



# Management Discussion and Analysis (MD&A)

For the Quarter Ended March 31, 2018

ธนาคารกสิกรไทย  
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

**Executive Summary**  
**Management Discussion and Analysis**  
**For the Quarter Ended March 31, 2018**

In the first quarter of 2018, Thai economic growth gained traction, buoyed by both domestic and international factors. However, the business sector faced rising challenges, namely various forms of competition, a borderless marketplace within the ASEAN Economic Community (AEC), and the advancing digital age amid the rapid pace of technological advancement, thus leading to changing customer behavior, regulatory changes and life platform-driven competition. Given the increased degree of uncertainty in global economies and trade policies, businesses may have to contend with Thai Baht volatility and rising interest rate trends.

Acting upon our strategy of strengthening customer engagement in order to reinforce our digital banking leadership, in support of the national policy of making Thailand a cashless society, we launched a “No Fees” campaign for funds transfer, top-up and bill payment transactions made via our four mobile and internet banking channels, i.e., K PLUS, K PLUS SME, K-Cyber and K-Cyber SME; these are the most sought-after services among our retail and SME customers. Given the cancellation of service fees and our broader customer base – now surpassing 15 million – the number of digital transactions is expected to grow steadily, thus slashing our cash management cost over the long term, which will in turn help reduce costs within the economic system..

Within this context, KBank and K Companies accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our market leadership under sound corporate governance and appropriate risk management. Guided by our core strategies of “Customer Centricity”, KBank has decided to extend our aspiration to become “Customers’ Life Platform of Choice”, meaning the most-preferred platform that can meet customers’ needs in every aspect of their lives. To this end, we work to strengthen customer perception towards KBank as an “Embedded Trust” agent, offer products and services “Beyond Banking” and stay relevant to “Everyone, Every Day, Every Way and Everywhere” in order to deliver an excellent customer experience. We have collaborated with our partners, cross-industry and cross-border, to create ecosystem partnerships under the “KASIKORNBANK and Beyond” concept. All of these endeavors aim to understand and anticipate each individual customer’s needs under the “Segment of One” concept and to provide smart personalized “Financial and Life Solutions” to the right customer at the right time with ever-greater consideration of consumer protection and customer privacy, taking into account the changing customer expectations. Along with this, we focus on predictive risk management through effective capital management and creation of a culture of risk awareness organization-wide, to enable us to cope with possible economic fluctuations in a timely manner.

Being aligned with our business strategies for the first quarter of 2018, KBank and subsidiaries thus reported Baht 10,766 million in net profit, increasing Baht 595 million or 5.84 percent over the same period of last year. The increase came from net interest income which rose Baht 608 million, or 2.63 percent, due largely to interest income from repurchase agreement transactions. Net interest margin (NIM) was equal to 3.37 percent, decreasing over-year, but still within the set target of 3.2-3.4 percent. However, non-interest income fell Baht 405 million, or 2.61 percent over-year due mainly to decreasing net insurance premiums. Moreover, other operating expenses rose Baht 765 million, or 5.03 percent over-year due in part to marketing expenses. As a result, our cost to income ratio increased to 41.20 percent from the same period of last year, which was still better than the set target. In this quarter, our impairment loss on loans and debt securities decreased Baht 1,314 million, or 14.39 percent, in line with the prevailing circumstances. 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 17.70 percent, with a Tier 1 capital ratio of 15.41 percent.

All of the above endeavors and satisfactory operating performance allowed KBank and K Companies to meet business targets and at the same time gain wide acceptance and recognition at home and abroad, as reflected in the numerous awards we received in this quarter.

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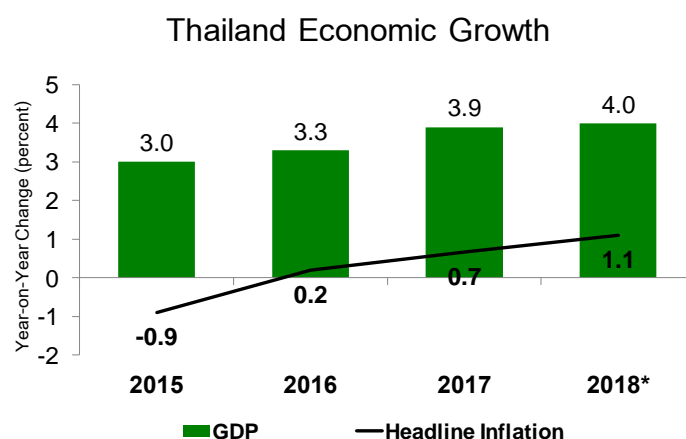
# 1. Overview of Operating Environment

## 1.1 Global and Thai Economy in the First Quarter of 2018

The global economy showed signs of continual growth at the beginning of 2018. However, close attention should be paid to uncertainty surrounding US trade policy with its major trade partners, especially China. This factor is set to have an impact on the world's economic recovery over the remainder of this year. The World Economic Outlook of the International Monetary Fund projected that the global economy may grow 3.9 percent in 2018, and the US would see brighter growth of 2.9 percent compared to 2.3 percent in 2017, due to additional positive factors including tax cut packages and accommodative fiscal policy. Broadly speaking, both developed and developing economies, excluding China, showed signs of improvement in concert.

Looking forward, the global economic recovery coupled with high oil prices since early this year may put more pressure on inflation. Against this backdrop, central banks worldwide are highly likely to adopt a more tightening stance, especially if the global trade rift does not significantly intensify. While the Federal Reserve is expected to hike its policy rate, chances are high that the European Central Bank and the Bank of Japan may opt for tapering or ending their quantitative easing stance at the end of the third quarter of 2018. Given this, several emerging economies including those in Asia may be challenged by fluctuating international capital flows, which would have repercussions for foreign exchange movements and funding costs during the latter half of this year.

In Thailand, most economic indicators in the first quarter of 2018 exhibited signs of ongoing growth, driven largely by exports and tourism. This is in line with the overall global economic improvement. Domestic spending enjoyed promising growth, as evidenced by brighter consumption, private investment and public spending. Under these circumstances, Thai economic growth in the first quarter of 2018 may be almost on par with the level seen in the final quarter of last year. Overall, the Thai economy for 2018 may record continual growth of 4.0 percent, with public and private investment as a major driver. Along with this, exports and tourism will remain a key contributor to growth, even though their growth may subside over-year due to a high 2017 base. On the inflation front, headline inflation for 2018 is expected to average 1.1 percent, slightly higher than the 0.7 percent in 2017, as a result of soaring energy prices at home in line with higher oil prices in the global market. For Thai monetary policy, the Bank of Thailand's policy rate is expected to stay low at 1.50 percent



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

for almost all of 2018 to accommodate domestic economic activity, which is continuing along a stable recovery path.

## 1.2 Banking Industry and Competition

Commercial banks' overall performance in the first quarter of 2018 was better than what was seen in the previous quarter while also sustaining growth over-year. Net interest income in the banking system grew at a slower pace from the same period of the previous year. Likewise, our net interest margin (NIM) saw a decrease. However, net fees and service income, gain on investments and gain on trading and foreign exchange transactions enjoyed steady growth. Meanwhile, our impairment loss on loans and debt securities grew at a decelerating rate in line with NPLs to total loans which declined slightly compared to the same period last year.

As of the end of the first quarter of 2018, net loans at 14 domestically-registered commercial banks grew 4.6 percent over-year, accelerating from the growth of 4.3 percent at the end of 2017. Meanwhile, deposits grew at a higher rate of 6.42 percent, compared to the same period of 2017.

