



Management Discussion and Analysis (MD&A)

For the Year Ending December 31, 2018

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary of Management Discussion and Analysis ¹

For the Year Ending December 31, 2018

In 2018, the overall Thai economy maintained its growth due largely to healthier growth of exports and tourism, especially in the first half of the year. Meanwhile, the government continued to implement measures to promote and strengthen the domestic economy through support of investment and private spending as well as bolstering opportunities for other economic sectors. Nonetheless, protectionism triggered by the US-China trade dispute dealt a blow to global economic activity, thus dampening Thai economic growth during the second half of the year. Other challenges included volatile foreign exchange movement and international capital flows as well as the rapid evolution of digital technology, which has shaped a new trend of consumption amid intensified borderless business competition via digital channel.

To brace for these numerous challenges, KBank prioritizes the leveraging of our strength as Thailand's number-one digital banking provider, with the aim of becoming the Customers' Life Platform of Choice under our core strategy of Customer Centricity for our business operation in 2018 and over the next five years in order to deliver an excellent customer experience. Meanwhile, we have upgraded our technological capability in order to act as a digital platform provider for both financial and non-financial services, as we continue to gear up for being "The Bank of AEC+3" along with being a Regional Digital Bank. We have established our business direction primarily by considering the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. Along with this, we have prioritized the enhancement of our business capabilities to achieve sustainable growth and maintain our market leadership over the long term through collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, Muang Thai Life Assurance Public Company Limited and our strategic partners.

Being aligned with our business strategies for 2018, KBank and subsidiaries thus reported Baht 38,459 million in net profit, increasing Baht 4,121 million or 12.00 percent compared to the year before. The increase was mainly due to a decrease of Baht 9,278 million or 22.19 percent in allowance for impairment loss on loans, in line with our improved asset quality. Moreover, net interest income rose Baht 4,377 million or 4.65 percent, which was derived mainly from interest income from both loans and investments. Non-interest income decreased Baht 5,750 million or 9.17 percent, due largely to cancellation of fees for funds transfer via digital channels, and decrease in net premiums earned - net, while revenue from money market product increased from foreign exchange transaction. Moreover, other operating expenses increased Baht 1,976 million or 2.98 percent over-year, due mainly to marketing expenses.

¹ In 2018 Annual Report, this item is shown under the topic, "Management Report".

Meanwhile, KBank's net interest margin (NIM) was 3.39 percent, which was within the set target, and cost-to-income ratio was also close to the target, at 43.96 percent. At the same time, our robust capital position was sufficient to cushion against risk, and greater than the Bank of Thailand's requirement. As evidenced, capital adequacy ratio (CAR) of KASIKORNBANK FINANCIAL CONGLOMERATE (the Conglomerate) according to the Basel III Accord was 18.32 percent, with a Tier 1 capital ratio of 15.90 percent.

The operating performance of the wholly-owned subsidiaries of KBank was also satisfactory in terms of quantity and quality due to the concerted efforts of all units involved. KASIKORN SECURITIES PCL has developed investment technologies plus varied functions in alignment with investor behavior in the digital era. KASIKORN ASSET MANAGEMENT CO., LTD. remained at the top of the mutual fund business. KASIKORN LEASING CO., LTD. saw satisfactory lending business volume in line with the overall domestic automotive industry while also maintaining healthy asset quality. Meanwhile, KASIKORN FACTORY & EQUIPMENT CO., LTD. enjoyed continually high loan growth. In addition, Muang Thai Life Assurance PCL retained its leadership in the bancassurance business, holding the second largest market share in total premiums.

To secure our status as a leading financial institution which can efficiently cope with potential economic uncertainties, KBank emphasizes predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, a risk-aware culture Bank-wide, as well as good corporate governance. All of the above endeavors and satisfactory operating performance, together with sound corporate governance, allowed KBank and K Companies to meet business targets as we gained wide acceptance and recognition at home and abroad, as reflected in the numerous awards we received in 2018.

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1. Overview of Operating Environment

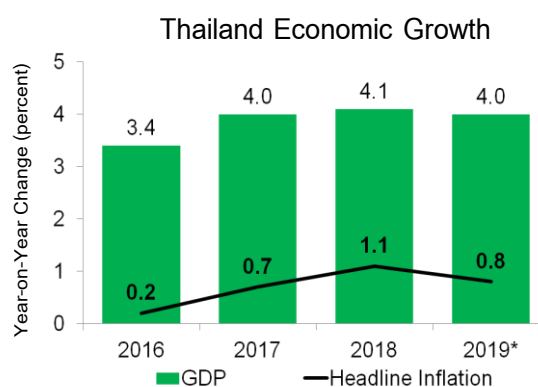
1.1 Global and Thai Economy in 2018 and Outlook for 2019

The global economy, especially China, several other Asian countries and those of the European Union, showed signs of a slowdown during the second half of 2018 primarily due to concerns about the US-China trade dispute. Despite of this, the World Economic Outlook of the International Monetary Fund maintained its global economic growth projection for 2018 at 3.7 percent, down only slightly from 3.8 percent in 2017. However, its growth projection for 2019 was revised downward to 3.5 percent, in line with slowing global trade volume and the risk of the UK leaving the EU without formal agreements. Meanwhile, developed and emerging market economies were projected to grow at 2.0 and 4.5 percent in 2019, respectively, down from 2018 projections of 2.3 and 4.6 percent.

Looking into 2019, a global economic slowdown may affect the monetary policy of central banks worldwide. The Federal Reserve has occasionally signaled that it may become less vigorous in its pursuit of monetary policy tightening. The US central bank is thus expected to deliver fewer rate hikes than last year, even though the policy rate will continue to rise incrementally in 2019. At the same time, the European Central Bank and the Bank of Japan may keep their accommodative stance relatively intact in light of easing inflationary pressures amid weakening oil prices in the global market.

In Thailand, economic growth for 2019 is expected to decelerate to a range of 3.5-4.2 percent.

Exports may record a slower growth rate in line with an economic slowdown among Thailand's trade partners and a high 2018 base. However, the Thai economy is expected to receive a boost from brighter outlooks in both public and private investment compared to 2018. Still, close attention should be paid to the government's budget disbursements, as well as global financial markets, which



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

may experience occasional periods of volatility. Regarding inflation and the policy rate in 2019, headline inflation is expected to average 0.8 percent, lower than the 1.1 percent of 2018, as a result of easing energy prices at home in line with the global oil market. For Thai monetary policy, the Bank of Thailand's policy rate is expected to stay low, at 1.75 percent, throughout the first half of 2019.

1.2 Banking Industry, Competition and Emerging Risks

● Banking Industry and Competition

Commercial banks' overall performance in 2018 recorded an increase in net profit compared to 2017 due to a decrease in allowance for impairment loss on loans at several commercial banks. Moreover, they recorded net profit from investment and an increase in net interest income in line with loan growth, especially high-yielding loans. Meanwhile, net interest margin (NIM) in 2018 remained close to the level of 2017. Nonetheless, net fees and service income declined as a result of cancellation of fees for funds transfer via digital channels and a decrease in income from insurance business. Our coverage ratio rose over-year, while gross NPL ratio decreased slightly from the end of 2017, despite the deteriorating quality of loans granted to certain groups of customers, which still merits close watch.

As of the end of 2018, net loans at 14 domestically-registered commercial banks totaled Baht 11.633 trillion, rising 5.17 percent over-year, accelerating from the growth of 4.33 percent at the end of 2017. Meanwhile, deposits equaled Baht 12.578 trillion at the end of 2018, an increase of 3.96 percent, compared to the growth of 6.51 percent at the end of 2017. Even though deposits recorded slower growth than loans, overall liquidity in the banking system remained plentiful. KBank ranked fourth in assets, deposits and net loans in the commercial banking system, with market shares of 13.94 percent, 14.78 percent, and 13.97 percent, respectively. Within the entire commercial banking system, 19 domestically-registered commercial banks and 11 foreign bank branches hold market shares in assets, deposits, and net loans, as shown in the table below:

(Unit: Million Baht)

| Bank | Assets | Market Share (%) | Deposits | Market Share (%) | Net Loans | Market Share (%) |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Bangkok Bank | 3,008,242 | 15.87 | 2,262,490 | 16.79 | 1,875,908 | 14.95 |
| Siam Commercial Bank | 2,860,127 | 15.09 | 2,156,936 | 16.01 | 2,022,277 | 16.12 |
| Krung Thai Bank | 2,656,181 | 14.02 | 2,042,948 | 15.16 | 1,823,362 | 14.53 |
| KASIKORNBANK | 2,641,150 | 13.94 | 1,991,423 | 14.78 | 1,752,325 | 13.97 |
| Bank of Ayudhya | 2,049,902 | 10.82 | 1,420,893 | 10.55 | 1,502,571 | 11.98 |
| Thanachart Bank | 984,124 | 5.19 | 753,945 | 5.60 | 679,939 | 5.42 |
| TMB Bank | 888,151 | 4.69 | 649,575 | 4.82 | 652,714 | 5.20 |
| United Overseas Bank | 525,142 | 2.77 | 405,299 | 3.01 | 372,178 | 2.97 |
| CIMB Thai | 350,377 | 1.85 | 185,215 | 1.37 | 209,094 | 1.67 |
| Kiatnakin Bank | 295,137 | 1.56 | 182,206 | 1.35 | 220,160 | 1.75 |
| TISCO Bank | 290,700 | 1.53 | 195,216 | 1.45 | 225,559 | 1.80 |
| Land and Houses Bank | 238,658 | 1.26 | 168,171 | 1.25 | 158,118 | 1.26 |
| ICBC (Thai) | 199,700 | 1.05 | 102,142 | 0.76 | 106,306 | 0.85 |
| Standard Chartered Bank (Thai) | 151,860 | 0.80 | 61,351 | 0.46 | 32,449 | 0.26 |
| Sumitomo Mitsui Trust Bank (Thai) | 76,731 | 0.40 | 20,337 | 0.15 | 50,776 | 0.40 |
| Bank of China (Thai) | 50,266 | 0.27 | 29,417 | 0.22 | 34,740 | 0.28 |
| Thai Credit Retail Bank | 50,130 | 0.26 | 42,133 | 0.31 | 42,391 | 0.34 |

| Bank | Assets | Market Share (%) | Deposits | Market Share (%) | Net Loans | Market Share (%) |
|---|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| ANZ Bank (Thai) | 33,056 | 0.17 | 10,259 | 0.08 | 18,256 | 0.15 |
| Mega International | 22,318 | 0.12 | 12,137 | 0.09 | 17,721 | 0.14 |
| Domestically-registered commercial banks | 17,371,951 | 91.67 | 12,692,093 | 94.21 | 11,796,843 | 94.02 |
| Foreign bank branches | 1,578,656 | 8.33 | 779,747 | 5.79 | 750,188 | 5.98 |
| All commercial banks | 18,950,607 | 100.00 | 13,471,840 | 100.00 | 12,547,030 | 100.00 |

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

For the outlook of commercial banks in 2019, loans – a core business – are likely to maintain growth. However, overall loan growth and loan quality may hinge mainly on recovery in economic activity. Amid the ongoing transition to the digital age in 2019, commercial banks may have to brace for intensified competition, especially in expanding their customer base and income from financial transactions and services via digital platforms to offset lost income from reduced digital transaction fees. Moreover, commercial banks have to make preparations for regulatory changes, especially new mortgage measures which will come into force in April 2019, implementation of the Basel III capital requirements, and preparations for International Financial Reporting Standards (IFRS9) in 2020.

● Emerging Risks

Over the next five years, the Thai banking system will face numerous challenges. Aside from impacts on economic and business trends, they may affect the commercial banking business, directly and indirectly. In detail:

1. Cyber Security Risk Amid rapid technological change, Thai consumers have readily embraced the new tech trends. Obviously, economic activity, businesses and payment have shifted into the digital realm. Meanwhile, cyber threats have become more sophisticated, as seen from their application of state-of-the-art technologies. Against this backdrop, commercial banks have become more prone to cyber security risk. According to Symantec, among the top cyber security threats of 2019 will be, for instance, the use of artificial intelligence (AI) to find vulnerable points in networks or systems, and to build very realistic duplicates of human voices for use in fraudulent activities. Meanwhile, the proliferation of 5G smart devices in the form of the Internet of Things (IoT) will make security systems more vulnerable to cyberattacks. Looking forward, cyber security risk will remain critical in line with an increasing volume and value of economic and financial activity in the digital realm.

In response to these challenges, each commercial bank prioritizes the continual development of cyber security policy, processes and systems in line with internationally recognized standards. In collaboration with its 23 member banks, the Thai Bankers' Association has established Thailand Banking Sector Computer Emergency Response Team (TB-CERT) with the support of the Bank of Thailand and the Electronic Transactions Development Agency (Public Organization), to unite in making preparations to

combat cyber threats, ensuring customers of efficient IT cyber security when using financial services through electronic channels.

2. Technological Failure Risk has become critical amid global economic growth and the increased linkage of economic and financial activities in the digital world. This trend will likely be evident in the foreseeable future. To cope with this challenge, the business sector, including Thai commercial banks, has become more vigilant in updating its technological systems to ensure that it can cope with possibility of a significant surge in transaction volume. Nonetheless, commercial banks are likely to be exposed to technological failure risk in the future given the different levels of technological readiness among peers, and between banks and other businesses, as well as sudden shifts in circumstance such as a change in transaction volume caused by unique factors, cyber threats, or any defects from technological connectivity and upgrades. Thai commercial banks have thus prioritized technological failure risk management at both the bank level and system-wide to ensure that customers and stakeholders are efficiently protected from this risk.

3. Non-Conventional Competitor Risk Given the proliferation of technologies that has shaped new trends of consumer behavior, the line of business operations between commercial banks and other businesses has become less distinct. Of late, players in e-commerce, retail, telecommunications, logistics and transport as well as fintech business, both domestic and international, have joined the fray to provide financial services to local customers. Given this development, non-conventional competition has emerged as a new risk wherein players compete to launch new products and services, and pricing competition has become more prevalent. To cope with these challenges, Thai commercial banks must be well-prepared, and ready to fine-tune business strategies in a timely manner to remain competitive.

4. Regulatory Risk Given that commercial banks are deposit-taking institutions which play a vital role for the nation, they are required to comply with relevant domestic and international rules and regulations at present and in the future. The latest trend focuses on consumer rights protection to ensure their highest benefit, support of financial service competition, transparent data disclosure and maintenance of financial stability, among others. Meanwhile, commercial banks' customers, especially small and medium-sized enterprises (SMEs), are having to brace for regulatory changes as well. These include the single-account scheme, taxation of funds transfer for online purchase, and a land and building tax – all of which will come into force during 2019-2020, as well as other regulatory changes both at home and abroad in the future. Commercial banks must therefore adjust their business undertakings in compliance with the changing regulations in order to mitigate their impacts upon them directly or indirectly via customers, and maintain profitability.

5. Climate Change Risk For Thailand, extreme weather events affect agricultural production and farm prices – the main source of income for the majority of Thai people – and thus have repercussions for businesses dependent mainly on domestic consumption. Harsh weather also deals a serious blow to households' properties and quality of life. These extreme events – exacerbated by man-made pollution –

have lately triggered the PM 2.5 fine dust particle problem which is harmful to human health. All of these events, which are spreading across the globe, have an adverse impact on individuals and the economy as a whole, in the short and long term, and will inevitably hurt commercial banks' opportunities and business operations.

