading Volume	417,328	394,102	811,883
	Market Share (Percent)	2.98	3.87	3.71
KASIKORN LEASING CO., LTD. (KLeasing)	Outstanding Loans	100,126	92,993	97,055
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Outstanding Loans	18,498	16,628	17,633
Muang Thai Life Assurance PCL (MTL)	Net Premiums Earned	50,602	57,895	102,681
	Market Share (Percent)	16.19	19.45	17.06

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

During the first half of 2018, 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 fund business as gauged by assets under management in this category, with a market share of 20.22 percent. Total market share of assets under management (AUM) was 18.96 percent. The excellent performance benefited from its synergy with KBank, as well as product development to match consumers' needs. Notable efforts were the launch of K European Small Cap Equity Fund (K-EUSMALL) as an option for investors seeking to invest in small European stocks, and continual development of K-My Funds – an electronic service channel via mobile application that provides customers greater convenience when doing transactions, while also allowing us to more effectively communicate with them, especially in giving advice on investment to suit different risk appetites, plus a distinctive feature that clearly displays return on investment. To assist our 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, Fund Story – a newly-developed tool for searching fund data to help customers in their decision-making and keeping track of price movements and historical rates of return, as well as My Message, which enables increased efficiency in investment with updates of data, allowing customers to never miss any investment opportunity. Moreover, K-My PVD – another electronic service channel via mobile application – has been further developed to provide greater convenience for provident fund members 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; 2) KS Super Portfolio – a complete function for portfolio analysis and monitoring with portfolio adjustment advisory service; and 3) KS Stock Plus – a new application that keeps investors abreast of investment data for each individual stock, on a real-time basis, plus alerts on every movement. Through these endeavors, KSecurities has maintained its market leadership in the first half of 2018, with a market share of 2.98 percent.

KLeasing recorded growth of 7.67 percent in outstanding loans compared to the same period of 2017, in line with the country's domestic auto sales growth. KLeasing enjoyed solid new loan growth, which was derived mainly from K-Auto Finance (Dealer Floorplan). Asset quality remained healthy with an NPL ratio of 1.42 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, which specializes in equipment leasing, reported over-year loan growth of 11.25 percent, which was higher than the company's target. Loans were extended to diverse industries nationwide. The company focused on forging alliances with customers who are machinery dealers and those in new industries, including robotics and digital technologies. It has also been working with KBank RMs to achieve service excellence with a higher customer satisfaction level.

MTL retained its leading position in the life insurance business, with the number-two market share in total premiums at 16.19 percent. The company remained at the forefront in bancassurance, thanks to close cooperation with KBank in developing insurance plans that are in line with customers' demands.

4.6 Capital Requirements

As of the end of the second quarter of 2018, KBank, under the Basel III capital requirements, had capital funds of Baht 328,415 million, consisting of Baht 278,910 million in Tier-1 capital and Baht 49,505 million in Tier-2 capital. The capital adequacy ratio of KBank was 16.99 percent, above the Bank of Thailand's minimum requirement and conservative buffer of 10.375 percent. Details of the capital adequacy ratio of KBank are shown in the following table:

Capital Adequacy Ratio ¹⁾

- KASIKORNBANK FINANCIAL CONGLOMERATE ²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2018	Mar. 31, 2018	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017
Tier-1 Capital Ratio ³⁾	7.875	15.57	15.41	7.25	15.66	15.91	15.25
<i>Common Equity Tier-1 Ratio</i>	6.375	15.57	15.41	5.75	15.66	15.91	15.25
Tier-2 Capital Ratio	-	2.48	2.29	-	2.30	2.32	2.38
Capital Adequacy Ratio	10.375	18.05	17.70	9.75	17.96	18.23	17.63

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Jun. 30, 2018	Mar. 31, 2018	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017
Tier-1 Capital Ratio ³⁾	7.875	14.43	14.38	7.25	14.62	14.81	14.25
<i>Common Equity Tier-1 Ratio</i>	6.375	14.43	14.38	5.75	14.62	14.81	14.25
Tier-2 Capital Ratio	-	2.56	2.57	-	2.58	2.59	2.62
Capital Adequacy Ratio	10.375	16.99	16.95	9.75	17.20	17.40	16.87

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.

4.7 Credit Ratings

At the end of June 2018, the Bank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of March 2018.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings

Credit Ratings Agency	Jun. 30, 2018
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Moody's Investors Service ¹⁾

Foreign Currency

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

Domestic Currency

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

Standard & Poor's ¹⁾

Global Scale Ratings

Outlook	Stable
Long-term Counterparty Credit Rating	BBB+
Long-term Certificate of Deposit	BBB+
Short-term Counterparty Credit Rating	A-2
Short-term Certificate of Deposit	A-2
Senior Unsecured Notes (Foreign Currency)	BBB+

Fitch Ratings ¹⁾

International Credit Ratings (Foreign Currency)

Outlook	Stable
Long-term Issuer Default Rating	BBB+
Short-term Issuer Default Rating	F2
Senior Unsecured Notes	BBB+
Viability	bbb+
Support	2
Support Rating Floor	BBB-

National Credit Ratings

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

Note: ¹⁾ The base levels for investment grade on long-term credit ratings for Moody's Investors Service, Standard & Poor's, and Fitch Ratings are Baa3, BBB- and BBB-, respectively. For short-term credit ratings, the base levels for investment grade as viewed by these three agencies are P-3, A-3, and F3, respectively.