For the outlook of commercial banks during the remainder of 2018, loans – a core business – are likely to see higher growth, bolstered by an expected broad-based economic rebound, which will be seen in both public and private investment. On top of this, the debt quality problem may ease as commercial banks are expected to maintain a cautious stance in their business operations, especially through a proactive approach in asset quality management. Over the short term, however, they may have to contend with impacts of cancellation of fees collected from transactions via digital channels and possible cancellation of other fees under the National e-Payment Master Plan. Meanwhile, several other challenges remain. They include fast-changing technology, wherein non-bank players are joining the fray and playing an increasing role in the market as alternative service providers for consumers. Last but not least, preparation for the International Financial Reporting Standards (IFRS9) and the Basel III capital requirements will also affect business adjustments of commercial banks in terms of provisioning expenses, risk calculation, capital maintenance and their overall business operations, during the rest of this year.

## 1.3 Regulatory Changes

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

- **Bankruptcy Act (No. 10) B.E. 2561 (2018)**

Bankruptcy Act (No. 10) B.E. 2561 (2018) which came into force March 3, 2018 amended the former Bankruptcy Act, with major changes as listed below.

1. To be consistent with the Business Security Act, B.E. 2558 (2015), the term "secured creditor" has been redefined to include secured creditors under other laws. The amendment makes it clearer that

upon registration of business security, financial institutions which receive collateral are also deemed secured creditors under the bankruptcy law.

2. To enhance efficiency of official receivers in collecting a debtor's assets in a bankruptcy case, a provision has been added to this law. The new provision allows (a) any person who owes a debtor, or (b) any person who takes possession of the assets of such a debtor must inform an official receiver of information related to debts or assets of such a debtor within one month of having obtained the receivership order. If said persons fail to comply with the new provision, they shall be fined not more than Baht 200,000. If the violator is a juristic person, its representative shall be subject to a penalty per established conditions.

3. To enhance efficiency in reorganization of debtors in general, the amended law facilitates them to lodge a petition for reorganization to the court without becoming insolvent as a prerequisite. After a debtor has defaulted on credit obligations, he/she may submit a request to the court for proceeding with reorganization. This change provides a greater opportunity for such a debtor's business to return to normal operation more expeditiously.

KBank has studied and analyzed the impact of this new law, and has proposed recommendations as well as having conducted preparations since it was in the drafting stage. We are confident that we will be able to comply with, and make efficient use of, this new legislation.

● **Notification of the Contract Committee, Re: Classification of Automobile and Motorcycle Hire Purchase Enterprises as a Business which Contract is Regulated B.E. 2561 (2018)**

The Notification of the Contract Committee Re: Classification of Automobile and Motorcycle Hire Purchase Enterprises as a Business which Contract is Regulated B.E. 2561 (2018), which will be effective July 1, 2018, supersedes the former legislation (Notification of the Contract Committee Re: Classification of Automobile and Motorcycle Hire Purchase Enterprises as a Business which Contract is Regulated B.E. 2555 (2012) and amendments to the law). Major changes from the previous law are listed below.

1. Definitions of terms in this law have been revised/added.

- The objective in the use of an "Automobile" and "Motorcycle" has been changed to include "For private use only".
- Definitions of the textual insertions, "Expenses collected by lessor", "Fees or any expenses incurred from hire purchase debt collection" and "Effective interest rate" have been added.

2. Amendments made to terms and conditions to be prescribed in automobile and motorcycle hire purchase contract are as follows.

- A hire purchase contract must be in Thai and sufficiently readable, with no more than 11 characters of not be smaller than two millimeters in height in a one-inch space.

- A flat interest rate used for calculation of returns shall be indicated as an effective interest rate.
- A schedule showing the lessor's debt exposure per the hire purchase contract must be included.
- Any fees or expenses related to hire purchase debt collection must be as stipulated by the Debt Collection Supervisory Committee under the debt collection law.

3. If a hire purchase contract is terminated and the lessor repossesses the automobile or motorcycle before putting it up for auction, the lessor shall inform the lessee in writing to exercise his/her right to purchase the assets based on the remaining debt amount. If the lessee does not exercise his/her right, the lessor shall then inform the guarantor in writing to exercise his/her right to purchase the assets within not less than 15 days of the end of the period provided for the lessee to exercise his/her right.

4. The lessor shall inform the lessee and the guarantor (if any) in writing about the person/entity responsible for an auction, date and venue of each auction not less than seven days in advance of the auction date.

5. The lessor shall not directly or indirectly make an offer in the auction of the repossessed vehicle or motorcycle.

6. Aside from a written notification, the lessor may, with written consent from the lessee or the guarantor, as the case may be, may send them an electronic notification.

7. A hire purchase contract shall not contain contractual clauses that can be characterized or defined being:

- Wording which requires the lessor to charge a penalty fee at three percent above the effective interest rate p.a. (of which the limit shall not exceed 15 percent, p.a.) if the lessee defaults on an instalment payment.
- Wording which requires the lessor to collect money or any other expenses aside from those prescribed by law.

Terms and conditions which are not mentioned above shall remain valid per the stipulations of the former law, which have also been stipulated in this legislation.

KASIKORN LEASING Co., Ltd. ("KLeasing"), one of the K Companies, is governed by this statute. KBank has studied the change and communicated relevant information to KLeasing and the company's related employees for effective and complete preparedness to ensure that KLeasing will be able to conduct business in strict compliance with laws.

- **Market Conduct**

The Bank of Thailand (BOT) issued Notification of the BOT No. SorKorSor. 1/2561 (2018) Re: Market Conduct, which became effective on January 31, 2018, to set principles and minimum requirements to ensure that financial service providers undertake responsible practices and fair treatment of customers. Market conduct focuses on nine areas, including (1) responsibility of the Board of Directors and senior management in promoting market conduct as an organizational culture; (2) product development that is suitable for customers and sales staff abilities, as well as sales channels, operational systems and control; (3) remuneration and punishment which is based primarily on service quality; (4) complete, clear and accurate sales process which must not mislead or be a nuisance to customers; (5) effective employee communications and training for all staff together with clear-cut staff performance measurements; (6) customer data management that takes into account appropriate customer data security and privacy; (7) effective and fair problem-solving and complaint handling; (8) prudent controls, monitors and audits; (9) efficient operating systems and business continuity plans.

KBank has thoroughly reviewed our market conduct policy and enhanced our operational procedures and communicated to our staff to ensure compliance with this regulation.

- **Commercial Banks' Service Channels**

The Bank of Thailand (BOT) issued Notification of the BOT No. SorNorSor. 3/2561(2018), Re: Criteria for Commercial Banks' Service Channels, effective on March 6, 2018, to promote greater efficiency and flexibility in commercial banks' service channel management per the scope and conditions set by the BOT. Commercial banks are required to annually submit a service channel strategic plan and a report on their service channels to the BOT.

Significant amendments to such notification include service channels through (1) general physical branches; (2) electronic branches; (3) banking service outside branches; (4) banking agents; (5) digital channels; and, (6) telephonic communications. More flexibility has been granted in the scope of service as well as towards approvals for the opening and closure of branches, new technology service applications and expanded use of banking agents. Commercial banks are required to have in place appropriate risk and service user management procedures. If services are offered via other channels that are not within the established scope of service, or in accordance with established conditions, or a new service channel is introduced, or a new technology is applied to services for the first time, or technological changes to their operations may have a significant impact on, or risk implications for services, approval must be sought from the BOT.

KBank has made various preparations and put in place risk management procedures to support business operations via each service channel in compliance with the new regulation.