1.3 Significant Regulations and Rules related to Business Operations²

Significant regulations and rules that may have affected KBank's and K Companies' business operations included:

- **Rules for Home Loan and Top-up Loan**

The Bank of Thailand has issued Notification No. SorNorSor.24/2561 (2018) Re: Rules for Home Loan and Top-up Loan, effective April 1, 2019. KBank has in place relevant procedures to accommodate the new regulation, which is summarized below:

1. Minimum down payment or the loan-to-value ratio (LTV) has been established to better reflect overall risk. New criteria for two or more mortgage loans applied for concurrently are as follows:

- Minimum down payment of 10 percent is required for collateral valued at less than Baht 10 million under the first mortgage loan contract where repayment has been made for not less than three years.

- Minimum down payment of 20 percent is required for collateral valued at less than Baht 10 million under the first mortgage loan contract where repayment has been made for less than three years. In cases where collateral value is Baht 10 million or more, repayment period under the first mortgage loan contract shall not be taken into account.

- Minimum down payment of 30 percent is required under the third (onward) mortgage loan contract, regardless of home price.

2. All types of top-up loans which are based on the same collateral as that of the requested loan shall be included in the loan amount, except for: (1) Mortgage Reducing Term Assurance (MRTA) and loan for collateral protection insurance as a risk prevention for borrowers and a bank; and (2) SME loan to help SME entrepreneurs gain better access to funding sources.

- **Rules regarding Auditor Rotation in Capital Market**

The Office of the Securities and Exchange Commission (SEC) issued Notification Ref. No. ThorJor75/2561 (2018) Re: Criteria, Conditions and Method for Reporting of Data Disclosure related to Financial Standing and Operating Performance of Companies which Issue Securities; and Guidance No. NorPor. 5/2561 (2018) Re: Guidelines for Auditor Rotation and Relaxation of Auditor Rotation in the Capital

² Details related to other Significant Regulations and Rules related to Business Operations during 2018 can be found in the Management Discussion and Analysis (MD&A) reports for the quarters ending March 31, 2018, June 30, 2018, and September 30, 2018.

Market, dated November 20, 2018, both coming into effect January 1, 2019. The new regulations stipulate that listed firms shall rotate auditors who have performed their duties for seven accounting years, whether those years are consecutive or not, and those auditors are then required to take a break from auditing tasks for that firm, for five consecutive accounting years. To comply with the rules, KBank has put in place measures related to this mandatory audit rotation.

- **Ministerial Regulation Concerning Use of Additional Types of Assets as Business Collateral B.E. 2561 (2018)**

The Ministry of Commerce issued Ministerial Regulation Concerning Use of Additional Types of Assets as Business Collateral B.E. 2561 (2018), in accordance with the Business Security Act B.E. 2558 (2015), which allows “perennial trees” to be registered as business collateral. Its objective is to encourage people to grow high-value trees in order to create economic value and to maximize the use of their lands, while also allowing the general public to gain more access to loans. This new regulation came into effect on November 5, 2018.

However, enforcement of this regulation requires an amendment to the Forest Act B.E. 2484 (1941), in order to repeal the prohibition of cutting of all tree types, including restricted trees, on land under private ownership. This process is now under the government’s deliberation.

KBank is now studying criteria and guidelines for collateral appraisal, setting up of credit limit, collateral maintenance and care, and collateral enforcement, while also adjusting internal processes and developing employees’ skills to accommodate the task of underwriting loans with trees pledged as collateral. This may take some time in order to ensure that the value of collateral is sufficient to compensate for losses that may be incurred from a borrower’s debt default.

- **Financial Institution Business Act (No. 3) B.E. 2561 (2018)**

Financial Institution Business Act (No. 3) B.E. 2561 (2018) contains a salient point on amendment to the Bank of Thailand’s limited authority under Financial Institution Business Act B.E. 2551 (2008) to ensure enhanced efficiency in supervising specialized financial institutions. According to the new law, the Bank of Thailand (upon approval of the Minister of Finance) shall be authorized to determine additional criteria that specialized financial institutions must comply with, regarding the following issues:

- (1) Qualifications and prohibited characteristics of directors, authority and seeking of approval
- (2) Capital and asset maintenance
- (3) Investment of specialized financial institutions
- (4) Risk supervision and consumer protection
- (5) Lending prohibitions
- (6) Asset classification and provisioning
- (7) Asset management and maintenance of reserve requirement
- (8) Accounting and reporting

In addition, if specialized financial institutions' financial standing or operations may adversely affect the government's benefits, the Bank of Thailand (upon approval of the Minister of Finance) shall propose that competent authorities governing financial institutions consider taking necessary actions. This new law was published in the Government Gazette on November 21, 2018, and is to take effect on February 20, 2019.

Even though this law has neither direct involvement with nor direct impact upon KBank's business operations, it may be of benefit to the nation's financial and banking sector. The statute will lead to enhanced efficiency in the supervision of, and raise the standards of operation and risk management for, specialized financial institutions to be on par with those of commercial banks, and should thus be beneficial to the country's overall economic and financial systems.

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

KBank continued to implement the IFRS Conversion Project in preparation for compliance with IFRS 9, and progress was steady. In 2018, the project worked with public agencies via the IFRS Club and the Thai Bankers' Association, and reached a conclusion on operational guidelines and effective date appropriate for Thailand. For our internal management, we are developing and testing the work system along with conducting a parallel run, as well as adjusting relevant work processes.

2. Risk Management and Risk Factors³

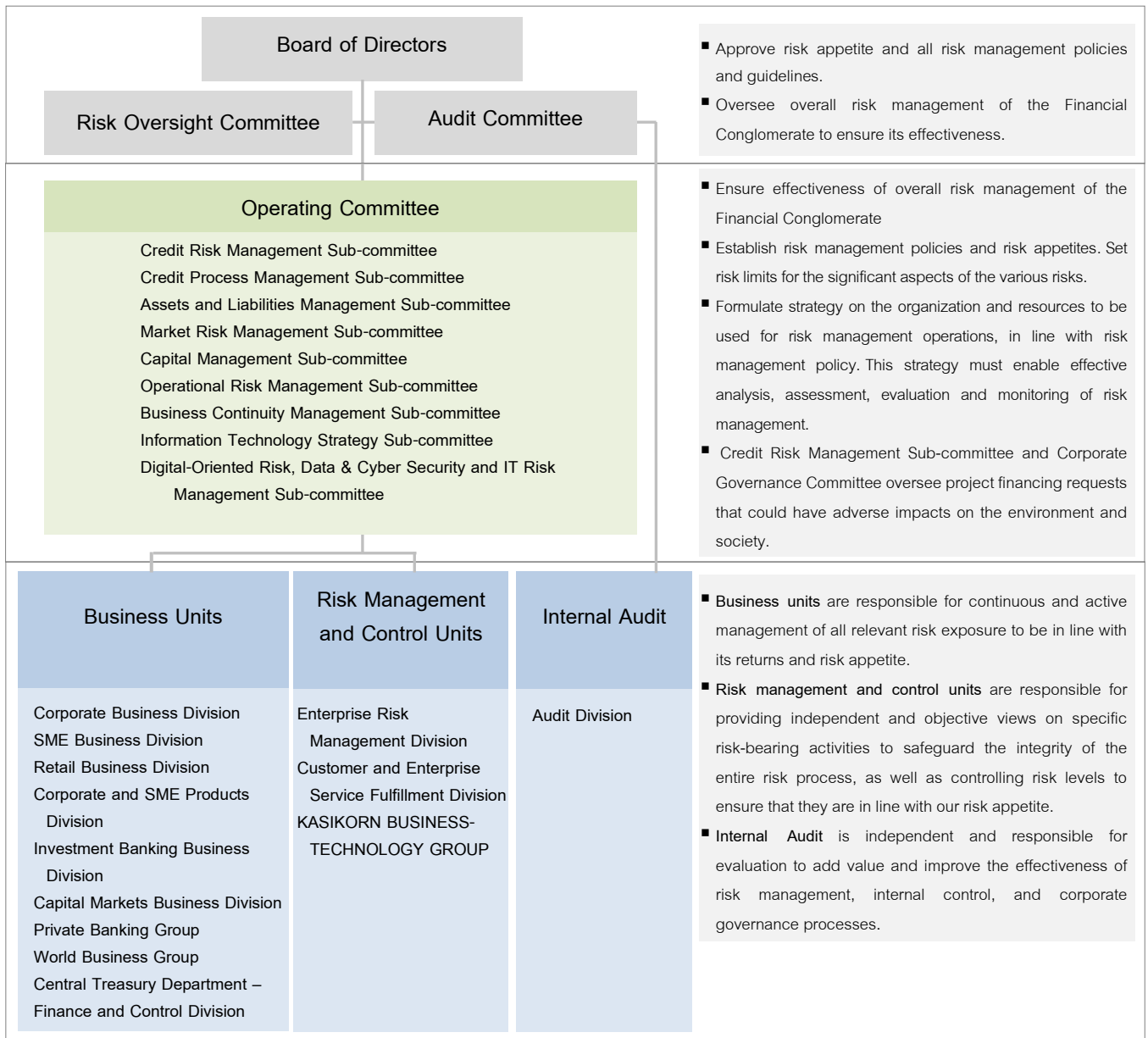
2.1 Overall Risk Management

Risk Management is an integral part of our organizational culture. We have established risk management policy and risk appetite, and risk management has taken into account when formulating our strategies and business undertakings to support business growth. This is to ensure sustainable profitability and maximize stakeholders' returns. KBank's risk management strategy has been established in line with international guidelines and principles, and applied throughout the Conglomerate. We engage in a consolidated risk management framework that emphasizes management of risks, e.g., credit, market, liquidity, operational, digital and strategic risks. KBank's risk management structure clearly determines duties and responsibilities of relevant units, including an independent risk management unit, while risk-adjusted performance measurement has been applied with each business unit.

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

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

Risk Management Structure¹⁾



¹⁾ Data as of December 31, 2018

Key Developments to Strengthen Risk Management

KBank places the great emphasis on effective and proactive risk management. Risk management policies, tools and processes have been developed and are reviewed regularly to guard against rising risk trends in line with market volatility, changes in regulatory requirements, including domestic and global economic policies. Relevant actions taken are as follows:

- **Establishment of the Risk Oversight Committee** to increase level of independence of risk governance structure and enhance risk management effectiveness.

- **Expansion of scope of operations for IT Security Management Systems ISO 27001:2013:** KBank's information security management system has been awarded ISO 27001:2013 certification for the fifth consecutive year. This year, our scope of operation has been extended to include Imaged Cheque Clearing and Archive System (ICAS), Bank of Thailand Automated High-value Transfer Network – BAHTNET, technology infrastructure and data center.
- **Installation of a global-standard data leak prevention system for broader coverage:** Significant efforts range from the classification and assessment of risks arising from data usage to employees' use of mobile devices, to ensure that all data transmissions on KBank's system network by each unit can be detected, leading to efficient data leak prevention.
- **Implementation of measures for controlling advanced digital risk** including advanced threat prevention, proactive threat detection, and timely and effective threat response, for enhanced capability in tackling digital risk and cyber security challenges while staying ahead of fast-changing cyber threats that are always becoming more diverse and more complicated.
- **Reinforcing a cyber risk-aware culture** that involves the Board of Directors and high-level management, employees, customers and suppliers of KBank, through dissemination of knowledge in various media such as e-Learning, Security Newsletter, Cyber News Alert, online games and infographics. Moreover, a phishing drill exercise is conducted to raise employees' awareness of the phishing threat.
- **Preparation for Basel regulatory reform:** KBank continuously monitors Basel regulatory changes and the Bank of Thailand's policy guidelines for financial institution supervision to assess and forecast potential impacts on our capital and liquidity. Management guidelines have been established to ensure work system readiness and preparation of data required for the new criteria to ensure that our capital adequacy and liquidity position are appropriate for our operations per the business plan.
- **Continual monitoring of processes and econometric models for stress testing** to ensure that KBank's business growth is within the approved risk limit while improving efficiency in our risk and loan loss reserve management as well as capital adequacy and liquidity position assessment for improving of our forward-looking and preventive portfolio management to comply with the Bank of Thailand's regulations and directions.
- **Value-Based Management (VBM):** KBank has continued to apply VBM concept to risk management at both Bank-wide and segment/product level while setting the direction of credit portfolio and business targets at customer and product levels on a continual basis. In addition, VBM has been applied to capital management to strive for the highest capital efficiency while ensuring capital adequacy under normal and stress scenarios, to create confidence among shareholders over the long term. All these endeavors have been undertaken with consideration of a new regulatory landscape, changing economic circumstances and risk trends to ensure that KBank's business can maintain healthy growth within appropriate risk limits under normal and stress scenarios.

- **Development of risk management system and framework for capital market and treasury business:** Focus has been on holistic risk management to support needs for product variety amid fast-changing market conditions, with the proliferation of business innovations in order to integrate our services in alignment with customer needs while also maximizing efficiency for KBank under an appropriate risk appetite.
- **Monitoring of initiative implementation to comply with market conduct policy** to ensure that KBank has effectively and practically implemented market conduct management which is in alignment with customers' needs and purchasing power, through in-depth understanding of them. These efforts ensure that customers receive fair treatment through the offering of complete and accurate information about products and services.
- **Reinforcing of a market conduct culture** via the "Honest KBank People" campaign: To this end, KBank has arranged for internal communications under the "Responsibility, Transparency and Fairness" principles to promote a market conduct culture via various communication channels as part of our K-Culture program.
- **Development of Fraud Management and Intelligent System** to ensure enhanced security for customers' transactions and increased efficiency in fraud detection via transaction fraud module for a broader coverage of transactions via various channels.
- **Improvement of operational risk management across all channels:** Controlling measures have been reviewed, assessed and developed in every service channel including physical branches, electronic branches, banking services outside branches, digital channels, K-Contact Center and KBank Service for appropriate operational risk management.

2.2 Risk Management

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

□ Credit Risk Management

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

In 2018, KBank focused on customer service and credit risk management for every customer segment. Customers' businesses were challenged by international protectionism, limited purchasing power at home, and a changing business landscape due to digital disruption. KBank thus put in place more stringent customer screening criteria, particularly for small and micro businesses as well as retail customers, while the Bank also sought to acquire customers with stronger financial status and sound debt servicing ability. KBank has also

emphasized customers' early warning sign detection and behavior monitoring to ensure efficient monitoring, recovery and collection processes.

Credit Risk Management Process

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

● **Portfolio Management**

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

We have adopted credit risk management mechanisms as follows:

- **Set up Credit Risk Management Sub-committee and Credit Process Management Sub-committee.**
The committees manage a balance between credit risks and process efficiency to ensure effective risk management and consistency of relevant credit processes, thus allowing KBank to deliver a good customer experience.
- **Revise customer screening criteria on a regular basis to reflect customer risk profile.** Credit policy has been tailored for each customer segment. Industry pre-screening criteria, which can be used as a guideline for customer selection, have been established to classify customers based on sector risk levels.
- **Establish risk management mechanism in response to risk events which may affect our customers.**
Early warning sign monitoring will trigger actions of responsible departments to assess impacts on affected customers and KBank by conducting in-depth analysis and stress testing. Thus, KBank shall be able to proactively prevent and solve any problems which may arise in a timely manner prior to deterioration of customers' debt servicing capability and overall credit quality of KBank.
- **Monitor customers' credit line utilization and customer status via early warning signs.** Guidance has been provided for Relationship Managers (RMs) to contact customers at an early stage when early warning signs are detected.
- **Manage credit concentration risk** in terms of borrower group concentration, sectoral concentration and country concentration. Credit exposures are maintained within predetermined limits, per the Bank of Thailand's Single Lending Limit (SLL) framework and guidelines for country risk management, as

well as the Basel guidelines on credit concentration risk management. As of December 31, 2018 borrower concentration was within the established limit.

- **Credit Underwriting and Approval**

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

KBank's credit risk management is based on current, transparent and qualified data. The credit approval processes and systems are designed to align with customers' characteristics. Medium and Large Business customers with sophisticated financial needs are served by RMs with thorough understanding of customers' business and financial profiles. Relationship Managers (RMs) are responsible for analyzing and proposing suitable credit products and services to match customer needs, presenting credit proposal to credit underwriters according to the defined approval authorities, and continual monitoring customer status.