5. Operations of Support Groups

5.1 Human Resource Management

KBank has placed emphasis on human resource management to ensure greater efficiency in our human resource management operations in four key areas as follows.

1. Human Resource Management in Support of KBank Strategies of Becoming a Digital and Data-Driven Bank

In the second quarter of 2018, KBank upgraded data analytics-related units to be two departments under the Corporate Strategy Management Division: 1) Enterprise Data Analytics Department which is responsible for analyzing and processing data for every unit within KBank to meet diverse business needs, and 2) Digital Lending Department which handles the offering of loan products to customers via digital channels based on the data analysis.

Moreover, KBank has teamed up with SkillLane, a startup engaging in digital training platforms, to support our personnel in developing both their skills and potential via self-directed e-learning anywhere, anytime. The initiative is intended to equip more than 21,000 KBank employees organization-wide with enhanced knowledge and ability in a new work culture to brace for changes and drive our organization in the digital age.

To upgrade employees' ability in gaining access to data and working anywhere, anytime via the Digital Workplace program, KBank has communicated to executives about a new work tool and held activities related to change management within an organization through a training session on "Transformation with O365", organized for representatives of each department to ensure common knowledge and understanding on the use of O365, which would be further applied to their work.

2. Human Resource Management for Business Expansion within AEC+3

Our human resource management within AEC+3 has been designed to match our business directions in line with KBank strategies. We focus on development of policies, tools and human resource procedures, namely implementation of an onboarding program, development of a performance assessment system for enhanced work efficiency consistent with our business target and strategies, devising of an employee development plan based on job position, including the Individual Development Plan (IDP), as well as career path planning for a positive employee experience and enhancement of employee engagement among expatriates and local staff members starting with the first day at work. We also aim to bolster employee capabilities to ensure that they are well-prepared for performing their duties at present and in the future.

As support for our business operations as a locally incorporated institution (LII) in the People's Republic of China, KBank has fine-tuned our human resource management and development plan,

concentrating on creating a learning organization to bolster our readiness towards becoming a full-fledged digital bank. To this end, we have conducted digital learning platform development, internal management restructuring and improvement of human resource policy and procedures in harmony with KBank's goals.

3. Human Resource Management for KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG)

KBTG joined forces with both public and private sectors to bolster technological and personal capacities. Reinforcing our status as a digital transformation trailblazer as we move towards becoming a digital bank of the future, we organized activities to promote knowledge sharing with other organizations, especially public organizations. Major initiatives included:

- Organize a Digital University Forum to share technological expertise among high-level executives responsible for information-technology tasks of more than 17 Thai institutions of higher education.
- Join forces to provide training to students who won scholarships from the Institute for the Promotion of Teaching Science and Technology (IPST).
- Act as a judging committee member in an academic seminar on senior projects.
- Organize an Open House activity for faculties of science and technology of leading universities.
- Act as a major sponsor for Google I/O Extended Bangkok 2018 and Android Conference BKK 2018.
- Give lectures for technology seminars held by both the public and private sector.
- Organize K Talent Engagement and Networking in Seattle, San Francisco and South Bay (Silicon Valley), U.S.A., to discuss the visions of KBank and KBTG with tech talents and Thai students.

4. Other Human Resource Management Operations

- **Employee recruitment:** Emphasis is placed on recruitment of high-potential personnel and the implementation of KBank branding programs. Notable activities included a Career Day event to select credit analysts, branch customer care officers and foreign exchange officers. Moreover, we took part in job fairs and campus roadshows held by target universities to strengthen our relationship with lecturers and discuss the possibility of cooperative activities over the long-term, as well as our contribution to the design of practice-based curricula.
- **Employee development:** The K-Coaching Academy program was continually implemented to equip our executives with International Coaching Federation (ICF)-based coaching skills. Another initiative of note was the "Seniors Want to Coach – Juniors Want to Talk" program, wherein employees, especially talents were coached by department heads and First Executive Vice Presidents. Furthermore, we launched campaigns via various activities and media to promote a good coaching environment within the organization.