- **Financial Institutions' IT Risk Supervision**

The Bank of Thailand (BOT) issued Notification of the BOT No. SorNorSor. 19/2560(2017), Re: Criteria for Financial Institutions' IT Risk Supervision, effective April 1, 2018, with the aim of promoting greater awareness towards IT risks at financial institutions and requiring them to put in place IT risk supervision measures consistent with their business operations, transaction volumes, IT sophistication and related risks. IT risk supervision focuses on eight areas, including (1) IT governance; (2) IT security; (3) IT risk management; (4) IT compliance; (5) IT audit (6) IT project management (7) Security incident reporting to the BOT in case of IT system disruptions and/or cyberattack incidents (8) Approval sought from the BOT in case of a new technology applied to services for the first time or a significant impact on technological changes to their operations.

KBank has put in place the necessary procedures relative to IT risk and IT security management in compliance with the Notification.

## 2. Risk Management and Risk Factors

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### 2.1 Credit Risk Management

During the first quarter of 2018, the Thai economy saw an uneven recovery amid limited growth in consumption, weak farm income and risks from uncertain trade policies and protectionist initiatives abroad, as well as a bullish interest rate trend. As a result, business income and costs were adversely affected.

Under these circumstances, KBank put in place more stringent customer approval criteria for commercial lending policies, prioritizing risk assessment through prudent screening and close monitoring of borrowers, especially those in small and micro businesses. Moreover, we adjusted lending policies to match each industry to be better suited to the prevailing circumstances. At the same time, KBank has remained cautious in credit underwriting of retail customers' loans, and focused mainly on borrowers with good track records, as well as existing low-risk customers.

### 2.2 Market Risk Management

Overall, movements in foreign exchange and interest rates at home and abroad remained volatile during this quarter. However, Thailand's financial stability was satisfactory due to a high current account surplus and rising demand for imported raw materials used in export-oriented manufacturing in line with thriving exports, and capital inflows into Thailand's debt and equity markets, which was consistent with fund inflows seen in other emerging markets. Given these, the Thai Baht strengthened steadily against the US Dollar. Nonetheless, highly volatile global markets and US stock market corrections may affect capital movements and the Baht trend. Other downsides also include European political risk, a number of geopolitical risks and a looming international trade war between the US and trade partners.

Meanwhile, US bond yields were rising at the beginning and in the middle of the first quarter in line with healthy US economic indicators. Later, the yields fell somewhat after the Federal Reserve resolved to raise their key policy rate by 25 basis points to 1.50-1.75 percent in March, while also signaling that there would be three rate hikes this year; markets have mostly factored in this interest rate uptrend. At the same time, short-term Thai bond yields dropped on lower-than-expected inflation rate, which prompted markets to believe that no increases would be seen this year in the Thai policy rate. Long-term Thai bond yields, however, were quite stable due to hefty fund inflows into the Thai debt market.

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

## 2.3 Liquidity Risk Management

Overall liquidity in the Thai banking system eased during the first quarter due to a decrease in loans amid brisk repayment of working capital loans from businesses including SMEs – as well as credit card and personal loans. Meanwhile, deposits rose, especially at large banks. It is expected that new loans should increase along with brighter economic activity at home and abroad, thus banks' deposit mobilization will likely focus mainly on meeting loan demand or for cost management. However, the latest US policy rate increases and the Federal Reserve's signals towards further rate hikes – as well as the US economic rebound and their recent protectionist measures – may affect the directions of US and Thai bond yields. These factors, coupled with loan extension in the Thai banking system, may influence the setting of the deposit rates, going forward.

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

## 2.4 Cyber Risk Management

Cyber risk refers to risk that may arise from financial transaction services provided via digital channels, data management, cyber threats and the use of IT to support business operations. It may come from internal or external factors, possibly having adverse impacts on, or causing monetary or non-monetary losses to, KBank and our customers, directly or indirectly. Recognizing the importance of cyber risk management, we have put in place measures for managing relevant risks under operational risk management framework. Additional IT risk management policies and framework have been established for greater efficiency in work processes, control and systematic risk management, in compliance with related international standards and the Bank of Thailand's policies and best practices.

## 3. Business Directions and Operations of Core Businesses

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### 3.1 Sustainable Development and Corporate Governance

The Board of Directors has reviewed our human rights policy guidelines which will be used for preventing, monitoring, examining and remedying any potentially adverse impacts of our business activities upon our customers, employees and counterparties. Those activities related to each stakeholder are detailed below.

1. Customers:
  - Lending: KBank does not extend loans to businesses or projects involved with or linked to human rights violations. We integrate human rights risk into Environment, Social and Governance (ESG) criteria for loan extension under the legal framework, operational procedures and regulations in accordance with international standards.
  - Investment: We take into account human rights as a criterion for ESG risk assessment which is applied to investment analysis, decision-making steps and portfolio arrangement for all types of assets.
  - Customer data security and privacy: KBank set a policy with integration of management structure and measures for prevention, examination, monitoring of and response to human rights violations, so as to maintain customer data security and privacy.
2. Employees: Human rights protection has been included in the Code of Conduct as a guideline for respecting human rights and for avoiding any action that could be deemed a human rights violation.
3. Counterparties: KBank has always placed importance on human rights, which is included in the Supplier Code of Conduct and related agreements to make all suppliers aware – prior to becoming a supplier to KBank – that our business operations take human rights into consideration. We also monitor suppliers' business undertakings to ensure strict compliance with the Supplier Code of Conduct, explicitly showing that we have clear expectations of suppliers in terms of human rights practices.

Meanwhile, KBank arranged for a meeting on Human Rights Risk Assessment and Risks Register and Human Rights Due Diligence to examine working processes that could potentially be linked to human rights violations, while guidelines for mitigating human rights risk and methods for prevention, surveillance, examination as well as correction and remediation of potential human rights violations have been sought. The meeting was attended by 100 percent of internal stakeholders who are responsible for business activities involved with human rights operations. Guidelines to mitigate risks that may be incurred from human rights violations include review of sector-specific credit policy, review of criteria for consideration of suppliers and the Supplier Code of Conduct, focusing more on customer data security and privacy as well as KBank data security, training for and communication to employees regarding rights to access data,

proper use of data and prevention of cyberattacks, among others. KBank is confident that these operations will help prevent potential risks that may stem from human rights violations, in a sustainable manner.

KBank strongly believes that good corporate governance is essential for sustainable business operations. Aside from creating confidence among all shareholders and stakeholders, it is instrumental in making KBank a Bank of Sustainability. In the first quarter of 2018, KBank organized CG promotional activities focusing on CG-based performance of duties. These included communications to employees about practical guidelines for giving and acceptance of gifts or other benefits for the New Year or on other occasions, and a review of employees' knowledge of the Code of Conduct, which was circulated for their annual acknowledgement. Training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy were also undertaken via the KBank e-Learning system. We also arranged orientation sessions on good corporate governance for new executives, while a lecture on Corporate Governance, Risk Management and Compliance (GRC) was organized for management. In addition, shareholders were given the opportunity to submit questions concerning agenda items of the General Meeting of Shareholders No.106 in advance of the shareholders meeting date, and KBank responded to those questions accordingly, as well as addressing this issue during the Meeting.

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

In the first quarter of 2018, Thai economic growth gained traction, driven mainly by exports and tourism. This growth momentum was also supported by brighter public and private investment. Nonetheless, the business sector remained challenged by new modes of competition, a borderless marketplace within the ASEAN Economic Community (AEC), and the advancing digital age amid the rapid pace of technological advancement. Given the increased degree of uncertainty in global economies and trade policies, businesses may have to contend with Thai Baht volatility and interest rate trends.