For retail customers whose main products comprise home loans, credit cards and other types of financing, including loans for small and micro businesses, KBank deploys credit scoring as a credit approval tool, focusing on verification of income and liability information of each customer. KBank has also focused efforts on credit approval process improvement, while ensuring risk levels under a defined risk appetite.

Aside from the above practices, KBank realizes the importance of Corporate Social Responsibility practices in our credit underwriting. Guidelines and policies for environmental and social impacts have been established for project finance requests at home and abroad, including project monitoring throughout the credit term.

- **Post-Credit Approval Operations**

To achieve standardized and efficient credit operations, KBank has centralized credit operations covering legal and contract-related matters, preparation of collateral agreements, credit limit setup, credit disbursement, credit-related document storage and credit data support. KBank also set up processes to monitor customer credit-utilization behavior, business performance, compliance with contractual conditions as well as their debt servicing ability.

- **Allowance for Impairment Losses**

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

- **Debt Quality Monitoring**

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

Regarding debt collection from large business customers, KBank assesses debt quality closely, using established indicators to ensure timely management prior to delinquency. KBank has also set up guidelines, such as those for credit review and limit suspensions, specific to each customer segment, according to segment risk characteristics.

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

- **Asset Quality Review**

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

- **Market Risk Management**

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

In 2018, global financial markets were quite volatile due mainly to the unresolved US-China trade war. Emerging countries, including Thailand, felt the impact of the situation given their heavy reliance upon exports to both the US and China. As a result, the Baht weakened occasionally. Regarding interest rates over the past year, the Federal Reserve raised its policy rate by a total of 1 percent across four occasions in 2018, prompting US Treasury yields to be on the rise. Given this, Thai bond yields saw an increase in tandem. The Monetary Policy Committee (MPC) hiked the policy rate by 25 basis points in December, the first increase in seven years. Looking ahead to 2019, the US-China trade war will remain a major drag on investor confidence, which may result in ongoing financial market volatility, perhaps leading to capital outflows. Still, Thailand's healthy fundamentals, as evidenced by low foreign debts, high current account surplus and sufficient foreign reserves, will help contain any capital outflows.

- **Market Risk in Trading Book Activities**

KBank's trading activities are exposed to risks of interest rate, foreign exchange, equity and credit spreads. Moreover, KBank has chosen not to retain any position when dealing with commodity prices by managing market risk through a back-to-back policy. Our equity risk stems from equity underwriting and non-

directional trading business, which we undertake only for serving customer needs. KBank has processes in place to measure and control risks within the established limits, under the supervision and control of the Enterprise Risk Management Division.

- **Market Risk in Banking Book Activities**

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

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

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

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

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

Net Interest Income Sensitivity to Interest Rate Change

(Unit: Million Baht)

| For the Year Ending | Dec. 31, 2018 |
|---|---------------|
| | +100 bps |
| THB | (264) |
| Foreign Currencies | 0 |
| Total Effect of Interest Rate Change | (264) |

- **Equity Risk in Banking Book Activities**

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

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

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

is under supervision of the Assets and Liabilities Management Sub-committee, with the goal of obtaining the highest returns under the risk limits approved by the Risk Oversight Committee and the Board of Directors.

□ Liquidity Risk Management

Liquidity risk is defined as the risk caused by a failure to obtain sufficient funds at appropriate costs to meet obligations when they come due, and/or an inability to convert assets into cash.

Liquidity in the banking system during 2018 was ample due to continual growth of both loans and deposits. However, liquidity management at given periods may vary from bank to bank, depending on its liquidity position and management guidelines. KBank has been fully equipped with tools for appropriate liquidity management both in terms of foreign currencies and Thai Baht to protect ourselves against any potential liquidity shortage. Aside from efficient monitoring of liquidity risk in light of situations that may incur risk indirectly, we have also adopted a Business Continuity Plan to guard against disruptions to essential operations and systems, allowing us to fulfill our obligations in the event of an emergency.

KBank has assessed and conducted liquidity risk through liquidity gap analyses covering both normal and crisis situations, by employing liquidity stress tests covering three scenarios, i.e., liquidity crises that are either bank-specific, market-wide, or a combination of both circumstances. In addition, KBank applies world-class standards for liquidity risk indicators, such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), in our liquidity risk control and management.

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

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

Closely monitored factors that could affect our liquidity and interest rate risks include:

- Global and Thai economic outlook over the short and medium terms, including impacts from the US-China trade war
- Key policy rate trend of the Bank of Thailand and major central banks
- Direct and indirect foreign capital movements triggered by internal and external risks
- Intensified competition among financial institutions in savings and investment products that may affect overall liquidity in the banking system
- Increasing demand for loans which could generate pressure on liquidity in the system.

□ Operational Risk Management

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

In 2018, KBank focused on sound risk management of key business processes and in conformity with policies and operational regulations. These included a Market Conduct Policy, which was communicated to employees and promoted as part of our K-Culture program under the "Responsibility, Transparency and Fairness" principles.

□ Digital Risk Management

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

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

In 2018, KBank revised the digital risk control system development plan in conformity with the current cyber threat environment and past performance, to achieve the target of sound risk management. We prioritize risk control including prevention against, detection of, and response to, potential risks across our four key areas of business processes and work systems, i.e., supervision, policies, IT processes and systems, and personnel. Key developments included:

- **Governance:** The Risk Oversight Committee is responsible for supervising risk management in alignment with risk management policy and strategy, and consistent with the established risk appetite.
- **Policies:** We have reviewed and revised relevant policies to be consistent with our organizational structure and KBank's Vision of maintaining our growth and leadership of Thailand's digital banking service market, as well as regulatory requirements, thus allowing KBank to efficiently cope with present and future threats.

- **Processes and technology:** Emphasis has been placed on extension of information security management standards to ensure broader coverage of financial transactions and services. Along with this, we have implemented data leakage preventive measures while also bolstering the capacity to protect ourselves from advanced threats.
- **People and culture:** KBank emphasizes the creation of a cyber risk-aware culture which involves four personnel groups, i.e., the Board of Directors and senior management, employees, customers and suppliers of KBank. Notable endeavors included a phishing drill, together with exercises and communications on phishing threats.

□ **Strategic Risk Management**

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

Strategic risk management refers to management of risks that arise from formulation and implementation of strategic and business plans that are unsuited to and inconsistent with internal factors and the external environment, which may affect earnings, capital fund or viability of the business. For 2018, material factors affecting strategic risk included local and global economic growth, technological advances which affected consumer behavior and demands, as well as government policies and new rules and regulations for financial institution supervision. Our strategic risk management can be divided into two parts, as follows:

- **Strategic risk management for strategic content** is conducted by monitoring changes in external and internal environments which affect business operation, including expectation of changes for better preparedness, by setting up Key Risk Indicators (KRIs) for strategic content to enable us to regularly monitor and review Bank-wide strategies as well as business units' strategic plans in a timely and manner.
- **Strategic risk management for strategy execution** is conducted by:
 - Preparing financial performance reports and Balanced Scorecard (BSC) reports regularly; we also arrange meetings regarding our strategies to address and manage specific issues, in order to achieve unified solutions.
 - Establishing KRIs for strategy execution which cover KBank infrastructure and resources.

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

□ Sustainable Development in Action⁴

KBank has given particular attention to nine of the 17 United Nations Sustainable Development Goals (SDGs), while also granting support to the others, with the aim of generating sustainable value for all our stakeholders under our sustainable development operation in the economic, social and environment dimensions.

KBank Sustainability Framework



KBank has given particular attention to nine United Nations Sustainable Development Goals (SDGs) as being in perfect agreement with our Material Issues, while giving full support to other eight goals, as well as, to help us generate sustainable value to all stakeholders.



Goals

Sustainable Development Policy



Economic Aspect

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



Social Aspect

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



Environmental Aspect

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

⁴ More details on Sustainable development and Materiality for both KBank and stakeholders can be found in Sustainability Report 2018.

Material Aspects and Boundaries

KBank has compiled and prioritized material aspects that affect our business – as well as those emphasized by our stakeholders – against global sustainability standards and important issues adopted by leading global banks. We have also considered all of our material issues of 2017, along with present and future risk factors, based on the opinions of all stakeholders, including shareholders, the Board of Directors, employees, customers, counterparties, competitors, creditors, communities, environment and society via participation processes, such as surveys and in-depth interviews. These viewpoints were then analyzed and prioritized, and concluded into operational guidelines that respond to stakeholders' concerns.

Materiality Assessment Processes

1. Identification

- The material aspects of 2017 were reviewed.
- Studies were conducted on related aspects set out in other sustainability standards, for example, the Dow Jones Sustainability Indices (DJSI) and the sustainability aspects emphasized by banks worldwide per Sustainability Accounting Standard Board (SASB) guidelines.
- KBank then compiled and screened all material aspects that are significant to KBank and the stakeholders' decision making, and submitted the findings to the Board of Directors, Division Heads and outside stakeholders for review and assessment, as mentioned below:

- Internal Boundary

KBank compiled the opinions of the Board of Directors, Division Heads and employees of KBank, K Companies and P Companies via questionnaires; the information gained was compared with KBank's strategies and key risk factors over the short and long terms.

- External Boundary

KBank gathered the opinions of customers, investors, regulators, counterparties, competitors and communities via questionnaires and in-depth individual interviews in the forms of meetings and telephone conversations, in order to learn about stakeholders' significant issues and expectations.

2. Prioritization

- KBank analyzed and reviewed the information gained from internal and external stakeholders.
- Prioritization was made into 20 aspects of three magnitudes: Large, moderate and small. Those issues have been prioritized on the Materiality Matrix, as follows:
 - Horizontal axis: Issues that are significant to KBank
 - Vertical axis: Issues that are significant to stakeholders

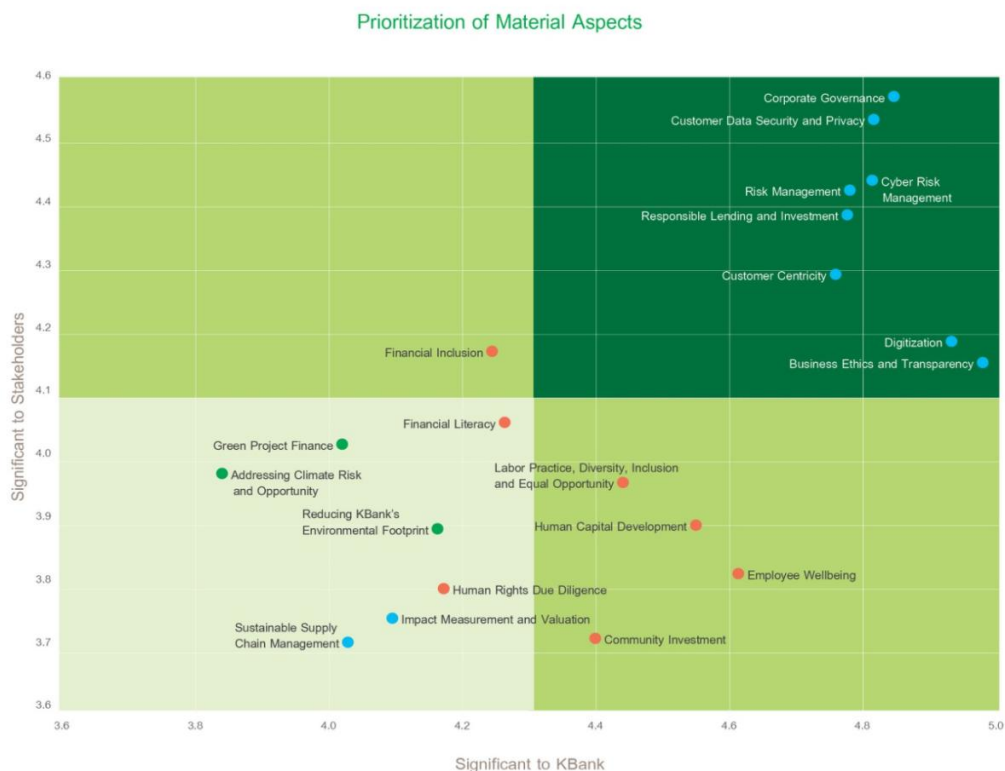
3. Validation

- KBank explained the derived prioritization to all divisions, so that they could acknowledge the stakeholders' opinions and use them to define operational guidelines that are tailored to the stakeholders' requirements.
- KBank reported the material aspects to the Corporate Governance Committee for endorsement, for further submission to KBank Board of Directors for acknowledgement and disclosure in KBank's Sustainability Report and website.

4. Review

KBank has in place an information review process after the Sustainability Report has been disseminated to the stakeholders. Their views and recommendations will be used to modify the content of future reports.

In the Sustainability Report 2018, there are 20 Material Issues per the GRI Standard: Core Option, compared to 13 Material Issues in the Sustainability Report 2017, with the following details:



Changes in Material Issues

1. New Material Issues in this report include “Cyber Risk Management”, “Sustainable Supply Chain Management”, “Impact Measurement and Valuation”, “Financial Literacy” and “Addressing Climate Risks and Opportunity”.
2. The issue of human resource management in the Sustainability Report 2017 was divided into three issues: “Labor Practice, Diversity, Inclusion and Equality Opportunity”, “Human Capital Development” and “Employee Well-being” in the Sustainability Report 2018.

□ Corporate Governance

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 2018, we conducted a review of the charters, principles and policies related to corporate governance and sustainable development to keep them up-to-date and appropriate for KBank business, in conformity with laws and best practices. Our corporate governance practices were also under review to ensure our compliance with the CG Code of 2017 and the ASEAN CG Scorecard.

In addition, a number of activities were undertaken continually to promote our good corporate governance practices, including orientation sessions held for new directors, training provided to executives and employees through various programs on the Code of Conduct and the Anti-Corruption Policy, and risk management of modern organizations through Corporate Governance, Risk Management and Compliance (GRC). Moreover, a meeting was arranged to equip representatives of K Companies and P Companies with relevant knowledge and thus ensure efficient and common practices in corporate governance, risk management and internal control. Highlighting our commitment to anti-corruption efforts of all forms, we took part in a show of support to celebrate National Anti-Corruption Day 2018, and unveiled our no-gift policy to promote good governance practices.

3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK in 2018 and Outlook for the Next Five Years

KASIKORNBANK operates business with the foundation of Bank of Sustainability in order to create the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. Guided by our core strategy of Customer Centricity, we emphasize the development of digital solutions with the aim of becoming “Customers’ Life Platform of Choice”. In parallel, we have focused on greater efficiency in business and work processes through collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, Muang Thai Life Assurance Public Company Limited and our partners for service quality improvements, in order to deliver an excellent customer experience under the single brand of KASIKORNBANK.

In alignment with our strategy of becoming Customers’ Life Platform of Choice, we prioritize total solutions through the offering of products and services via service channels, to be the most preferred platform that can fully meet the needs of all customer segments in every aspect of their lives anytime, anywhere. Our endeavors for each business are as follows:

- (1) **Retail Business:** KBank has conducted Big Data processing based on customers’ behavioral needs as reflected in service use. The data has been analyzed in an effort to understand and anticipate each individual customer’s needs. Along with this, we have collaborated with our partners in various businesses to develop multiple products and services which are offered via physical branches and digital channels to ensure customer ecosystem that accommodates every aspect of their lives for

the best customer experience, enhanced competitiveness and sustainable business operations over the long term.