- **Positive employee experience and engagement:** Based on an employee engagement survey, we developed a plan to enhance employee engagement at the division and corporate-wide levels to promote a positive employee experience. A work plan at the corporate-wide level has been devised with the aim of applying digital technology to, and providing support of necessary resources for, the redesign of our work spaces as a smart workplace. Notable endeavors included meetings held via Skype, and arrangement of co-working space, among others. We are planning to provide shuttle bus service with pickup and drop-off points in the neighboring areas, where CCTV cameras are to be installed to ensure greater convenience and safety for our employees.
- **Organizational culture creation:** To strengthen relationships among executives at the Vice President level or executives of equivalent positions at KBank and K Companies, we organized activities in the theme of, “VP Retreat: K-Unity “Becoming Data Driven Bank”, held in continuation from last year, to promote creativity and collaboration – among KBank Core Values for these executives.
- **Employee relations and benefits:** The second Employees’ Committee meeting for 2018 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 efforts 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 labour 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 for economic, social and environmental sustainability under the “Green DNA” resolution:** KBank organized sustainability-based activities for secondary students in Nan province to equip them with financial knowledge to enhance their creativity and discipline, under the AFTERKLASS program. We continued to implement the “100,000 Chuamong Chuan Kan Tham Di Tham Dai (100,000 Volunteer Hours – Let’s Do Good Together)” project. Thanks to continuous efforts to encourage our staff to participate in this activity, our staff members have performed more than 52,558 hours of service this year.

5.2 IT Management

In the second quarter of 2018, 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's mobile banking platform consists of three major services as follows.

1. K PLUS: KBank's mobile banking application: Key initiatives are, i.e.,

- 1.1 Personal and SME loans are offered via Life PLUS on K PLUS application, with the use of artificial intelligence (AI) technology for analysis of target customers.

- 1.2 Pay with K PLUS feature has been added to Facebook Messenger to facilitate our customers in their payments. The new payment channel allows them to complete all payment steps via K PLUS without leaving the Facebook Messenger application, with no need to memorize account numbers, thus preventing accidental funds transfer to the wrong account. After the transaction is complete, an e-slip is automatically sent to the seller as a payment transaction confirmation.

- 1.3 K PLUS has been linked to the CU NEX application, which enables the issuance of a Chulalongkorn University student ID/debit card without the need to go to a KBank branch.

2. K PLUS SME: KBank's mobile banking application for SMEs: Customer behavior studies are now being conducted, and the results will be used in service improvement and new feature development

3. K PLUS SHOP: KBank's mobile banking application for merchants: A new function for the opening of K PLUS SHOP branches has been developed to accommodate individual merchants who own and operate a network of outlets. All financial transactions are settled via the principal account, and the issue of transaction reports can be viewed by every branch. There is also a function that allows merchants to generate their own QR code and to receive confirmation of payment transactions with a separate alert at each branch for less confusion upon receipt of payment; however, the merchant can view all transaction alerts of all outlets.

Meanwhile, K PLUS Lifestyle has provided greater privileges to K PLUS customers, especially special deals for quality goods of various categories, both for digital and physical products. We have also developed the system to accommodate a function that enables K PLUS SHOP merchants to offer products in the K PLUS Lifestyle feature.

- **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 – have worked together to develop the K PLUS Beacon application, which is designed specifically for the visually impaired, 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 meeting the security standards of K PLUS. The trial use period of K PLUS Beacon service has ended, and we are now preparing an application development plan before service roll-out.

- **Study and development of an Application Programming Interface (API) Manager system:** We have expanded the use of Open API through a collaborative effort with Facebook that enables links to Facebook-based merchants who can accept payment via K PLUS. Meanwhile, K PLUS SHOP's common API allows merchants to link to their trade partners so that they can generate QR codes of their own for accepting payment via mobile banking applications. Merchants can comprehensively broaden their network of partners to include point-of-sale (POS) system manufacturers, delivery companies and vending machine operators.

- **Development of technology to apply machine learning techniques to KBank businesses:** We employed machine learning techniques to offer personal loan via the K PLUS application. AI technology has been used to create a smart model for analysis of customer data in terms of financial behaviors and needs, and the loan is then offered to retail and SME clients via Life PLUS in the K PLUS application. To request this innovative loan, borrowers just follow three simple steps, i.e., 1) Choose the loan desired; 2) Get loan approval; and 3) Accept the approved loan by tapping a button on the mobile phone screen and the loan will be credited to their account immediately, with no collateral or documentation required.

- **Development of functions of blockchain to better respond to business needs:** The Hyperledger blockchain platform was further developed for a letter of guarantee issuance service, which is provided to our Multi-Corporate Business customers. We are now collecting information on the use of the service and customer needs to determine the standard of documentation on blockchain and thus ensure its common use and development with other commercial banks.

- **Development of Electronic Know-Your-Customer (National Digital Identity):** KBank, the Electronic Transactions Development Agency (Public Organization) 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 identity authentication. The system is expected to be used with online account opening on a trial basis in the third quarter of 2018.

Disclaimer

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

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