Aside from the domestic and international economic situation, other factors which may affect banking business operations include changing customer behavior, technological advancement, regulatory changes and life platform-driven competition. In order to strengthen customer engagement through digital channel and reinforce our digital banking leadership in support of the national policy of making Thailand a cashless society, KBank, in the first quarter of 2018, launched a "No Fees" campaign for funds transfer, top-up and bill payment transactions made via our four mobile and internet banking channels, i.e., K PLUS, K PLUS SME, K-Cyber and K-Cyber SME; these are the most sought-after services among our retail and SME customers. Given the reduced service fees and our broader customer base - now surpassing 15 million, the number of digital transactions is expected to grow steadily, thus slashing our cash management cost over the long-term, which will in turn help reduce costs within the economic system..

Within this context, KBank and K Companies accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our market leadership over the

long-term. Guided by our core strategies of “Customer Centricity”, KBank has decided to extend our aspiration to become “Customers’ Life Platform of Choice”, meaning the most-preferred platform that can meet customers’ needs in every aspect of their lives. We thus place an emphasis on leveraging our strength as the number-one digital banking service provider to offer products and services “Beyond Banking”, stay relevant to “Everyone, Every Day, Every Way and Everywhere” and strengthen customer perception towards KBank as an “Embedded Trust” agent in order to deliver an excellent customer experience. We also redefine the concept of the way we work to support Customer’s Life Platform of Choice aspiration; we will work and collaborate with our partners, cross-industry and cross-border, to create ecosystem partnerships under the “KASIKORNBANK and Beyond” concept. All of these endeavors aim to understand and anticipate each individual customer’s needs under the “Segment of One” concept and to provide smart personalized “Financial and Life Solutions” to the right customer at the right time with ever-greater consideration of consumer protection and customer privacy, taking into account the changing customer expectations.

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

### 3.3 Customer Segments and Services

During the first quarter of 2018, KBank and K Companies focused mainly on strengthening our customer 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 – from eight customer segments to product domains and multiple service channels – so that customers’ financial service needs are efficiently met by our solutions. These undertakings helped us to achieve our business goals, while also appropriately maintaining asset quality. Major initiatives in this quarter are as follows.

- **Multi-Corporate Business**

Prioritizing customer needs in the digital age, KBank introduced numerous financial innovations in support of the government’s drive towards a cashless society for service efficiency enhancement and reduced costs within the economic system. We worked with our customers in the public and private sectors to launch a promotional campaign encouraging consumers to spend more via QR code. Placing importance on management of data, especially “Big Data” and artificial intelligence (AI), we aim to assist our Multi-Corporate Business clients engaging in B2C business who sell goods directly to their customers,

as well as those who are startup companies. Aside from providing financial support through any funding format, KBank offered customers risk management products appropriate for their business.

#### ■ **Large Corporate Business**

KBank emphasizes the importance of enhancing our employees' knowledge and understanding of financial products and services, keeping them abreast of knowhow and new business formats in the fast-changing digital age. Our focus is always on customer relationship management (CRM) efforts and better customer care, wherein their feedback contributes to the continual development and improvement of our work processes.

In response to the Thailand 4.0 policy for a cashless society, KBank developed various products and services for greater convenience and work efficiency of our customers. Of note were co-promotions with our B2C customers in restaurant and convenience store businesses to encourage consumers to spend via QR code in lieu of cash, the launch of full-service K CONNECT-LG to enable customers to issue or renew a letter of guarantee and check their credit exposure online 24 hours a day, 7 days a week, as well as our collaborative effort with a leading university to develop an application to assist in management of study disciplines and payment systems.

#### ■ **Medium Business**

KBank prioritizes development of digital banking innovations along with the offering of total solutions to strengthen our customers' business operation efficiency. To this end, we equipped them with in-depth knowledge and one-on-one advisory service along with R&D funding to support their development of innovations and digital tools to assist in their business undertakings, such as cost control programs, point-of-sale (POS) systems and accounting systems, etc. for healthy business growth.

To offer loan products that meet customer demand and to broaden a base of clients within value chain, KBank, in this quarter, developed technologies for analyzing and processing business operators' financial transaction data for both income and expenditure. Notably, KBank continually gave support to business operators across various value chains. Of note were value chain solutions catered for industries with brighter prospects such as construction, automobiles and parts, electronics, and food and beverages. We also organized a learning course entitled "Stay Ahead of the Economy: How to Overcome Risks in Import-Export Business" to provide our customers with knowledge on the economy and foreign exchange so that they can efficiently apply their knowledge to their business, in a timely manner.

#### ■ **Small and Micro Business**

KBank focuses on providing funding support along with enhancing competitiveness and business opportunities for our Small and Micro Business clients, especially those in promising franchise businesses. To this end, we organized the KBank Franchise Expo 2018 to support franchise business starters seeking

to become an established brand through a franchise credit program and a loan program granted jointly with sponsors, which has been implemented continually and has drawn a lot of participants – now surpassing 40 brand owners.

We have also granted a Transformation Loan to Strengthen Business, which features a soft loan for machinery replacement Phase 2 for production efficiency and competitiveness enhancement. Another notable program was a soft loan program catering for Small Business clients in promising tourist attractions and commercial zones to help them slash operating costs through low interest rates plus longer loan terms.

In alignment with the government's policy of a cashless society, KBank has granted support to card accepting merchant business through the launch of a Mini-EDC service to accommodate all-in-one payment – the first of its kind in Thailand, especially with added functions to enable multiple uses. Moreover, KBank worked with Bangkok Bank PCL to install EDC for merchants under the e-Payment Joint Venture as part of the local card scheme to install EDC for merchants. We also staged PR campaigns to promote QR code payment so as to expand the number of K PLUS SHOP users. In this quarter, we initiated QR code payment through a special lane at PTT service stations under the Speed Pay Station concept, while also encouraging the general public to make donations via QR code with the Poh Teck Tung Foundation, and scan QR code to pay via Alipay and Wechat applications.

#### ■ High Net Worth Individual

Determined to perform at the standard of an international comprehensive wealth management service, KBank aims to extend happiness to our High Net Worth Individual clients and help them attain their definition of most perfect wealth. In the first quarter of 2018, KBank worked with our business partner to organize a seminar entitled “KBank Private Banking: Insight on the Emerging Frontier”, wherein experts in various fields were invited to provide knowledge on investment in emerging markets. In collaboration with Invesco, we also organized the Invesco Continental: European Small Cap Equity Fund IPO to shed light on investment in Europe. Another notable effort was development of the LINE@Kprivatebanking application as a channel for sending our customers data and market updates prepared by a KBank Financial Advisory team and Lombard Odier.

KBank Private Banking service dedicated to Chinese customers was launched, featuring investment information and analyses in Chinese along with a Chinese-speaking financial advisory team. Moreover, interesting seminars, in particular “EEC & the Future of GMS: Investment Opportunities for Chinese in Thailand”, were organized for Chinese customers.

For the delivery of world-class services, we continued to collaborate with Lombard Odier to develop our personnel. To this end, the third training course designed specifically for our private bankers and support teams was held at the private bank's head office in Geneva, Switzerland.