(2) **SME Business:** KBank aspires to become a Total Solution Provider for our SME customers. Through solid teamwork among our Relationship Managers (RMs), who are well-versed in KBank products, and branch officers who have in-depth understanding of our customers' businesses, we will also deploy innovative digital technologies along with knowledge-based assistance and business networking, with emphasis given to asset quality management, for the sustainable business growth of both our customers and KBank, alike.

(3) **Corporate Business:** KBank is determined to meet all of our corporate customers' business needs, especially through funding support, advisory services and multiple formats of fund mobilization, to ensure their cost effectiveness under appropriate risk management. Along with this, we have given staunch support to their transactions via all formats of electronic channels, while focusing on the offering of products and services responsive to all parties, including customers, suppliers, business owners and employees throughout the ecosystem, for increased competitiveness and effective business management in a comprehensive manner. These efforts are aimed at maintaining our status as customers' Main Operating Bank (MOB).

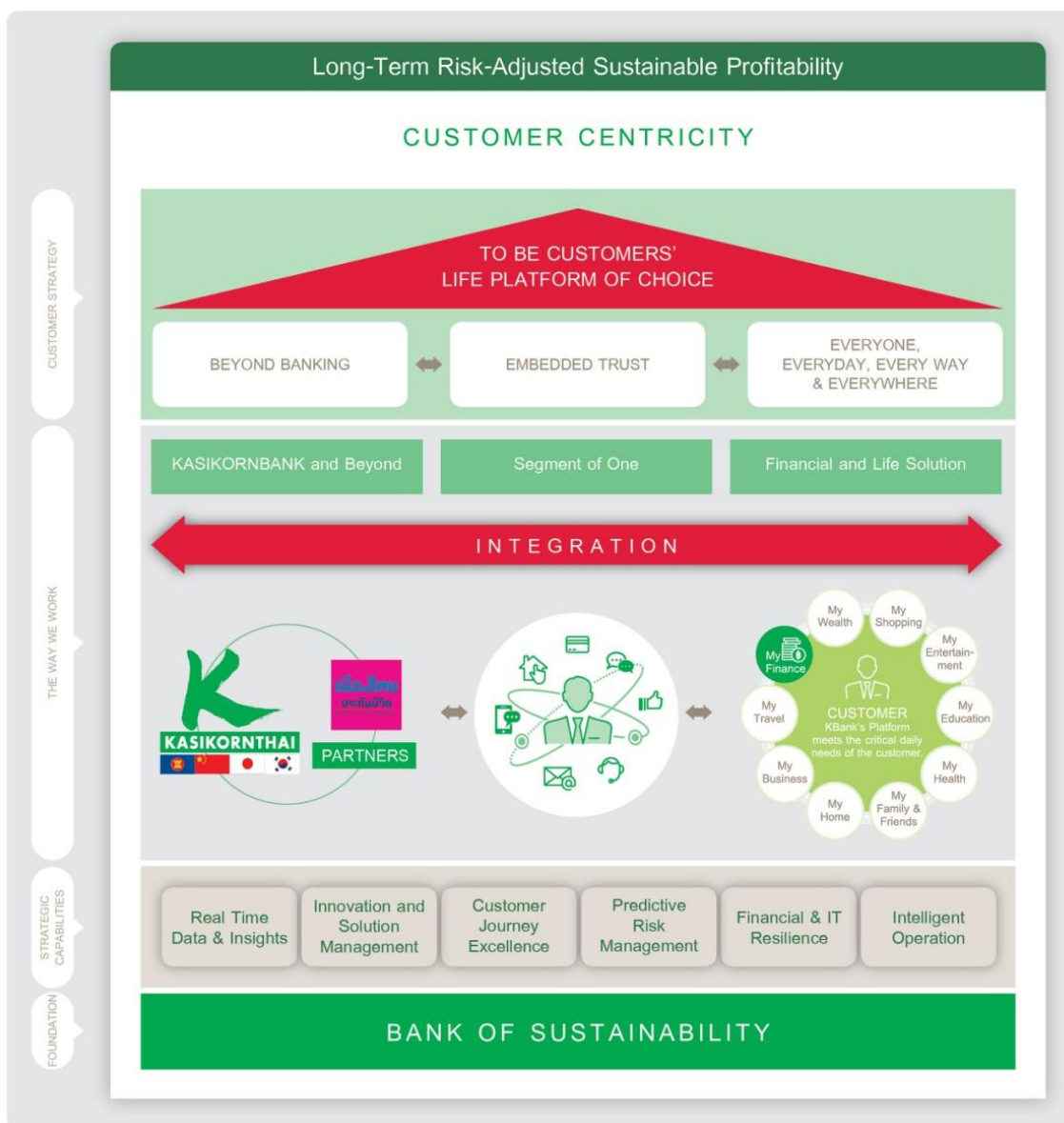
Meanwhile, KBank continues to gear up for being "The Bank of AEC+3" along with being a Regional Digital Bank. We have upgraded our digital capability in providing customers financial services for the purpose of saving and investment, borrowing, transactions and risk prevention via electronic channels. This allows us to have better understanding of customer demands and improved access to a larger number of customers in each country. In addition, we act as a digital platform provider for both financial and non-financial services, reinforcing our potential in broadening our customer base in the digital age – as we aim to make KBank the Regional Life Platform of Choice.

Together with these strategies, KBank has prioritized the upgrading of our capability in data compilation and analytics. This will allow us to anticipate each individual customer's needs under the "Segment of One" while also creating innovative products and comprehensive services for excellent customer experience. In keeping with changing expectations, we tailor multiple service channels which provide customers greater convenience and speed in using services, with ever-greater consideration of consumer protection and customer privacy. What's more, we concentrate on maximized resource utilization, and efficient IT and information management through appropriate structures and tools, together with human resource management that focuses on employee development, leadership enhancement and organizational culture reinforcement as well as talent development and recruitment for future business operations. Along with this, our work format and organizational structure have been reconfigured to cope with the fast-changing business landscape.

To secure our status as a leading financial institution which can efficiently cope with potential economic uncertainties, KBank emphasizes predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, a risk-aware culture Bank-wide, as well as good

corporate governance, in strict compliance with relevant rules, regulations and laws, to ensure that we maintain the trustworthiness of our business operations, as recognized internationally.

The Extended K-Strategy



3.3 Customer Segments and Services

During 2018, KBank continued to adhere to our “Customer Centricity” strategy, being attentive to the impact of domestic and global economic circumstances, sustaining 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. Along with that, we developed our business in various dimensions - customers, product domains and 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. During 2018, our key operations in eight customer segments are as follows.

■ Multi-Corporate Business

KBank is determined to support our Multi-Corporate Business clients engaging in B2C business who sell goods directly to their customers. In response to their business needs, we have provided them e-payment channels to facilitate payment acceptance with their retail clients in line with consumers' digital-era lifestyles. This endeavor corresponds with the government's drive towards a cashless society, aimed at reducing cash management costs in the Thai economic system. We have built upon our technological expertise in the K PLUS application to innovate an e-Wallet for this customer segment. KBank also joined forces with our business partners at home and abroad for e-payment connectivity, including QR payment and provision of an international fee-accepting payment service. We have also expanded KBank Service points to accept deposits via our banking agents for greater customer convenience.

Meanwhile, we granted loan support and designed multiple forms of fund raising together with risk management products appropriate for each customer's needs.

■ Large Corporate Business

2018 saw significant technological changes. KBank therefore focused on personnel development to enhance their knowledge and understanding of customers' business formats. We prioritized the offering of financial services and technological innovations that efficiently accommodate our customers' business expansion in the digital age, apart from conventional loans and financial products. Our initiatives of note in 2018 included: (1) K CONNECT-LG – a blockchain-based service that allows greater efficiency in data checking and reduced economic and environmental costs; and (2) QR code payment, which has been well-received among our B2C customers in restaurant and convenience store businesses through the launch of co-promotions to encourage consumers to spend via QR code in lieu of cash.

We also exploited our technological expertise to support development at leading universities and hospitals in many areas for enhanced management efficiency in sync with the digital era. Notable efforts were our collaboration with leading universities to develop and manage applications for upgrading course management, support for cashless transactions of stores located in those institutions and surrounding areas, and promotion of knowledge-sharing about how to launch startup businesses, with the goal of pooling ideas for future innovations. Moreover, applications were jointly launched and managed with leading hospitals to ensure greater patient convenience, especially through alerts for appointments with physicians, and payment.

■ Medium Business

In 2018, we prioritized our support to Medium Business through total solutions. To this end, emphasis was placed on personnel development to train our staffers to become customer advisors, serving their business and personal needs. In-depth data analysis was conducted to examine business demands at given times, allowing us to offer appropriate products to customers. Based on customer data, we have expanded the customer base within value chains, especially businesses with brighter growth prospects, namely construction materials, energy, automobiles and parts and consumer goods.

To comprehensively promote our customer competitiveness, KBank worked with both public and private sectors to organize various activities, namely “FX Option Helps the Nation Phase 2” to equip our customers in export-import business with knowledge on forex risk management. Along with this, our relationship managers (RMs) and specialists provided our customers advisory service and in-depth knowledge on cash management and application of proper digital technologies to their business undertakings for sustainable growth.

■ Small and Micro Business

In response to the government’s policy of promoting employment, KBank offered loan for working capital enhancement for businesses which have registered with the Social Security Office to allow them to provide appropriate welfare and benefits to workers as part of their employee retention plans. Another notable endeavor was the development of micro credit tailored to micro businesses and startup firms having no financial documents as they are required to place only real estate as collateral for loan request. This product is intended to improve their access to funding sources for business expansion and liquidity enhancement.

We maintained our policy of elevating our customers’ competitiveness through total solutions. Focus was on business networking to help them expand product distribution channels. Moreover, we have developed websites offering data on software or applications for business management appropriate for different business operations, particularly programs for accounting, inventory and storefront management, for cost reduction and increased efficiency. In collaboration with our business partners and experts, KBank launched seminars and workshops to provide our customers knowledge and up-to-date management techniques, such as accounting management and taxation, online marketing, and apartment business management, to promote their sustainable growth.

For card accepting merchant business, KBank launched a PR campaign to broaden the K PLUS SHOP customer base via mobile phone for increased sales opportunities among operators. One notable endeavor was development of a social payment feature on the K PLUS SHOP application, which provides greater convenience for both buyers and sellers as well as functions for management such as voice-based notification of incoming funds, adding of users authorized to receive incoming funds notification, and creation of stamp collection cards as well as other promotional campaigns to spur greater use of services. In addition, campaigns were launched to promote spending via QR code under the Thai QR Payment standard, as well as for acceptance of payment via Alipay and WeChat Pay to accommodate Chinese tourists.

KBank has also developed an Electronic Data Capture (EDC) that accommodates QR code payment with VISA, MasterCard and UnionPay cards. Presently in the trial stage with certain merchants under the Bank of Thailand’s regulatory sandbox, the service is expected to be rolled out in the first quarter of 2019 after receiving approval from the Bank of Thailand. The target group is merchants located in Bangkok and major cities.

■ High Net Worth Individual

2018 was another challenging year for investors. Amid volatile capital movements and diverging monetary policies of each country, investors had to keep a close eye on the latest developments. Being determined to perform at the standard of an international comprehensive wealth management service through our KBank Private Banking, we have designed a wide variety of investment products to provide greater alternatives for our High Net Worth Individual clients, with the aim of saving their time in asset management. Notable initiatives throughout 2018 included:

- (1) Investment innovations based on asset allocation: To bolster our customers' investment potential, we launched a greater number of innovative products so that they would never miss a chance for investment. In collaboration with our business partners via KASIKORN ASSET MANAGEMENT Co., Ltd., we launched multiple fund products focusing on investment in regions with potential. Offering of mutual funds included K China Controlled Volatility Fund (K-CCTV) and K European Small Cap Equity Fund (K-EUSMALL). We also worked with Muang Thai Life Assurance Public Company Limited to introduce The Ultimate Endowment 15/1, which invests in US stock and debt markets and guarantees the full amount of investment upon maturity plus tax-free benefit. In addition, we initiated the Property and Land Credit for Investment – a loan product designed specifically for our High Net Worth Individual clients, allowing them to earn benefits from their property or land pledged as collateral against their loan.
- (2) Delivery of comprehensive services covering all asset classes which can respond to the needs of customers across all segments and age ranges. Our notable endeavors included:
 - 2.1 Development of two major advisory services, i.e., Family Wealth Planning Service and Non-capital Market Advisory, with the aim of providing our customers complete advice for all classes of assets via a team of specialists as well as through activities, seminars and various channels.
 - 2.2 Development of Private Banking Service dedicated to Chinese clients and Chinese-speaking patrons through a work team who can communicate in Chinese and possess a genuine understanding of Chinese customers' demands.
 - 2.3 Organization of KPB Academy: Next Generation 2018 for the fourth consecutive year as well as a seminar on studying abroad, aimed at grooming successors for leadership in their family business.

■ Affluent

We continued to focus on becoming our Customers' Main Bank under the Customer Centricity strategy. We prioritized development of products and services including privileges and activities based on big data analysis and processing through collaboration of relevant divisions, branches and relationship managers (RMs) to better meet both the personal and business needs of our customers with enhanced efficiency.

In 2018, we introduced deposit and investment products along with advisory services with no “hard-sell” tactics. Products of note were special fixed-term deposits such as a 15-month fixed-term deposit program with monthly interest payment, a unit-linked life insurance and a health insurance rider – the Elite Health Plus. In addition, KASIKORN ASSET MANAGEMENT Co., Ltd. was approved by the Office of Securities and Exchange Commission to be the designer of fund investment via K-My Funds application – the first service of its kind in Thailand – which reinforces our status as a leading digital wealth advisor. To comprehensively meet investors’ demands, multiple mutual funds were launched with the use of asset allocation techniques to suit varied circumstances. They included K Guaranteed 5 Years A Fund (KGT5YA), which guarantees the full investment amount upon maturity of the fund project or within five years of investment, and K China Controlled Volatility Fund (K-CCTV), a fund of funds which invests in investment units of no fewer than two foreign funds registered or traded in Chinese stock exchanges.

Meanwhile, we elevated THE WISDOM brand to mark its 10th anniversary and maintain our leadership status with the delivery of an extraordinary experience through ongoing special activities in alignment with customers’ needs. Of note were “The Symbol of Your Journey: East Meets West” and “Exclusive Sneak Preview of Bangkok Art Biennale”. For exclusive experiences beyond financial transactions, we launched THE WISDOM Lounge @ ICONSIAM together with reserved parking service at ICONSIAM.

■ Middle Income

We continued to act on our aspiration to become “Customers’ Life Platform of Choice” – the most-preferred platform that can meet the needs of all customer groups in every aspect of their lives, in order to promote greater use of KBank products while maintaining our status of “Customers’ Main Bank”. In 2018, we still worked to establish “THE PREMIER” as the brand of millennial customers whose investments range from Baht 2-10 million, through the Premier Success Forum 2018, “Passion to Success”, in which passionate special guests from various professions were invited to share their experience with participants. Moreover, we provided knowledge on various financial matters to our KBank Payroll customers via K PLUS, on a monthly basis.

For savings products, we introduced Pro Saving 510 offering 10-percent cash benefit every year to customers, who are allowed to make interest-free installment payments for the tax-deductible premium via K-Credit Card, for 10 months.

Regarding loan products, KBank prioritizes customer screening per our prudent credit policy in order to maintain overall portfolio quality. We focused on promotional campaigns to achieve the loan target. They included:

- (1) K-Home Loan: Partnering with leading property developers, we conducted co-promotion activities in strategic provinces to provide home loans with special interest rates to customers seeking to purchase new or pre-owned homes and to refinance their mortgage, in addition to the offer of pre- and post-finance assistance to developers. We have also added channels for applying for K-Home Loan via K PLUS and LINE@ KBank Live. Another notable innovation was “CO Online”,

which allows transfer of loan amount directly to the project owner instead of cashier cheque payment upon mortgage registration.

(2) K-Credit Card: KBank focused on acquiring new high-income customers to meet the lifestyle needs of specific customer groups. This year, we debuted the OneSiam-KBank Credit Card while also offering promotions for all spending categories based on big data analyses to be more aligned with customers' lifestyles. Notable initiatives included the "K Day Hey Day" campaign which was held at various department stores to promote greater year-end spending, a promotion to spur spending in foreign currencies abroad, along with an added channel for KBank Reward Point redemption via K PLUS.

(3) K-Personal Loan: We focused on a Machine Lending Program for KASIKORNBANK Personal Loans, allowing customers to apply for personal loan via K PLUS. Special offers were also designed for new K-Express Cash applicants who are KBank Payroll customers, and employees with regular income.

In alignment with our strategy of becoming the Customer's Life Platform of Choice, we introduced the Pay with K PLUS service which allows customers to buy goods or services via Facebook, whereas another ongoing campaign was used to promote QR code payment. In cooperation with Muang Thai Insurance Public Company Limited, we developed K-Motor, a tool for offering online motor insurance premium payments and notifications for enhanced efficiency, to accommodate expansion of motor insurance service provided by KBank.

■ Mass

We prioritized the strategy of attracting customers with the potential to become Middle Income clients to use KBank as their main bank. In 2018, we introduced marketing activities and PR campaigns to promote the KBank brand among university faculty and staff. We also worked with leading universities in the launch of pilot projects designed for educational development and promotion of technology-related skills. Of note were a cooperative effort with the National Innovation Agency (Public Organization) in a project promoting the creation of startups within institutions of higher education, the collaborative project of launching university applications, the "cashless society" program and co-working space within the campus.

Meanwhile, we debuted KBank Service as part of our effort to broaden our new customer base in provincial areas where digital banking penetration is still low, and there is no KBank branch service available. To this end, KBank Service agents have been appointed to serve as a bank branch for accepting cash deposit into KBank accounts. Now available at Thailand Post offices and Family Mart outlets, the service will be expanded further through collaboration with other potential partners in various businesses.

Moreover, KBank has continuously encouraged our customers to use electronic services and conduct transactions via electronic channels, especially the K PLUS application. Initiatives of note were the K-Mangmoom Debit Card that can be used for travel on the MRT Blue and Purple Lines, and the K-Provincial Debit Card. We also debuted the Basic Banking Account to accommodate individual customers at least 65

years old or those participating in the government's welfare scheme, to provide such persons improved access to financial services. Along with this, we continued to offer numerous benefits for loans, deposits, investments and other lifestyle privileges via the K-Payroll Benefits program.

3.4 Service Channels

In 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 2018 included:

- **Domestic branch network:** Our focus was on the development of new branch formats to accommodate service use of customers in relevant areas to ensure a novel brand perception. We also enhanced efficiency of existing service channels with the application of technology and big data for sales and service development, and through linkage of digital channels to physical and electronic branches as well as banking services outside of branches for sales and service enhancement. New branch formats included K PARK, which serves as a lifestyle community providing a variety of services, and K Lobby – a full-service electronic branch where customers can conduct basic banking transactions by themselves. For the enhanced convenience of foreign customers, we have Burmese-speaking officers stationed at the Big C Mahachai branch.

In response to changing consumer behavior, as evidenced by the increased use of mobile banking services rather than physical branches, we continued to consolidate branches with relatively low traffic and to expand service channels at viable locations to ensure that the number of branches is sufficient to meet the demands of customers in all areas.

Meanwhile, we took into account the appropriate management of foreign exchange booths, especially in viable areas. While we closed some booths at certain sites, more of them were opened in strategic areas, especially at major tourist attractions. To remain competitive, we revised foreign exchange buying and selling rates at highly competitive locations. In addition, marketing activities were organized at specific booths, including a campaign to promote the use of K-Credit Card for the purchase of foreign currencies, a four-month installment plan with no fee or interest charged, and redemption of credit card reward points for a discount of up to 10 percent on the purchase of foreign currencies.

- **International Branch Network:** In adherence to our strategy of becoming “The Bank of AEC+3”, KBank remained committed to expanding our business operations in the CLMVI bloc (comprising the Kingdom of Cambodia, Lao People's Democratic Republic, Republic of the Union of Myanmar, Socialist Republic of Vietnam and Republic of Indonesia) through the Dual-Track Regional Digital Expansion operation. In detail:

- **Conventional Expansion:** KBank aims to upgrade our services in the CLMVI bloc in order to highlight our regional footprint in response to customers seeking to venture into other ASEAN countries. In 2018, we began providing business loans to local operators and Thai companies investing in Lao People's Democratic Republic and the Kingdom of Cambodia. Meanwhile, we have expanded our branch network in the Socialist Republic of Vietnam and the Republic of

the Union of Myanmar to accommodate the upgrade of the representative offices there to the status of a branch, by 2019-2020. 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 expand the scope of business there to allow us to offer full-scale services to customers.

- **Digital Expansion:** Through development of digital and mobile solutions, we envisage our digital expansion to accommodate a large number of new customers in the future, in keeping with our strategy of becoming the Regional Life Platform of Choice in AEC+3. At the end of 2018, we introduced an e-wallet payment service in Lao People's Democratic Republic, and established KASIKORN VISION COMPANY LIMITED (KVision) as an investment holding company to be responsible for scouting tech communities to find innovative firms and tech talents from all corners of the world to collaborate and develop new technological capabilities. The investment may be held directly under KVision or through Beacon Venture Capital Fund. KVision will initially focus on building a strong foundation in four target countries, including the People's Republic of China, where there is a large pool of fintech companies; the Republic of Indonesia and the Socialist Republic of Vietnam, where tech startups have been among the fastest-growing sectors in ASEAN; and the State of Israel, an incubator of tech talents where new technologies originate.

Branches and Financial Service Offices/Centers

| Domestic Service Network | Number of Locations | | Overseas Service Network | Number of Locations | | |
|------------------------------------|---------------------|-------|---|---|--------|--------|
| | 2018 | 2017 | | 2018 | 2017 | |
| Branch Network ¹⁾ | 958 | 1,026 | Branches and Overseas Service Network: | 17 | 17 | |
| Foreign Exchange Booth | 137 | 142 | Branches of Locally Incorporated Institution | 6 | 6 | |
| THE WISDOM | 102 | 105 | KASIKORNTHAI BANK LIMITED (Lao PDR) | 2 | 2 | |
| Corporate Business Center | - | 8 | 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 | 20 | 33 | Electronic Banking Services | Number of Units | | |
| | | | | 2018 | 2017 | |
| | | | | Self-Service Channel (K-ATM and K-CDM) | 11,985 | 11,891 |
| | | | | K-ATM (Automated Teller Machines) | 9,369 | 9,302 |
| | | | | K-CDM (Cash Deposit Machines) | 2,616 | 2,589 |
| | | | K-PUM (Passbook Update Machines) | 1,075 | 1,109 | |

Note: ¹⁾ Excluding 9 branches, classified as other branch platforms per the Bank of Thailand's conditions

²⁾ Excluding International Trade Service Centers. More than one SME Business Center may be located in a single branch.

2. Electronic Network comprises:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus to accommodate round-the-clock financial transactions with security, along with installation of self-service machines. We have developed ATM and CDM machines to accommodate new services available via K PLUS, especially cardless withdrawal. Moreover, new PR campaigns of our business partners were conducted via ATM screens to offer the greatest benefit to our clients, whereas various languages are available at ATM machines for the greater convenience of our foreign clients. At the same time, we prioritized appropriate machine management for broader service coverage in viable areas.

- **Digital Banking Services:** Reinforcing our digital banking leadership, we have continually developed our digital service channels with the aim of becoming the most-preferred platform that can meet customers' needs in every aspect of their lives. To this end, we introduced a new version of K PLUS based on the concept, "With change, we understand you better", plus new lifestyle functions to match each user's needs. Moreover, K PLUS capacity has been enhanced under the concept, "From Digital to Intelligence", through the launch of KADE, or K PLUS AI-Driven Experience, a financial innovation driven by artificial intelligence (AI) technology to learn and better understand each customer's behavior based on big data analytics, in order to personalize their experience. Major initiatives in 2018 included:

1) **K PLUS:** We have developed new features for an improved customer experience through simplified banking transactions such as:

- Cardless withdrawal function;
- K+ Today featuring notifications of important and favorite transactions;
- Personal loan service allowing K PLUS users to check loan details and request a loan via K PLUS;
- Addition of membership cards of KBank partners to K PLUS, to facilitate shoppers in their point collection and point redemption for privileges;
- K+ MARKET, a large online marketplace which directly links buyers and small retailers.

2) **K-Cyber:** We focused on maintaining the integrity 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 have developed a new version of K-Payment Gateway through the use of Application Programming Interface (API) format for service linkage/connectivity. The service is now being tested in a regulatory sandbox to allow merchants to link their own programs to our system, which also accommodates QR code payment under the Thai QR Payment standard, in addition to payment made via debit and credit card.

- **K-Contact Center:** We aim to become the "Best Contact Center" through provision of service information, banking news and complaint handling available 24 hours a day in four channels of KBank Live

social media including Facebook, Twitter, YouTube and LINE, as well as the Pantip website under the name K8888, and an email address, info@kasikornbank.com. Moreover, we have developed numerous comprehensive service channels for enhanced customer convenience in order to deliver an impressive service experience to our customers. Through continually listening to public opinion, we are more immediately aware of customers' issues or demands, and use such information as input for upgrades to our services provided via both physical and online channels. Along with this, we regularly improve our processes to ensure the customers' utmost benefit.

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 2018, notably:

Awards to KBank and K Companies¹⁾

- Selected for inclusion in **Dow Jones Sustainability Indices (DJSI) 2018** - both the DJSI World and DJSI Emerging Markets indices for the third consecutive year from S&P Dow Jones and RobecoSAM
- Selected for inclusion in **the FTSE4Good Emerging Index 2018** based on Environment, Social and Governance (ESG) from FTSE and Russel for the third year running
- Selected to be a member of **Bloomberg Gender-Equality Index** – Thailand's first company, by Bloomberg
- Ranked **No. 8 World Best Employers Ranking** from Forbes magazine
- **Top 50 ASEAN Publicly Listed Companies** for the second consecutive year from ASEAN Capital Markets Forum (ACMF)
- **The APAC Innovation of the Year 2018 Gold Award**, Asia-Pacific financial service category, from Efma and Accenture for the development of CU NEX application. Five awards from The Asian Banker journal: **The Best Private Bank in Thailand**, **Best Retail Bank in Thailand** for the ninth consecutive year, **Best Cash Management in Thailand**, **The Best Credit Evaluation Initiative** and **The Best Frictionless Mobile Initiative**
- Four awards: **Domestic Cash Management Bank of the Year – Thailand** for the second consecutive year, **Domestic Retail Bank of the Year – Thailand** for the fifth consecutive year, **Financial Inclusion Initiative of the Year – Thailand** and **Credit Card Initiative of the Year – Thailand** for the second successive year from Asian Banking & Finance magazine
- Five awards: **Best Cash Management Bank in Thailand**, **Best FX Bank for Corporates & FIs in Thailand**, **Best Retail Bank in Thailand**, **Best Local Currency Bond Deal in Southeast Asia** and **Marquee Award - Most Improved Bond House**, from Alpha Southeast Asia magazine
- Three awards: **Winner: Dynamic Third Party Collaboration**, **Highly Commended: Excellence in Service Innovation** and **Highly Commended: Best Social Media Marketing Campaign** from Retail Banker International (RBI) journal
- Two awards: **Thailand Bond House of the Year** and **Thailand Capital Market Deal**, from IFR Asia Magazine and **Best Corporate Bond** from The Asset magazine
- **Best Private Bank in Thailand 2018** from The Banker magazine
- **Best Private Bank in Thailand** from The Asian Banker
- Rated “**Excellence**”, based on **the Corporate Governance Report of Thai Listed Companies 2018** by Thai Institute of Directors Association (IOD)

Awards to KBank and K Companies¹⁾

- Graded “Excellence”, based on the **AGM Quality Assessment Program 2018**, organized by Thai Investors Association, the Office of the Securities and Exchange Commission and Thai Listed Companies Association
- **Distinguished Award** from **Thailand Corporate Excellence Awards** , organized by Thailand Management Association (TMA) and Sasin Graduate Institute of Business Administration of Chulalongkorn University
- Three Awards: **Best Employee Value Proposition - Silver**, **Best Advance in Creating a Talent Strategy - Bronze** and **Best Advance in Employee Recognition - Bronze** from Brandon Hall Group
- Named the **Excellent Establishment on Labor Relations & Welfare** by Department of Labour Protection and Welfare, Ministry of Labour, for the 13th consecutive year
- **Excellent ESCO Financial Supporting Awards** from Ministry of Energy

¹⁾ In the Annual Report, this item is shown under the topic “Awards and Commendations Granted to KASIKORNBANK and K Companies in 2018”

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for 2018 totaled Baht 38,459 million, increasing Baht 4,121 million or 12.00 percent. The increase was mainly due to a decrease of Baht 9,278 million or 22.19 percent in allowance for impairment loss on loans in line with our improved asset quality. Moreover, net interest income rose Baht 4,377 million or 4.65 percent, which was derived mainly from interest income from loan and interest income from investments. Non-interest income decreased Baht 5,750 million or 9.17 percent due largely to cancellation of fees for funds transfer via digital channels and decrease in net premiums earned - net whereas income from money market products rose as a result of foreign exchange transactions. Other operating expenses also increased Baht 1,976 million or 2.98 percent over-year, due mainly to marketing expenses.

Operating Performance for 2018

(Unit: Million Baht)

| | 2018 | 2017 | Change | |
|--|---------|---------|--------------|---------|
| | | | Million Baht | Percent |
| Net Interest Income | 98,538 | 94,161 | 4,377 | 4.65 |
| Non-Interest Income | 56,945 | 62,695 | (5,750) | (9.17) |
| Total Operating Income - net | 155,483 | 156,856 | (1,373) | (0.88) |
| Total Other Operating Expenses | 68,348 | 66,372 | 1,976 | 2.98 |
| Impairment Loss on Loans and Debt Securities | 32,532 | 41,810 | (9,278) | (22.19) |
| Net Profit (attributable to equity holders of KBank) | 38,459 | 34,338 | 4,121 | 12.00 |
| Basic Earnings per Share (Baht) | 16.07 | 14.35 | 1.72 | 12.00 |

Major financial ratios that reflected operating performance of KBank and our subsidiaries in 2018 and 2017 are as follows:

(Unit: Percent)

| Financial Ratio | 2018 | 2017 | Change |
|---------------------------------------|-------|-------|--------|
| Return on Assets (ROA) | 1.27 | 1.20 | 0.07 |
| Return on Equity (ROE) | 10.61 | 10.24 | 0.37 |
| Net Interest Margin (NIM) | 3.39 | 3.44 | (0.05) |
| Non-Interest Income to Average Assets | 1.88 | 2.18 | (0.30) |
| Non-Interest Income Ratio | 36.62 | 39.97 | (3.35) |
| Cost to Income Ratio | 43.96 | 42.31 | 1.65 |

(Unit: Percent)

| Financial Ratio | 2018 | 2017 | Change |
|---------------------------------------|--------|--------|--------|
| Net NPLs to Total Loans | 1.89 | 1.85 | 0.04 |
| Gross NPLs to Total Loans | 3.34 | 3.30 | 0.04 |
| Coverage Ratio | 160.60 | 148.45 | 12.15 |
| Loans ¹⁾ to Deposits Ratio | 95.94 | 95.96 | (0.02) |
| Capital Adequacy Ratio ²⁾ | 18.32 | 17.96 | 0.36 |
| Tier 1 Capital Ratio ²⁾ | 15.90 | 15.66 | 0.24 |

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

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

□ Net Interest Income

KBank's consolidated net interest income for 2018 was Baht 98,538 million, increasing Baht 4,377 million or 4.65 percent over-year, due mainly to rising interest income from loan in line with growth of average loan and interest income from investments. Meanwhile, interest expenses increased due largely to expenses from deposit interest in line with rising average deposits. Our NIM for 2018 equaled 3.39 percent, lower than the previous year, which was in line with the set target.