## ■ Affluent

We continued to place our focus on making KBank our Customers' Main Bank under the core strategy of "Customer Centricity". With "Big Data" processing and analyzing to provide insights on customer behavior, we are able to develop products, services, privileges and activities that better meet each sub-segment's specific needs. KBank prioritized portfolio quality improvement in a comprehensive manner via collaboration of relevant divisions, branches and relationship managers (RMs) for enhanced efficiency beyond personal financial planning services. We also provide advice on other financial products such as business loans, home loans for large clients, electronic data capture (EDC) service including its installation and fees, and KBank Payroll, as well as business opportunities to meet their needs while also increasing their wealth. We are planning to elevate THE WISDOM brand to celebrate the 10<sup>th</sup> anniversary of the service, along with maintaining our leadership status. Exclusive privileges were delivered to our customers via numerous special activities. Of note were an exclusive mini-concert of a world-class artist in "The Symbol of Your Pleasure: Exclusive Night with Ronan Keating", and a panel discussion entitled "The Symbol of Your Visionary: Summer Course in UK", organized at the residence of the British Ambassador to Thailand, to provide information on preparations for a summer course in the United Kingdom.

Meanwhile, deposit and investment products offered to our customers in the first quarter of 2018 included a special fixed-term deposit program and Life Insurance: Endowment 215, featuring a short-term life insurance product with low risk and high return. We also teamed up with KASIKORN ASSET MANAGEMENT CO., LTD. to launch mutual funds with varied investment policies suited to different circumstances and time periods. Of note was the K European Small Cap Equity Fund (K-EUSMALL), which invests in a master fund of which investment policy is focused on shares of small companies in Europe (excluding the United Kingdom). Moreover, special promotions were offered to our customers, especially a campaign held for customers who invested in K-CHINA during Chinese New Year, and another promotion exclusively for Chinese investors with business operations in Thailand who attended a special seminar organized by KBank and sought to invest in mutual funds under the established conditions.

## ■ Middle Income

Guided by our core strategy of "Customer Centricity", we have extended our aspiration to become "Customers' Life Platform of Choice" - the most-preferred platform that can meet customers' needs in every aspect of their lives, with our commitment to delivering an excellent customer experience. Along with this, THE PREMIER has been strengthened as an exclusive brand for new-generation customers. In this quarter, notable activities held for this group of customers included THE PREMIER Stock Challenge, where they were equipped with investment knowledge from experts of various fields and also gained hands-on experience in a competition of share trading in the Stock Exchange of Thailand. This exclusive activity was intended to give our clients the utmost satisfaction, which will make THE PREMIER the top-of-mind brand in terms of financial and investment advisory service, thus increasing customers' product holdings and maintaining our "Main Bank" status.

In alignment with customer lifestyles in the digital age, we introduced numerous products via the K PLUS platform. Notable initiatives included K-eSavings Account, travel insurance approved by the Office of Insurance Commission (OIC), and sales of life insurance policy using a tablet computer as a tool to provide complete information and more convenient and faster service to our customers. Along with this, Pro Saving 510 catered for those seeking to pay short-term premium while gaining tax saving benefit, with no health checkup required.

In addition to PromptPay funds transfer via various channels, in this quarter, KBank introduced the Request to Pay service to provide greater convenience for individual customers requesting or making payment, with an alert function for funds transfer/payment transactions made via K PLUS. This initiative is in line with the government's National e-Payment Master Plan.

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. For K-Home Loan, KBank worked with our partners to launch home loans with special interest rates and a low installment payment plan to ease burdens of our customers seeking to purchase new or pre-owned homes, and to refinance their mortgage. We also partnered with property developers which received pre-finance assistance from KBank in conducting co-promotion activities to expand our home loan customer base in viable areas. To differentiate ourselves from peers and meet customer needs, KBank offers comprehensive home-related services via mobile banking application, namely Home Service by HomePro, professional technicians and housekeepers by ServisHero and home repair by Fixzy, along with discounts and special conditions offered for enhanced convenience to our customers in keeping with the digital lifestyle.

For credit cards, KBank focused on acquiring new high-income customers through the launch of credit card products to meet the lifestyle needs of each customer group. Notable products were THE PASSION Credit Card, PTT Blue Credit Card, and KBank JCB Credit Card. Multiple campaigns were also staged to spur all spending categories, i.e., dining, traveling and shopping, across all areas throughout Thailand, including spending in foreign currencies and online shopping. For K-Express Cash, we focused on helping our customers harness financial self-discipline through the offering of a special interest rate, as seen earlier last year, along with K-Personal Loan with preferential interest rates at Baht 2.25 per Baht 10,000 daily or 15 percent p.a., granted to KBank Payroll customers. To expand our service dimensions, we also launched personal loan via K PLUS application that allows customers to receive loan within one minute after clicking in the app to agree to the established conditions, with no documentation required.

#### ■ Mass

Guided by a strategy of making KBank our Customers' Main Bank, especially among those with the potential to become Middle Income clients, KBank remains committed to acquiring new customers and seeking opportunities to do business with our partners to develop new user-friendly products and services in response to the financial and lifestyle needs of customers. In this quarter, we introduced marketing

activities and PR campaigns to promote KBank branding at Thailand's leading companies and universities to raise their awareness of our brand and strengthen relationships with their personnel in order to attract them to use KBank as their main bank. One notable initiative was the CU NEX Project – a prototype of a collaborative effort between Chulalongkorn University and KBank that aims to provide comprehensive financial management services, solutions for management of campus infrastructure, and support for digital incubation activities to strengthen the digital ecosystem foundation and the offering of products and services under the concept of the “Smart University and Cashless Society Development Program”.

Moreover, KBank has encouraged our customers to use electronic services and conduct transactions via electronic channels, especially via the K PLUS application. Along with this, we unveiled a “No Fees” campaign for funds transfer, top up and bill payment transactions conducted via our four digital channels. An initiative of note was the launch of the K-RoV Debit Card (Special Theme) via K PLUS together with specific privileges catered specifically for teen clients. We also debuted a chip debit card under the Thai Standard Format that comes with enhanced security wherein cardholders are required to enter a six-digit PIN for identity authentication instead of giving their signature when swiping the card via EDC machine for the purchase of goods. Meanwhile, the government-initiated campaign of a monthly 1 million Baht lucky draw was continually implemented to spur spending via debit card in a drive towards a cashless society under the National e-Payment Master Plan.

### 3.4 Service Channels

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

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

- **Domestic branch network:** Our focus was on enhancement of service efficiency and our sales and service quality in alignment with changing consumer behavior, as evidenced by the increased use of more convenient service channels, especially our mobile banking application that allows customers to conduct transactions anywhere, anytime, without going to a bank branch. We therefore continued to consolidate branches with relatively low traffic and to expand service channels at viable locations. In this quarter, new branches have been opened in hypermarkets and provincial areas with high potential so that the number of branches available is sufficient to meet demands of customers covering all areas.

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

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

#### Branches and Financial Service Offices/Centers

Domestic Service Network	Number of Locations		Overseas Service Network	Number of Locations		
	Mar. 2018	Dec. 2017		Mar. 2018	Dec. 2017	
Branch Network <sup>1)</sup>	1,031	1,026	<b>Branches and Overseas Service Network:</b>	17	17	
Foreign Exchange Booth	149	142	Branches of Locally Incorporated Institution			
THE WISDOM	108	105	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2	
Corporate Business Center	0	8	KASIKORNBANK (CHINA) CO., LTD.	4	4	
SME Business Center <sup>2)</sup>	121	121	Branches	3	3	
International Trade Service Center	58	58	Representative Offices	8	8	
Cheque Direct Service	33	33	<b>Electronic Banking Services</b>	<b>Number of Units</b>		
				Mar. 2018	Dec. 2017	
				<b>Self-Service Channel (K-ATM and K-CDM)</b>	11,868	11,891
				K-ATM (Automated Teller Machines)	9,270	9,302
				K-CDM (Cash Deposit Machines)	2,598	2,589
			K-PUM (Passbook Update Machines)	1,118	1,109	

Note: <sup>1)</sup> Excluding 10 branches, classified as other branch platforms per the Bank of Thailand’s conditions

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

#### (2) Electronic Network comprises:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus to accommodate round-the-clock financial transactions with security. Customers were also encouraged to conduct financial transactions at self-service machines. For greater convenience of our foreign clients, we had self-service machines installed with various languages available. At the same time, we prioritized machine management for broader service coverage to effectively meet the increased needs of customers, especially through installation of new machines, machine relocations to more appropriate and accessible sites, and removal of worn-out machines.