(Unit: Million Baht)

| | 2018 | 2017 | Change | |
|--|----------------|----------------|--------------|---------------|
| | | | Million Baht | Percent |
| Interest Income | | | | |
| Interbank and Money Market Items | 7,197 | 7,011 | 186 | 2.66 |
| Deposits | 818 | 1,068 | (250) | (23.44) |
| Loans without Repurchase Agreements | 635 | 483 | 152 | 31.60 |
| Repurchase Agreements | 5,744 | 5,460 | 284 | 5.20 |
| Investments | 18,192 | 16,820 | 1,372 | 8.16 |
| Trading Investments | 244 | 262 | (18) | (6.99) |
| Available-for-Sale Investments | 2,822 | 2,719 | 103 | 3.78 |
| Held-to-Maturity Investments | 15,126 | 13,839 | 1,287 | 9.30 |
| Loans | 93,246 | 90,434 | 2,812 | 3.11 |
| Hire Purchase and Finance leases | 5,273 | 5,059 | 214 | 4.23 |
| Others | 14 | 13 | 1 | 3.39 |
| Total Interest Income | 123,922 | 119,337 | 4,585 | 3.84 |
| Total Interest Expenses | 25,384 | 25,176 | 208 | 0.83 |
| Total Interest Income – net | 98,538 | 94,161 | 4,377 | 4.65 |
| Yield on Earning Assets (percent) | 4.27 | 4.37 | | (0.10) |
| Cost of Fund (percent) | 1.19 | 1.22 | | (0.03) |
| Net Interest Margin (NIM) (percent) | 3.39 | 3.44 | | (0.05) |

□ Non-Interest Income

For 2018, KBank's consolidated non-interest income totaled Baht 56,945 million, decreasing Baht 5,750 million, or 9.17 percent over-year, which was close to the set target. The decrease was due mainly to cancellation of fees for funds transfer via digital channels and decrease in net premiums earned - net. Meanwhile, income from money market products rose as a result of foreign exchange transactions. Non-interest income ratio of KBank and our subsidiaries stood at 36.62 percent due to decrease in non-interest income whereas net interest income rose.

(Unit: Million Baht)

| | 2018 | 2017 | Change | |
|---|---------------|---------------|----------------|---------------|
| | | | Million Baht | Percent |
| Non-Interest Income | | | | |
| Fees and Service Income | 51,187 | 51,757 | (570) | (1.10) |
| Fees and Service Expenses | 13,070 | 10,451 | 2,619 | 25.05 |
| Fees and Service Income – net | 38,117 | 41,306 | (3,189) | (7.72) |
| Gain on Trading and Foreign Exchange Transactions | 9,003 | 8,411 | 592 | 7.05 |
| Loss on Financial Liabilities Designated at Fair Value through Profit or Loss | - | (2) | 2 | 100.00 |
| Gain on Investments | 2,652 | 3,491 | (839) | (24.02) |
| Share of Profit from Investments using Equity Method | 50 | 158 | (108) | (68.56) |
| Dividend Income | 2,118 | 1,991 | 127 | 6.37 |
| Net Premiums Earned - net | 91,434 | 99,786 | (8,352) | (8.37) |
| Other Operating Income | 1,468 | 1,405 | 63 | 4.46 |
| <u>Less</u> Underwriting Expenses | 87,897 | 93,851 | (5,954) | (6.34) |
| Total Non-Interest Income | 56,945 | 62,695 | (5,750) | (9.17) |
| Non-Interest Income to Average Assets (percent) | 1.88 | 2.18 | | (0.30) |
| Non-Interest Income Ratio (percent) | 36.62 | 39.97 | | (3.35) |
| Net Fee Income to Net Total Operating Income Ratio (percent) | 24.52 | 26.33 | | (1.81) |

□ Other Operating Expenses

KBank's consolidated other operating expenses for 2018 was Baht 68,348 million, rising Baht 1,976 million, or 2.98 percent over-year. The increase was due mainly to increased marketing expenses. Our cost to income ratio of 2018 was thus equal to 43.96 percent, higher than 42.31 percent in the previous year, which was better than the set target.

(Unit: Million Baht)

| | 2018 | 2017 | Change | |
|---------------------------------------|---------------|---------------|--------------|-------------|
| | | | Million Baht | Percent |
| Employee Expenses | 31,369 | 31,008 | 361 | 1.17 |
| Directors' Remuneration | 143 | 140 | 3 | 2.44 |
| Premises and Equipment Expenses | 12,649 | 12,917 | (268) | (2.08) |
| Taxes and Duties | 4,868 | 4,525 | 343 | 7.57 |
| Others | 19,319 | 17,782 | 1,537 | 8.64 |
| Total Other Operating Expenses | 68,348 | 66,372 | 1,976 | 2.98 |
| Cost to Income Ratio (percent) | 43.96 | 42.31 | | 1.65 |

□ Impairment Loss on Loans and Debt Securities

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

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

KBank's consolidated classified loans and allowance for doubtful accounts, as of December 31, 2018, are shown in the table below:

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

(Unit: Million Baht)

| | Loans and Accrued Interest Receivables | Allowance for Doubtful Accounts | |
|--|---|---------------------------------|-----------------|
| | | Percent per BOT's Regulations | Total Provision |
| Normal | 1,783,072 | 1 | 5,743 |
| Special Mention | 36,396 | 2 | 151 |
| Sub-Standard | 18,614 | 100 | 8,093 |
| Doubtful | 23,740 | 100 | 10,418 |
| Doubtful of Loss | 32,075 | 100 | 14,067 |
| Loss | - | | - |
| Total | 1,893,897 | | 38,472 |
| Revaluation Allowance for Debt Restructuring | | | 1,796 |
| Total | 1,893,897 | | 40,268 |
| Excess Allowance | | | 78,952 |
| Credit Balance Transaction | 2,104 | | - |
| Loans from Life Insurance Business | 21,458 | | 265 |
| Total | 1,917,459 | | 119,485 |

As of December 31, 2018, KBank's consolidated allowance for doubtful accounts, comprising allowance for doubtful accounts of customers and financial institutions of Baht 117,689 million and revaluation allowance for debt restructuring of Baht 1,796 million, totaled Baht 119,485 million. This amount was greater than the level required by the Bank of Thailand.

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

— Impairment Loss on Loans and Debt Securities

During 2018, KBank and our subsidiaries set aside impairment loss on loans and debt securities at Baht 32,532 million, a decrease of Baht 9,278 million or 22.19 percent over-year in line with our improved asset quality. Thus our credit cost for 2018 stood at 1.75 percent, lower than 2.39 percent in the previous year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

| | 2018 | 2017 | Change | |
|--|--------|--------|--------------|---------|
| | | | Million Baht | Percent |
| Impairment Loss on Loans and Debt Securities | 32,532 | 41,810 | (9,278) | (22.19) |
| Credit Cost (percent) | 1.75 | 2.39 | | (0.64) |

Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of December 31, 2018, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 119,485 million. This amount was equivalent to 296.73 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of December 31, 2018, KBank's consolidated NPLs stood at Baht 74,400 million, 3.34 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 72,346 million, 3.31 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Non-Performing Loans

(Unit: Million Baht)

| For the Year Ending | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---------------|---------------|
| Consolidated NPLs | 74,400 | 69,674 |
| Percent of total outstanding credit, including that of financial institutions | 3.34 | 3.30 |
| Bank-only NPLs | 72,346 | 67,624 |
| Percent of total outstanding credit, including that of financial institutions | 3.31 | 3.25 |

Net Non-Performing Loans

As of December 31, 2018, KBank's consolidated net NPLs stood at Baht 41,431 million – 1.89 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 40,769 million – 1.89 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

| For the Year Ending | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---------------|---------------|
| Consolidated net NPLs | 41,431 | 38,570 |
| Percent of total outstanding credit, including that of financial institutions | 1.89 | 1.85 |
| Bank-only net NPLs | 40,769 | 37,834 |
| Percent of total outstanding credit, including that of financial institutions | 1.89 | 1.84 |

Debt Restructuring

As December 31, 2018, KBank's consolidated restructured debts which incurred losses totaled Baht 69,605 million, increasing by Baht 7,365 million, or 11.83 percent when compared to 2017.

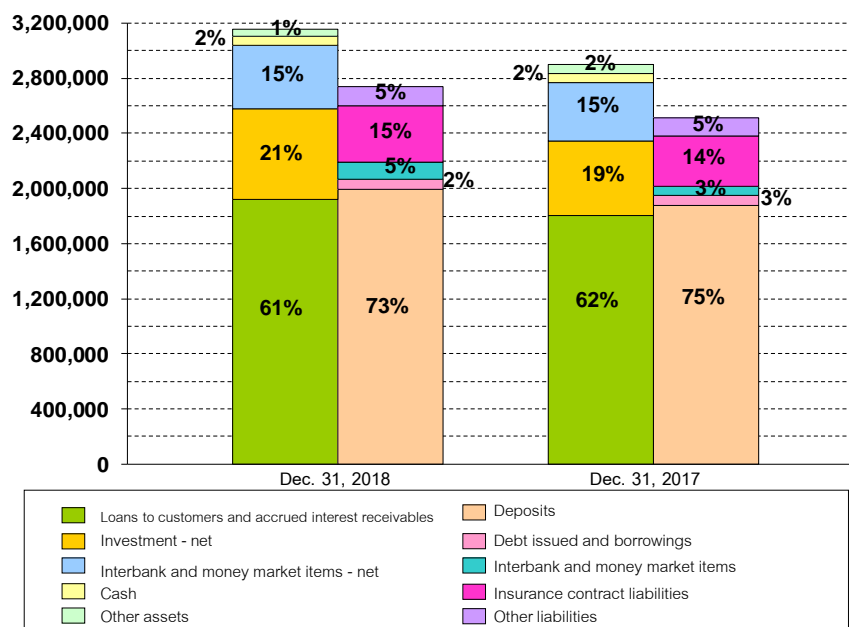
Foreclosed Properties

As of December 31, 2018, our consolidated foreclosed properties had a cost value of Baht 24,850 million, thus being 0.79 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,637 million, equivalent to 10.61 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)



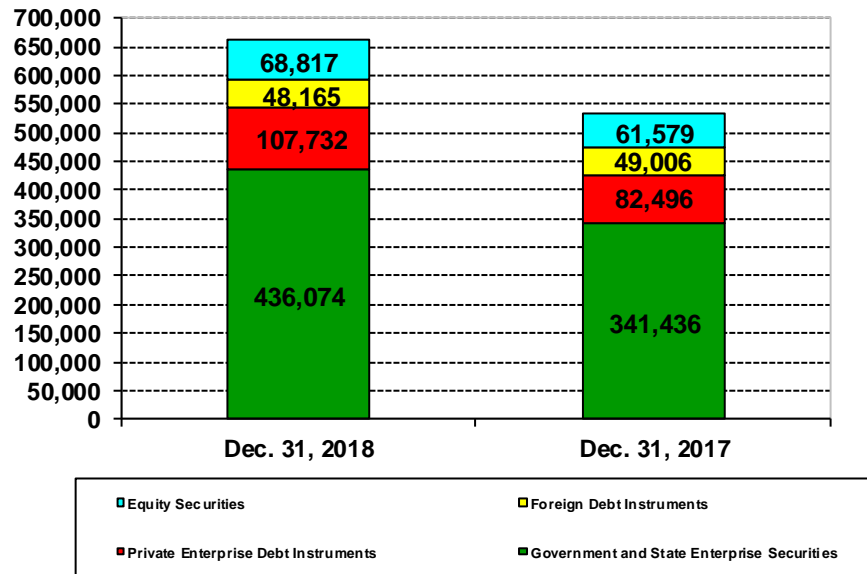
□ Assets

At the end of 2018, KBank's consolidated assets totaled Baht 3,155,091 million, increasing Baht 254,250 million or 8.76 percent from the end of 2017. The rise was due mainly to increased investments, loans to customers and net interbank and money market items (assets). Key details are as follows:

- Net investments totaled Baht 661,655 million at the end of 2018, increasing by Baht 126,095 million or 23.54 percent from the end of 2017 due mainly to rising investment in government bonds.
- Our consolidated loans (less deferred revenue) at the end of 2018 amounted to Baht 1,914,072 million, increasing by Baht 111,289 million or 6.17 percent from the end of 2017. Loan growth was in line with the set target. Most increases were seen in commercial loan and housing loan. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net interbank and money market items (assets) totaled Baht 461,987 million at the end of 2018, increasing by Baht 35,895 million or 8.42 percent from the end of 2017, due mainly to KBank's liquidity management.

Investments in Securities

(Unit: Million Baht)



□ Liabilities and Equity

Our consolidated liabilities, at the end of 2018 amounted to Baht 2,737,269 million, which rose Baht 224,250 million or 8.92 percent from the end of 2017. The increase was mainly attributable to increased deposits, interbank and money market items (liabilities) and insurance contract liabilities. Significant changes in our consolidated liabilities included:

- Deposits at the end of 2018 equaled Baht 1,995,001 million, increasing Baht 116,329 million or 6.19 percent from the end of 2017, mainly as a result of increase in savings and fixed-term deposits. KBank's deposits ranked the fourth-largest among Thai commercial banks.
- Insurance contract liabilities at the end of 2018 were Baht 410,748 million, an increase of Baht 47,233 million or 12.99 percent from the end of 2017, in line with the growth in life insurance business.
- Interbank and money market items (liabilities) at the end of 2018 equaled Baht 128,003 million, increasing Baht 58,714 million or 84.74 percent from the end of 2017, due largely to increase in private REPO transactions.

At the end of 2018, total equity attributable to equity holders of KBank amounted to Baht 376,298 million, rising by Baht 27,673 million or 7.94 percent from the end of 2017, largely driven by net operating profit for 2018 at Baht 38,459 million despite the interim dividend payment from net profit for the first half of 2018 that was made in September 2018, totaling Baht 1,197 million.

□ Relationship between Sources and Uses of Funds

As of December 31, 2018, the funding structure as shown in the consolidated financial statement comprised Baht 2,737,269 million in liabilities and Baht 417,822 million in total equity, resulting in a debt-to-equity ratio of 6.55. The main source of funds on the liabilities side was deposits, which equaled Baht 1,995,001 million, or 63.23 percent of the total source of funds, as of December 31, 2018. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 4.06 percent and 2.24 percent of the total, respectively.

KBank's and subsidiaries' major use of funds was loans less deferred revenue, which as of December 31, 2018, amounted to Baht 1,914,072 million, resulting in loan-to-deposit ratio and loan-to-deposit plus bills of exchange ratio of 95.94 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, and investments in securities.

KBank and Subsidiaries' Major Sources and Uses of Funds

(Unit: Million Baht)

| Period | Deposits | | | | Loans | | | |
|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | Dec. 31, 2018 | Percent | Dec. 31, 2017 | Percent | Dec. 31, 2018 | Percent | Dec. 31, 2017 | Percent |
| ≤ 1 Year | 1,972,597 | 98.88 | 1,858,490 | 98.93 | 842,675 | 44.03 | 786,318 | 43.62 |
| > 1 - 5 Years | 22,404 | 1.12 | 20,182 | 1.07 | 493,864 | 25.80 | 479,836 | 26.61 |
| > 5 Years | - | - | - | - | 577,533 | 30.17 | 536,629 | 29.77 |
| Total | 1,995,001 | 100.00 | 1,878,672 | 100.00 | 1,914,072 | 100.00 | 1,802,783 | 100.00 |

As of December 31, 2018, deposits with maturities within 1 year were larger than loans with remaining maturities within 1 year. This is considered normal for commercial banks in Thailand, as they normally fund their lending or investments in long-term assets from short-term liabilities. However, since most deposits are renewed upon maturity, it is considered likely that they will remain with KBank longer than their stated contractual term, thereby helping to support funding for KBank's lending.

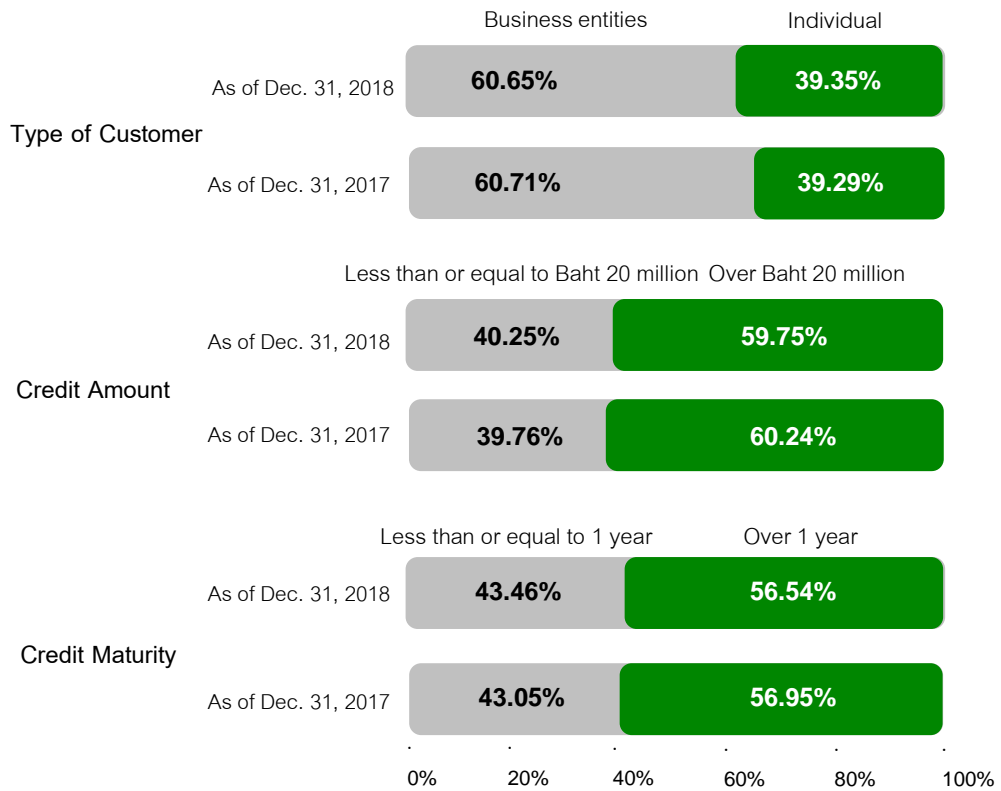
4.3 Loans and Deposits

□ Loans

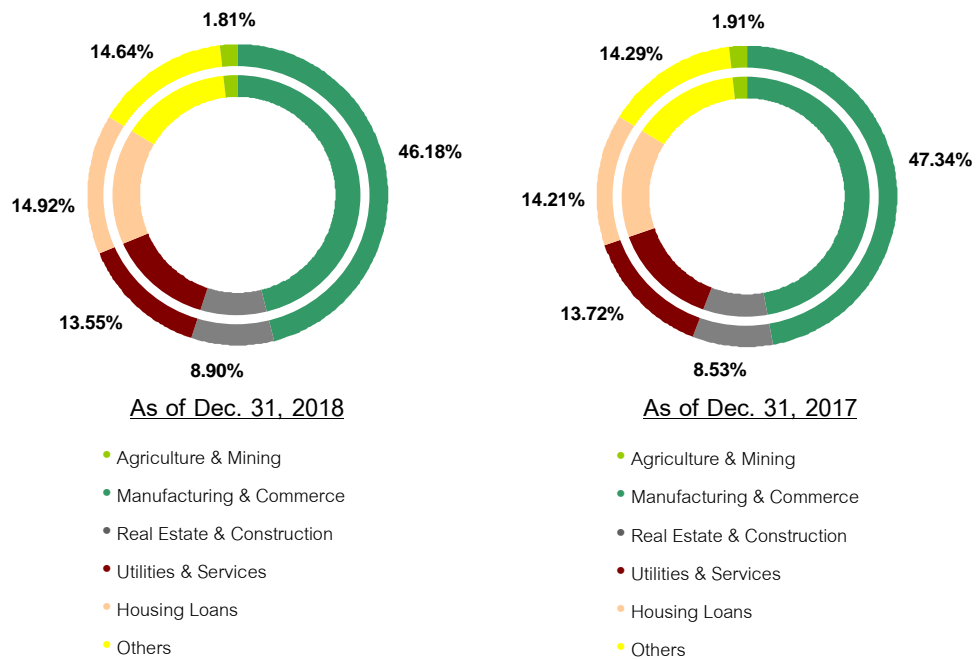
As of December 31, 2018, KBank's consolidated outstanding loans stood at Baht 1,914,072 million, increasing by Baht 111,289 million, or 6.17 percent, compared to Baht 1,802,783 million at the end of 2017.

As of December 31, 2018, 60.65 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,116,170 million, or 59.75 percent of the total; 40.25 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 43.46 percent of our total loans.

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



KBank's Consolidated Lending Portfolio

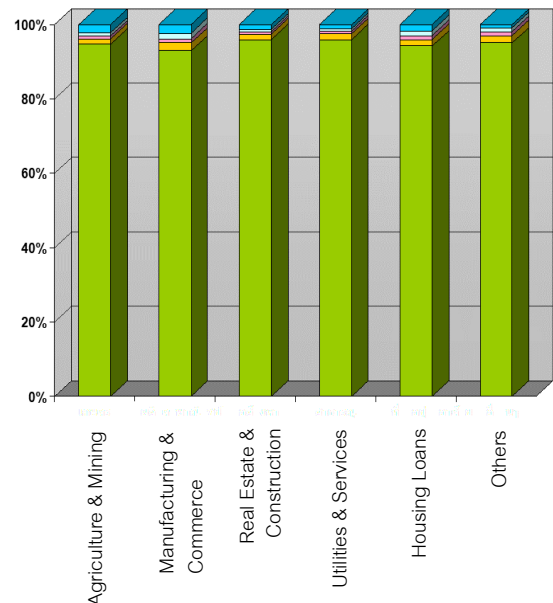
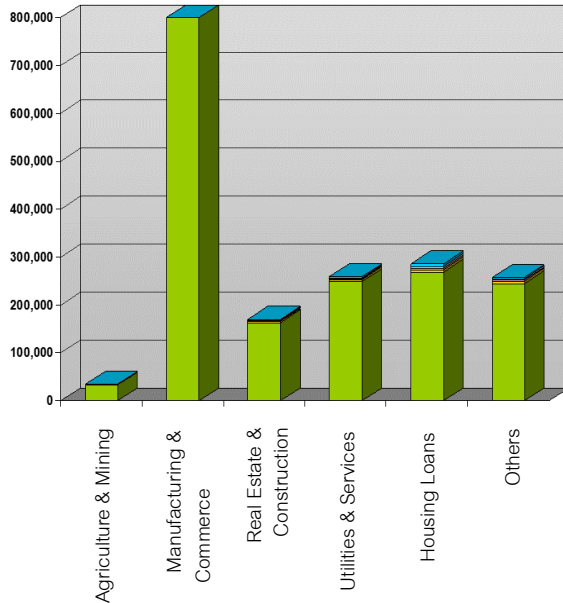


As of Dec. 31, 2018

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, 94.51 percent were classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 46.18 percent; of that 92.95 percent were classified as "Normal" loans.

Loans Classified by Business

(Unit: Million Baht)

| | Dec. 31, 2018 | | Dec. 31, 2017 | |
|-------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|
| | Corporate Business ¹⁾ | Retail Business ²⁾ | Corporate Business ¹⁾ | Retail Business ²⁾ |
| Loans | 1,344,381 | 487,632 | 1,271,411 | 443,779 |

Notes: ¹⁾ "Corporate Business" refers to registered companies, certain private individual business customers, government agencies, state enterprises, as well as financial institutions, etc. KBank provides a variety of financial products and services to them, e.g., long-term and working capital loans, letter of guarantee, trade finance solutions, syndicated loans, cash management solutions and value chain solutions.

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

As of the end of 2018, our corporate business loans (Corporate and SME customers) increased by Baht 72,970 million, or 5.74 percent, from the end of 2017. The increase was derived from real estate, construction and commerce, which was in line with Thai economic growth, as reflected by improvements in employment, non-farm income and consumer confidence.

Our retail loans grew Baht 43,853 million, or 9.88 percent, over-year. The growth was quite satisfactory. We continued with a cautious growth policy so as to maintain our loan quality as well as our market leadership in major loan products, especially home loans. KBank worked with our business partners to launch special interest rate campaigns for all groups of customers seeking to refinance their mortgage, or purchase a new or pre-owned home, while also expanding our market in strategic provinces and offering loan services online. For K-Personal Loan, we still focused on expanding the service via the K PLUS application, with the use of a machine learning program for customer data analyses. At the same time, campaigns for K-Personal Loan and K-Express Cash were launched to attract potential customers. In addition, we introduced new credit cards along with ongoing campaigns to promote greater spending via the cards, catering to all aspects of their lives.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

| | Percent of Total Deposits | Deposits | | Change | |
|-----------------------------|---------------------------------|---------------|---------------|--------------|---------|
| | | Dec. 31, 2018 | Dec. 31, 2017 | Million Baht | Percent |
| Total Deposits | 100.00 | 1,995,001 | 1,878,672 | 116,329 | 6.19 |
| Current accounts | 5.86 | 116,957 | 108,468 | 8,489 | 7.83 |
| Savings accounts | 72.01 | 1,436,615 | 1,372,947 | 63,668 | 4.64 |
| Fixed-term deposit accounts | 22.13 | 441,429 | 397,257 | 44,172 | 11.12 |

At the end of 2018, total deposits of both Corporate Business and Retail Business increased Baht 116,329 million, or 6.19 percent, compared to the end of 2017. This was line with our policy for management of deposits, which must be kept at levels appropriate for loan demand and competition. We could maintain savings accounts at a high level with the launch of K-eSavings Account via K PLUS in order to meet customers' needs for savings and convenience in account opening, as well as Basic Banking Account for small depositors in response to government policy. Meanwhile, we introduced special fixed-term deposit products in alignment with the needs of customers seeking such options for saving their money, resulting in an increase in fixed-term deposit accounts. In parallel, we offered other investment vehicles – especially a myriad of life insurance and mutual fund products – yielding attractive returns with an acceptable risk appetite to meet the needs of all customer groups.

4.4 Treasury Operations

□ Treasury Operations

For most of 2018, average overnight interbank lending rates stayed at 1.46 percent p.a. However, the MPC meeting resolved to hike the key policy rate by 0.25 percent to 1.75 percent p.a. on December 19, 2018, increasing overnight interbank lending rates to 1.71 percent p.a., on average.

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 2018, our liquidity position was appropriately managed, and we were able to maintain returns on investments by reducing our holding of short-term bonds, returns of which were lower than the policy rate. In addition, KBank invested in top-rated foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

Treasury Operations Income

(Unit: Million Baht)

| Income Structure of Treasury Operations (Banking Book) | Percent of Total Income | 2018 | 2017 | Change | |
|---|----------------------------|--------------|--------------|--------------|---------------|
| | | | | Million Baht | Percent |
| Interest income¹⁾ | | | | | |
| Interbank and money market items ²⁾ | 68.51 | 6,426 | 6,282 | 144 | 2.29 |
| Investments | 31.49 | 2,953 | 3,153 | (200) | (6.34) |
| Total | 100.00 | 9,379 | 9,435 | (56) | (0.59) |

Notes: ¹⁾ Managerial figures

²⁾ Including loans

During 2018, total interest income stood at Baht 9,379 million, decreasing by Baht 56 million, being 0.59 percent lower than in 2017 due to lower liquidity.

□ Liquid Asset Ratio

KBank maintains average fortnightly current deposits at not lower than 1.00 percent of total deposits and certain types of borrowings in accordance with the Bank of Thailand's regulations. For the fortnight of December 31, 2018, our deposits at the Bank of Thailand and cash at cash center averaged Baht 40,155 million, accounting for 1.05 percent of total deposit and certain types of borrowings.

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 | 2018 | 2017 |
|---|-------------------------|-----------|-----------|
| KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset) | Assets under Management | 1,379,736 | 1,302,686 |
| | Market Share (Percent) | 19.23 | 18.72 |
| KASIKORN SECURITIES PCL (KSecurities) | Trading Volume | 739,327 | 811,883 |
| | Market Share (Percent) | 2.98 | 3.71 |
| KASIKORN LEASING CO., LTD. (KLeasing) | Loans | 108,081 | 97,055 |
| KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E) | Loans | 20,377 | 17,633 |
| Muang Thai Life Assurance PCL (MTL) | Net Premiums Earned | 94,467 | 102,681 |
| | Market Share (Percent) | 15.06 | 17.06 |

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

During 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 funds, with a market share of 20.48 percent. Total market share of assets under management (AUM) was 19.23 percent. The excellent performance benefited from its synergy with KBank for product development to match consumers' needs. Notable efforts were the launch of new funds including K European Small Cap Equity Fund (K-EUSMALL) as an option for investors seeking to invest in small European stocks, and K Guaranteed 5 Years A Fund (KGT5YA), Thailand's first and only fund that guarantees the full investment amount. The company also continually developed 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 in funds designed to suit different risk appetites, plus a distinctive feature that clearly displays return on investment. Moreover, various investment tools were offered such as 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, with alert function, as well as My Message, which enables increased efficiency in investment with information updates suited to each investor, so that they never miss an 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 in setting up an effective investment and retirement plan.

Operating under business principles shared with KBank, KSecurities emphasizes development of excellent products and services, especially in research which have been made more timely, in-depth and precise, with broad coverage of all industries, securities trading services and investment banking, to be more responsive to investor needs and lifestyles. Along with this, investment technologies plus varied functions have

been introduced in alignment with investor behavior in the digital era, including KS Super Stock Mobile Application, for which a new function was developed to allow customers to view performance of their investment in derivatives in addition to securities products. At the end of 2018, the company developed an online securities account opening system to facilitate customers in their transactions with reduced documentation process. Through these endeavors, KSecurities held a market share of 2.98 percent.

KLeasing's outstanding loans posted over-year growth of 11.36 percent, 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 1.32 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 for enhanced service experience.

KF&E, which specializes in equipment leasing, reported over-year loan growth of 15.60 percent. 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 upheld its leading position in the life insurance business, with the number-two market share in total premiums at 15.06 percent. The company remained at the forefront in bancassurance, thanks to close cooperation with KBank in developing insurance plans that are in line with KBank customers' demands.

4.6 Capital Requirements

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

□ Overview of Minimum Capital Requirements

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

Minimum Capital Requirements comprise two parts, i.e.

1. Minimum Capital Requirement: Total capital ratio must be maintained at not less than 8.5 percent, comprising Common Equity Tier-1 ratio (CET1 ratio) and Tier-1 ratio at not less than 4.5 percent and 6.0 percent, respectively.
2. Capital Buffer: Beyond the minimum capital requirement, the Bank of Thailand requires that a conservation buffer be maintained as an additional requirement. The conservation buffer began at 0.625 percent CET1 ratio on January 1, 2016 and increases each subsequent year by an additional 0.625 percent, to reach its final level of 2.5 percent CET1 ratio in 2019.