- **Digital Banking Services:** To highlight our digital banking leadership, we focus on development of full-service digital innovations for increased efficiency to facilitate transactions anywhere, anytime, in line with changing consumer lifestyles. Notably, we announced the “No Fees” campaign for funds transfer, top up and bill payment transactions conducted via our four digital channels, i.e., K PLUS, K PLUS SME,

K-Cyber and K-Cyber SME to promote more digital banking transactions. Major initiatives of our digital banking included:

- 1) **K PLUS:** "Big Data" has been analyzed in order to respond to customer needs in every aspect beyond basic transactions, particularly to create a seamless service experience. The K PLUS application has thus been upgraded to better meet the specific needs of each sub-segment. One notable initiative was the offering of HOT Deals, which allows customers to purchase products at special prices per their lifestyle on K PLUS for the first time such as admission tickets for the Bangkok International Motor Show, and purchase of music packages or books online. More deals are expected to be offered by various shops, especially those which are K PLUS SHOP merchants.

Moreover, KBank has developed K PLUS Beacon, Thailand's first mobile banking application that empowers the visually impaired to perform financial transactions, including funds transfer and bill payment. Before rollout, K PLUS Beacon is being tested with volunteers who are in our target groups for further development.

In response to the government's National e-Payment Master Plan, KBank has familiarized our customers with the scanning of QR code for payment through the launch of various K PLUS campaigns that match their lifestyle. For instance, they may buy movie tickets, go bowling, pay for air tickets or ferry rides, as well as make a donation to Siriraj Hospital, via scanning K PLUS QR code.

- 2) **K-Cyber:** We focused on maintaining the stability of the K-Cyber system. Data security is ensured through implementation of ISO 27001:2013, the highest global standard, giving our customers more confidence when conducting financial transactions via all digital banking channels.
- 3) **K-Payment Gateway:** We enhanced service efficiency for bill payment with credit and debit cards online, and provided a security system to assure merchants of easy, convenient and complete processes to accommodate customer business operations.

- **K-Contact Center:** We have developed numerous comprehensive service channels for enhanced customer convenience. Along with this, KBank has upgraded our service quality to deliver an impressive experience to our customers. Through continual social media monitoring or social listening, we are more immediately aware of issues or demands of customers, and use the information as input for upgrades of our services provided via both traditional channels and social networks. We can also provide our customers assistance and help them solve problems more efficiently through improvement of processes for their utmost benefit.

### 3.5 Awards and Commendation

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

Awards to KBank and K Companies
<b>Awards to KBank</b>
<ul style="list-style-type: none"><li>● <b>Best Trade Finance Provider 2018 in Thailand</b> from Global Finance magazine for the ninth consecutive year</li><li>● <b>Best Private Bank - Thailand Domestic</b> from Asian Private Banker Awards for Distinction 2017</li><li>● Two awards from Euromoney private banking and wealth management survey 2018, organized by Euromoney magazine: <b>Research and Asset Allocation Advice</b> and <b>Succession Planning Advice and Trusts</b></li><li>● <b>Best Retail Bank in Thailand</b> from Excellence in Retail Financial Services International Awards 2018, organized by The Asian Banker journal for the ninth consecutive year</li><li>● Three awards from Retail Banker International Asia Trailblazer Awards 2018, organized by Retail Banker International (RBI) journal: <b>Winner: Dynamic Third Party Collaboration</b>, <b>Highly Commended: Excellence in Service Innovation</b> and <b>Highly Commended: Best Social Media Marketing Campaign</b></li><li>● <b>Thailand's Most Admired Brand 2018</b> for "K-Credit Card" from BrandAge magazine for four consecutive years</li><li>● <b>Outstanding Call Center in the category of finance and insurance business</b>, from the Office of the Consumer Protection Board (OCPB)</li><li>● <b>RobecoSAM Bronze Class distinction for the outstanding sustainability performance in the banking industry</b>, from RobecoSAM, an international investment company with a specific focus on sustainability investments, based on the same data used for Dow Jones Sustainability Indices (DJSI) assessment.</li></ul>
<b>Awards to K Companies</b>
<ul style="list-style-type: none"><li>● Three awards from Best of the Best Awards 2018, organized by Asia Asset Management magazine: <b>Best Fund House (Thailand)</b>, <b>Best Pension Fund Manager (Thailand)</b> for three successive years and <b>Asian Fund Launch of the Year (Thailand)</b></li><li>● <b>Most Prominent Fund House in Corporate Bond Market</b>, a new category of award granted to the top performing asset management company in fixed-income fund management, from Best Bond Awards 2017, organized by Thai Bond Market Association (ThaiBMA)</li></ul>

## 4. Operating Performance and Financial Position Analysis

### 4.1 Operating Performance

KBank's consolidated net profit for the first quarter of 2018 totaled Baht 10,766 million, increasing Baht 595 million or 5.84 percent over the same period of last year. The increase came from net interest income which rose Baht 608 million, or 2.63 percent due largely to interest income from repurchase agreement transactions. Net interest margin (NIM) was equal to 3.37 percent, decreasing over-year, but still within the set target of 3.2-3.4 percent. However, non-interest income fell Baht 405 million over-year, or 2.61 percent due mainly to decreasing net insurance premiums. Moreover, other operating expenses rose Baht 765 million, or 5.03 percent over-year due in part to marketing expenses. As a result, our cost to income ratio increased to 41.20 percent from the same period of last year, which was better than the set target. In this quarter, our impairment loss on loans and debt securities decreased Baht 1,314 million, or 14.39 percent, in line with the prevailing circumstances.

#### Operating Performance for the First Quarter of 2018

(Unit: Million Baht)

	Q1-2018	Q4-2017	Change		Q1-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	23,696	24,020	(324)	(1.35)	23,088	608	2.63
Non-Interest Income	15,112	14,776	336	2.28	15,517	(405)	(2.61)
Total Operating Income - net	38,808	38,796	12	0.03	38,605	203	0.53
Total Other Operating Expenses	15,989	18,959	(2,970)	(15.66)	15,224	765	5.03
Impairment Loss on Loans and Debt							
Securities	7,819	11,646	(3,827)	(32.87)	9,133	(1,314)	(14.39)
Net Profit (attributable to equity							
holders of KBank)	10,766	5,707	5,059	88.63	10,171	595	5.84
Basic Earnings per Share (Baht)	4.50	2.38	2.12	88.63	4.25	0.25	5.84

When compared to the previous quarter, an increase of Baht 2,982 million or 15.03 percent in our operating profit before provision expense and income tax, was due mainly to a decrease of Baht 2,970 million or 15.66 percent in other operating expenses in line with decreasing premises and equipment expenses and marketing expenses due to seasonality. Meanwhile, non-interest income rose Baht 336 million or 2.28 percent owing to increasing net fees and service income and dividend income. Moreover, our impairment loss on loans and debt securities decreased Baht 3,827 million or 32.87 percent, resulting in our net profit to total Baht 10,766 million, an increase of Baht 5,059 million, or 88.63 percent over-quarter.

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

(Unit: Percent)

Financial Ratio	Q1-2018	Q4-2017	Change	Q1-2017	Change
Return on Assets (ROA) <sup>1)</sup>	1.46	0.79	0.67	1.43	0.03
Return on Equity (ROE) <sup>1)</sup>	12.14	6.61	5.53	12.44	(0.30)
Net Interest Margin (NIM) <sup>1)</sup>	3.37	3.49	(0.12)	3.41	(0.04)
Non-Interest Income to Average Assets <sup>1)</sup>	2.05	2.05	-	2.18	(0.13)
Non-Interest Income Ratio	38.94	38.09	0.85	40.19	(1.25)
Cost to Income Ratio	41.20	48.87	(7.67)	39.44	1.76

<sup>1)</sup> Annualized

(Unit: Percent)

Financial Ratio	Mar. 31, 2018	Dec. 31, 2017	Change	Mar. 31, 2017	Change
Net NPLs to Total Loans	1.84	1.85	(0.01)	1.80	0.04
Gross NPLs to Total Loans	3.30	3.30	-	3.31	(0.01)
Coverage Ratio	149.72	148.45	1.27	134.94	14.78
Loans <sup>2)</sup> to Deposits Ratio	94.93	95.96	(1.03)	94.80	0.13
Capital Adequacy Ratio <sup>3)</sup>	17.70	17.96	(0.26)	17.51	0.19
Tier 1 Capital Ratio <sup>3)</sup>	15.41	15.66	(0.25)	15.03	0.38

<sup>2)</sup> Loans = Loans to customers less deferred revenue<sup>3)</sup> KASIKORNBANK FINANCIAL CONGLOMERATE's Capital Adequacy Ratio (CAR)

## □ Net Interest Income

KBank's consolidated net interest income for the first quarter of 2018 was Baht 23,696 million, decreasing Baht 324 million, or 1.35 percent over-quarter due mainly to lower interest income from investments; in line with declining average investments, and interest income from loans. Our NIM equaled 3.37 percent, lower than the previous quarter, but remained within the set target range of 3.2-3.4 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 608 million, or 2.63 percent, due largely to higher interest income from repurchase agreement transactions. However, our NIM in this quarter was lower than the same period of 2017.

(Unit: Million Baht)

	Q1-2018	Q4-2017	Change		Q1-2017	Change	
			Million Baht	Percent	Million Baht	Million Baht	Percent
<b>Interest Income</b>							
<b>Interbank and Money Market Items</b>	2,026	2,054	(28)	(1.36)	1,509	517	34.31
Deposits	236	289	(53)	(18.23)	251	(15)	(5.72)
Loans without Repurchase Agreements	156	144	12	8.42	72	84	117.84
Repurchase Agreements	1,634	1,621	13	0.78	1,186	448	37.72
<b>Investments</b>	3,991	4,203	(212)	(5.05)	4,115	(124)	(3.01)
Trading Investments	60	79	(19)	(24.34)	52	8	14.30
Available-for-Sale Investments	402	426	(24)	(5.59)	931	(529)	(56.83)
Held-to-Maturity Investments	3,529	3,698	(169)	(4.58)	3,132	397	12.69
<b>Loans</b>	22,576	22,742	(166)	(0.73)	22,500	76	0.33
<b>Finance leases</b>	1,301	1,280	21	1.63	1,244	57	4.56
<b>Others</b>	3	4	(1)	(6.98)	3	-	9.05
<b>Total Interest Income</b>	29,897	30,283	(386)	(1.28)	29,371	526	1.79
<b>Total Interest Expenses</b>	6,201	6,263	(62)	(0.99)	6,283	(82)	(1.31)
<b>Total Interest Income – net</b>	23,696	24,020	(324)	(1.35)	23,088	608	2.63
Yield on Earning Assets (percent)	4.26	4.40		(0.14)	4.34		(0.08)
Cost of Fund (percent)	1.20	1.23		(0.03)	1.22		(0.02)
<b>Net Interest Margin (NIM) (percent)</b>	3.37	3.49		(0.12)	3.41		(0.04)

#### □ Non-Interest Income

For the first quarter of 2018, KBank's consolidated non-interest income totaled Baht 15,112 million, increasing Baht 336 million, or 2.28 percent over-quarter. The increase was due partly to higher net fees and service income in line with continual expansion of a new customer base which was consistent with our "Customer Centricity" strategy, as well as rising dividend income. In the first quarter of 2018 and the fourth quarter of 2017, non-interest income ratio of KBank and our subsidiaries accounted for 38.94 percent and 38.09 percent, respectively. This was in alignment with KBank's goal wherein non-interest income ratio would be around 40 percent of total income.

When compared to the same quarter of last year, consolidated non-interest income for the first quarter of 2018 decreased Baht 405 million, or 2.61 percent, as a result of falling net insurance premiums. Meanwhile, net fees and service income increased 4.71 percent, derived mainly from fee income from asset management and fee income from transaction services.

(Unit: Million Baht)

	Q1-2018	Q4-2017	Change		Q1-2017	Change	
			Million Baht	Percent		Million Baht	Percent
<b>Non-Interest Income</b>							
Fees and Service Income	13,470	13,268	202	1.52	12,604	866	6.87
Fees and Service expenses	2,911	2,904	7	0.23	2,519	392	15.54
<b>Fees and Service Income - net</b>	<b>10,559</b>	<b>10,364</b>	<b>195</b>	<b>1.89</b>	<b>10,085</b>	<b>474</b>	<b>4.71</b>
Gain on Trading and Foreign Exchange Transactions	2,155	2,326	(171)	(7.36)	2,165	(10)	(0.45)
Gain on Investments	394	494	(100)	(20.26)	244	150	61.61
Share of Profit from Investments using Equity Method	(2)	39	(41)	(106.37)	39	(41)	(106.27)
Dividend Income	499	277	222	80.24	466	33	7.09
Net Premiums Earned	24,730	23,843	887	3.72	26,427	(1,697)	(6.42)
Other Operating Income	411	370	41	11.11	377	34	8.88
<u>Less</u> Underwriting Expenses	23,634	22,937	697	3.04	24,286	(652)	(2.68)
<b>Total Non-Interest Income</b>	<b>15,112</b>	<b>14,776</b>	<b>336</b>	<b>2.28</b>	<b>15,517</b>	<b>(405)</b>	<b>(2.61)</b>
<b>Non-Interest Income to Average Assets (percent)</b>	<b>2.05</b>	<b>2.05</b>			<b>2.18</b>		<b>(0.13)</b>
<b>Non-Interest Income Ratio (percent)</b>	<b>38.94</b>	<b>38.09</b>		<b>0.85</b>	<b>40.19</b>		<b>(1.25)</b>
Net Fee Income to Net Total Operating Income Ratio (percent)	27.21	26.71		0.50	26.21		1.09

#### □ Other Operating Expenses

KBank's consolidated other operating expenses for the first quarter of 2018 was Baht 15,989 million, falling Baht 2,970 million, or 15.66 percent over-quarter. The decrease could be attributed mainly to seasonality. Our cost to income ratio was equal to 41.20 percent, down from 48.87 percent in the previous quarter due to decreasing expenses whereas net total income was close to the previous quarter. The figure thus remained within the set target.

When compared to the same period of the previous year, other operating expenses increased by Baht 765 million, or 5.03 percent due partly to marketing expenses. Therefore, our cost to income ratio of the first quarter of 2018 was higher than the 39.44 percent in the same quarter of last year.