Additional Minimum Capital Requirements

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

As of the end of 2018, KASIKORNBANK FINANCIAL CONGLOMERATE, under the Basel III capital requirements, had capital funds of Baht 381,339 million, consisting of Baht 330,923 million in Tier-1 capital and Baht 50,416 million in Tier-2 capital. The capital adequacy ratio of KBank was 18.32 percent, which is above the Bank of Thailand's minimum requirement and conservation buffer of 10.375 percent. Details are shown in the following table.

Capital Adequacy Ratio¹⁾

- KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

| Capital Adequacy Ratio | Basel III | | | | | | |
|------------------------------------|--|---------------|---------------|---------------|---------------|--|---------------|
| | The BOT's regulation minimum requirement & Conservation Buffer ⁴⁾ | Dec. 31, 2018 | Sep. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 | The BOT's regulation minimum requirement & Conservation Buffer ⁴⁾ | Dec. 31, 2017 |
| Tier-1 Capital Ratio ³⁾ | 7.875 | 15.90 | 16.50 | 15.57 | 15.41 | 7.25 | 15.66 |
| Common Equity Tier-1 Ratio | 6.375 | 15.90 | 16.50 | 15.57 | 15.41 | 5.75 | 15.66 |
| Tier-2 Capital Ratio | - | 2.42 | 2.46 | 2.48 | 2.29 | - | 2.30 |
| Capital adequacy ratio | 10.375 | 18.32 | 18.96 | 18.05 | 17.70 | 9.75 | 17.96 |

- The Bank

(Unit: Percent)

| Capital Adequacy Ratio | Basel III | | | | | | |
|------------------------------------|--|---------------|---------------|---------------|---------------|--|---------------|
| | The BOT's regulation minimum requirement & Conservation Buffer ⁴⁾ | Dec. 31, 2018 | Sep. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 | The BOT's regulation minimum requirement & Conservation Buffer ⁴⁾ | Dec. 31, 2017 |
| Tier-1 Capital Ratio ³⁾ | 7.875 | 14.75 | 15.26 | 14.43 | 14.38 | 7.25 | 14.62 |
| <i>Common Equity Tier-1 Ratio</i> | 6.375 | 14.75 | 15.26 | 14.43 | 14.38 | 5.75 | 14.62 |
| Tier-2 Capital Ratio | - | 2.51 | 2.55 | 2.56 | 2.57 | - | 2.58 |
| Capital adequacy ratio | 10.375 | 17.26 | 17.81 | 16.99 | 16.95 | 9.75 | 17.20 |

- 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 as per the Bank'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⁾ Tier 1 Capital is required to include phase-in or phase-out items at 20% per annum from January 1, 2014 onwards until reaching 100% in 2018.
 - ⁴⁾ Conservation buffer requires an additional Common Equity Tier 1 at 0.625% per annum from January 1, 2016 onwards until reaching 2.50% in 2019.

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

During 2018, we continued to implement Value-Based Management (VBM), which is a management practice comprising two main components, Corporate Value Creation and Corporate Governance. The VBM has been applied to business undertaking with the aim of achieving the highest value creation in accordance with our business strategies and goals. In achieving this objective, the Risk-Adjusted Return on Capital (RAROC) and Economic Profit (EP) – showing net profit after adjusting for both the risk charge and cost of capital – have been adopted as key measurements.

Moreover, we have developed guidelines for performance measurements consistent with various management aspects, including business direction, strategic and business planning that takes into consideration risk-adjusted returns, risk-based pricing and efficient resource management. In addition, we measure our business performance and analyze value-based profit, along with our "Customer Centricity" strategy to strengthen our competitive advantage in the dimension of customer segments and product domains, paying attention to the linkages between them while also monitoring risk via Active Credit

Portfolio Management (ACPM) Dashboard and Stress Test Dashboard which are used by business units for decision making on analysis and management of at both bank-wide and each customer level. Meanwhile, related business units have adopted value-based analyses for their viability assessments on investment projects, allowing them to effectively adjust their business strategies in alignment with fast-changing market conditions and attain the highest efficiency in value creation management.

4.7 Credit Ratings

At the end of 2018, the Bank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of 2017. Meanwhile, Moody's Investors Service assigned Counterparty Risk Ratings to 11 banks in Thailand, including KBank.

Details are shown in the following table.

| KASIKORNBANK's Credit Ratings | |
|--|---------------|
| Credit Ratings Agency | Dec. 31, 2018 |
| Moody's Investors Service ¹⁾ | |
| <u>Foreign Currency</u> | |
| Outlook | Stable |
| Long-term - Senior Unsecured Notes | Baa1 |
| - Deposit | Baa1 |
| - Counterparty Risk | Baa1 |
| Short-term - Debt/Deposit | P-2 |
| - Counterparty Risk | P-2 |
| Baseline Credit Assessment | Baa2 |
| <hr/> | |
| <u>Domestic Currency</u> | |
| Outlook | Stable |
| Long-term - Deposit | Baa1 |
| - Counterparty Risk | Baa1 |
| Short-term - Debt/Deposit | P-2 |
| - Counterparty Risk | P-2 |
| <hr/> | |
| Standard & Poor's | |
| <u>Global Scale Ratings</u> | |
| Outlook | Stable |
| Long-term Counterparty Credit Rating | BBB+ |
| Long-term Certificate of Deposit | BBB+ |
| Short-term Counterparty Credit Rating | A-2 |
| Short-term Certificate of Deposit | A-2 |
| Senior Unsecured Notes (Foreign Currency) | BBB+ |

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 is focused on achieving greater efficiency in our human resource management operations in six key areas, namely expanding business in AEC+3, creating a positive experience for career seekers interested in working with KBank and K Companies, creating a positive employee experience and engagement, leading KBank in becoming a data-driven organization, and making KBank a digital workplace, in addition to improvements in other facets of human resource management operations.

- **Expanding business in AEC+3**

KBank emphasizes employee development in order to accommodate our business expansion in the AEC+3 region through implementing the following programs:

- (1) **Regional Talent Program:** To enhance high-potential employees assigned to be in charge of business in AEC+3, we organized learning-based activities both in Thailand and China, along with online training courses provided by the University of Illinois at Urbana-Champaign and University of Virginia covering topics such as the development of management, leadership and networking skills.
- (2) **KBank & Maspion Capability Enhancement Program:** A working group was established to study and provide advice on employee development for Bank Maspion Indonesia, an Indonesian bank in which KBank has invested a 9.99-percent stake, to elevate its operations and bolster capacity in providing both conventional and digital banking services to corporate and retail clients.

- **Creating a positive experience for career seekers interested in working with KBank and K Companies**

- (1) **K Capstone:** KBank has opened a new dimension of professional internship particularly for students from universities both in Thailand and abroad. They are encouraged to broaden their horizons in start-up business, with a focus on learning new business formats in order to seize new opportunities that they had never before considered, or perhaps overlooked, so as to gain hands-on experience through the self-discovery process.
- (2) **TechJam 2018:** We organized TechJam 2018 under the theme “Tomorrow Squad” to seek top talents capable of creating innovative technologies and designs, presenting opportunities for them to unite in driving the country’s technological capacity.
- (3) **KBTG Internship Bootcamp 2018:** This program aimed to promote and develop educational potential for university students and interested members of the general public, offering them a chance to gain hands-on experience from IT personnel with extensive experience in financial technology.

- (4) K-Talent: Engagement and Networking: Organized in Seattle, San Francisco and South Bay (Silicon Valley), U.S.A., this program served as a forum for discussing the visions of KBank and KBTG with tech talents and Thai students presently based there.

- **Creating a positive employee experience and engagement**

- New learning media via Ookbee application: KBank aims to be a learning organization by collaborating with Ookbee, an online reading (e-book) application. In addition to books, there are magazines, journals and newspapers available for employees to choose in line with their preferences and lifestyles.
- Free Wi-Fi in Possibility Project under theme Everything is Possible (#Possibility): Working with telecom network providers, KBank has added a Wi-Fi connection available to our employees and the general public using services at the Head Office.
- YES Talk: This program involves inspirational talks given by representative employees from various divisions who share their experiences and inspiring stories from different perspectives. This TED Talk-style forum aims to ignite ideas and foster a positive attitude at work.
- Retreat Program: The company retreat is aimed at promoting a team building spirit among staffers in middle management and the higher levels of KBank and K Companies under the “K-Unity” concept to promote a workplace culture of teamwork. More than 3,000 employees attended retreat programs in 2018.
- K-Spirit Day: Under the theme “The Planet of Possibilities”, this program – which blended sporting activities with technology – was organized to promote a team spirit and creativity among KBank, K Companies and P Companies. Notably, executives and other employees were encouraged to work out, and their calories burned were tracked by a mobile application. These fitness and health statistics will be combined with those collected from sporting activities held in January 2019.

- **Leading KBank in becoming a data-driven organization**

KBank prioritizes employee development in the field of data analytics as we strive to make KBank a data-driven organization. Learning courses were organized to equip our employees with knowledge of applying the following three analytics programs:

- (1) Power BI, which was attended by a total of 707 employees in 2018.
- (2) Qlik Sense, which was attended by 255 employees in 2018.
- (3) Python, which was attended by 91 employees in 2018.

- **Making KBank a digital workplace**

KBank has extended the scope of its digital platform to K Companies and P Companies for complete coverage to bolster capacities for work shared among them. Targeting enhanced efficiency in internal communications, we introduced a trial use of the Microsoft Office 365 program to encourage employees to gain real experience which could be applied to their work, thus ensuring the highest benefit for themselves and

KBank. We also communicated to employees of KBank, K Companies and P Companies advanced techniques for using Microsoft Office 365.

- **Other human resource management operations**

- (1) Employee recruitment: Notable activities included K Career, which was organized continually, and KBank Interview Day, wherein more activities were held to recruit capable personnel in other fields, especially IT risk management, data risk management and cyber risk management. For increased efficiency in the recruitment process to better meet KBank's business needs in a timely manner, we focused on participating in programs held at universities.
- (2) Employee development: The K-Coaching Academy program was continually implemented to equip personnel from the level of team leaders to executives with global-standard coaching skills so that they can offer consultation to employees and maximize their potential, thus strengthening cordial relationships between managers and their teams. Another initiative of note was the "Seniors Want to Coach – Juniors Want to Talk – Season 2" program, wherein employees 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.
- (3) High-potential employee development: We adopted psychometrics for leadership assessment and self-awareness to encourage high-caliber staffers to maximize their strengths at work, and for self-development.
- (4) Employee relations and benefits: The fourth 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 towards 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 abroad can perform their work correctly, thus mitigating compliance risk in those countries.
- (5) Communication for economic, social and environmental sustainability under the "Green DNA" resolution: KBank implemented the "100,000 Chuamong Chuan Kan Tham Di Tham Dai (100,000 Volunteer Hours)" project as part of our effort to promote a culture of sustainability in three dimensions, namely economy, society and environment. As of the end of December 2018, our staff members had performed more than 161,664 hours of service, comprising 137,029 hours by KBank and K Companies employees, and 24,455 hours by members of general public invited to join the program by KBank. Moreover, we launched a Green DNA Save the World campaign to reduce plastic use.

5.2 IT Management

In 2018, KASIKORN BUSINESS-TECHNOLOGY GROUP 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:

- **Development of "KADE", or K PLUS AI-Driven Experience**, a financial service that is driven by Artificial Intelligence (AI) technology. Based on the concept "From Digital to Intelligence", this financial innovation comes with an AI-based mechanism which is applied to K PLUS services for comprehensive linkage, allowing in-depth understanding of customers' real demands. The initiative aims to transform K PLUS into K PLUS Intelligence Platform, which integrates services of various forms in a single place for improved customer convenience. Notable functions that have been developed to facilitate our clients are as follows:

(1) KBank's mobile banking application (K PLUS):

- Request to Pay function has been added to K PLUS for payment request as part of the PromptPay program under the Bank of Thailand's policy.
- Pay with K PLUS feature has been added to Facebook Messenger.
- 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.
- A function for generating Loyalty Platform on K PLUS Lifestyle has been developed as a "member card" for customers. The function allows customers to add a member card and accumulate points via K PLUS. The new function has so far been linked to five types of member cards, i.e., PTT Blue Card, The 1 Card, Air Asia BIG Card, Boots Advantage Card, and AIS Serenade card.
- K+ Market feature has been added to the K PLUS Platform to offer products and promotions. Customers are allowed to make payment for goods by cash or redemption of credit card points, and they may save delivery address and method.
- Via Life PLUS menu option, we offer products matching special occasions and personal and SME loans with the use of AI technology for analysis of target customers.

(2) KBank mobile banking application for merchants (K PLUS SHOP):

- Functions have been added to K PLUS SHOP to serve merchants with a wide network of shops. For instance, both shopowners and their staff are notified of incoming funds, or they may save settlement records in the company's main account.
- Various functions have been added to notify merchants of incoming funds via voice-based notification, to allow them to return money to buyers upon their order cancellation and to produce a sales report which can be sent via email.

- A function has been added to allow for bill collection via social media with the help of Green Cat QR scanning, wherein customers are not required to enter an account number and amount. The new function can accept payment from Chinese tourists using Alipay and WeChat Pay.
- **K PLUS Beacon:** Thailand's first application that empowers the visually impaired to independently conduct online financial transactions via mobile phone. KBank and Beacon Interface Co., Ltd. worked together to develop the K PLUS Beacon application, which is now in the process of further development and being tested in its four major services including balance inquiry, funds transfer, top up, and bill payment, under a system matching the security standard of K PLUS. The application is expected to be available in 2019.
- **Study and develop an Application Programming Interface (API) Manager system:** Initially, the system structure has been developed to enable the use of Open API, for further connectivity with other organizations such as fintech firms. We are now in the process of compiling data and mapping out strategies in response to business needs, with prominence given to data suitability and security. K PLUS SHOP API has been linked to more trade partners to enable QR payment on their applications.
- **Development of technology to apply machine learning techniques to KBank businesses:** We have employed machine learning technology to analyze customer lifestyles based on their profiles and spending behaviors, in order to offer products matching each customer's specific needs via the Hot Promotions menu option on K PLUS. Notable initiatives were offering of products tailored to special occasions and seasons, as well as offers of personal and SME loans.
- **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 being provided to more Multi-Corporate Business customers for enhanced service and cost efficiency.
- **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. The service, which is now operating on a trial basis, is expected to roll out in 2019.

6. KASIKORNBANK's Investments in Subsidiaries and Associated Companies

□ Subsidiaries and Associated Companies

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

□ Investment Policy

Our investment policy can be summarized as:

● Strategic Investments

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

● Outsourcing Investments

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

In 2018, KBank expanded its investment in the following three companies:

- 1) Invested in Beacon Interface Co., Ltd. (shares of which are held by KASIKORN X COMPANY LIMITED) with the objective of operating a technical design business, focusing on research and development of User Experience (UX) and User Interface (UI) to be applied to KBank products and services.
- 2) Established KASIKORN VISION COMPANY LIMITED (KVision) as an investment holding company to invest in other corporate entities or fintech/startup firms for the purpose of scouting tech communities worldwide to find innovative firms and tech talents, in order to collaborate and develop new technological capabilities.
- 3) Invested in KASIKORN LINE COMPANY LIMITED (shares of which are held by KASIKORN VISION COMPANY LIMITED (KVision)) with the objective of operating a personal loan and nanofinance business, serving as a channel for provision of KBank financial services and loan products, and serving as an insurance broker and mutual fund provider under an Open Architecture platform.

7. Shareholder Risk Management

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

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

Disclaimer

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

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