(Unit: Million Baht)

	Q1-2018	Q4-2017	Change		Q1-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	7,768	8,115	(347)	(4.28)	7,191	577	8.02
Directors' Remuneration	17	16	1	3.00	18	(1)	(5.13)
Premises and Equipment Expenses	2,849	3,493	(644)	(18.41)	3,110	(261)	(8.36)
Taxes and Duties	1,208	1,203	5	0.45	1,065	143	13.46
Others	4,147	6,132	(1,985)	(32.37)	3,840	307	7.98
<b>Total Other Operating Expenses</b>	<b>15,989</b>	<b>18,959</b>	<b>(2,970)</b>	<b>(15.66)</b>	<b>15,224</b>	<b>765</b>	<b>5.03</b>
<b>Cost to Income Ratio (percent)</b>	<b>41.20</b>	<b>48.87</b>		<b>(7.67)</b>	<b>39.44</b>		<b>1.76</b>

## □ Impairment Loss on Loans and Debt Securities

During the first quarter of 2018, KBank and our subsidiaries had Baht 7,819 million of impairment loss on loans and debt securities, a decrease of Baht 3,827 million or 32.87 percent, over-quarter in line with the prevailing circumstances. The figure also decreased from the same period of last year. Thus, our credit cost in the first quarter of 2018 stood at 1.72 percent, lower than 2.62 percent in the previous quarter and lower than 2.15 percent in the same period of last year.

### Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q1-2018	Q4-2017	Change		Q1-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	7,819	11,646	(3,827)	(32.87)	9,133	(1,314)	(14.39)
Credit Cost (percent)	1.72	2.62		(0.90)	2.15		(0.43)

### Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of March 31, 2018, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 106,459 million. This amount was equivalent to 272.43 percent of the level required by the Bank of Thailand.

## — Non-Performing Loans and Debt Restructuring

### *Non-Performing Loans*

As of March 31, 2018, KBank's consolidated NPLs stood at Baht 71,106 million, 3.30 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 69,101 million, 3.25 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

### Non-Performing Loans

(Unit: Million Baht)

	For the Quarter Ending	Mar. 31, 2018	Dec. 31, 2017
Consolidated NPLs		71,106	69,674
Percent of total outstanding credit, including that of financial institutions		3.30	3.30
Bank-only NPLs		69,101	67,624
Percent of total outstanding credit, including that of financial institutions		3.25	3.25

### *Net Non-Performing Loans*

As of March 31, 2018, KBank's consolidated net NPLs stood at Baht 39,088 million – 1.84 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 38,457 million – 1.83 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

## Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Mar. 31, 2018	Dec. 31, 2017
Consolidated net NPLs	39,088	38,570
Percent of total outstanding credit, including that of financial institutions	1.84	1.85
Bank-only net NPLs	38,457	37,834
Percent of total outstanding credit, including that of financial institutions	1.83	1.84

### Debt Restructuring

As of March 31, 2018, KBank's consolidated restructured debts which incurred losses, totaled Baht 62,816 million, increasing by Baht 576 million, or 0.93 percent when compared to the fourth quarter of 2017

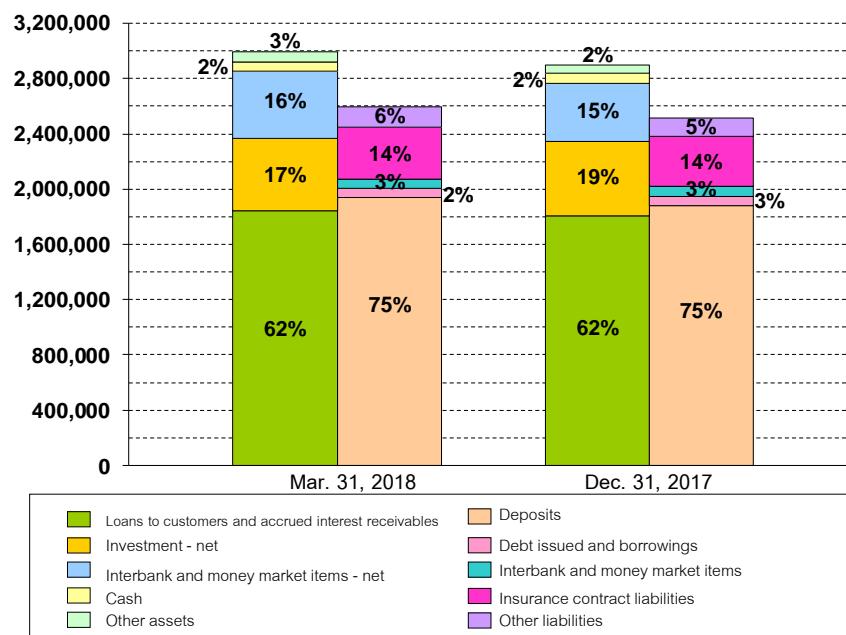
### Foreclosed Properties

As of March 31, 2018, our consolidated foreclosed properties had a cost value of Baht 20,219 million, thus being 0.68 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,193 million, equivalent to 10.85 percent of the cost value of those foreclosed properties, which is believed to be sufficient to cover holding, maintenance and disposal expenses, as well as losses on liquidations.

## 4.2 Financial Position Analysis

### Assets and Liabilities Structure

(Unit: Million Baht)



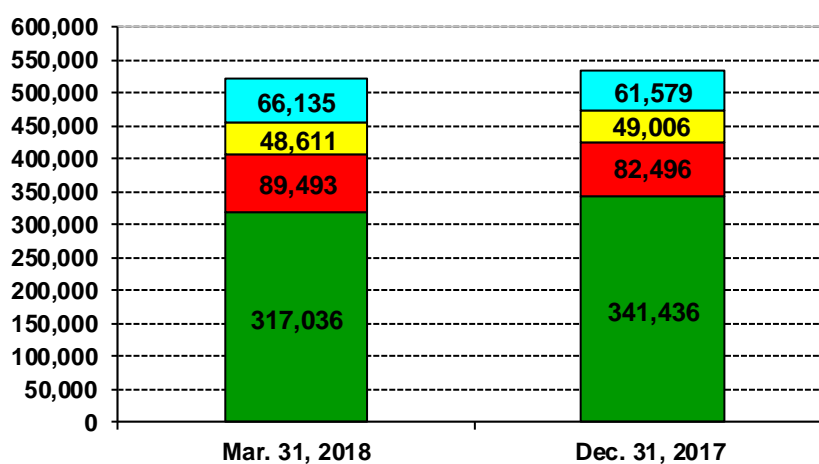
□ **Assets**

At the end of the first quarter of 2018, KBank's consolidated assets totaled Baht 2,994,485 million, increasing Baht 93,644 million or 3.23 percent from the end of 2017. The rise was due mainly to an increase in net interbank and money market items (assets) and loans to customers whereas net investment decreased. In detail:

- Net interbank and money market items (assets) as of the end of the first quarter of 2018 totaled Baht 487,752 million, increasing Baht 61,660 million or 14.47 percent from the end of 2017, due mainly to KBank's liquidity management.
- Loans to customers (less deferred revenue) at the end of this quarter amounted to Baht 1,839,892 million, increasing Baht 37,109 million or 2.06 percent from the end of 2017. The accelerating growth in loans to customers was due substantially to increase in working capital and trade finance. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net investment at the end of the first quarter of 2018 totaled Baht 522,270 million, declining by Baht 13,290 million or 2.48 percent from the end of 2017, due mainly to a decrease in government bonds.

**Investments in Securities**

(Unit: Million Baht)



## □ Liabilities and Equity

Our consolidated liabilities, at the end of the first quarter of 2018, amounted to Baht 2,593,730 million, increasing Baht 80,711 million or 3.21 percent, from the end of 2017. The increase was mainly attributable to a rise in deposits and insurance contract liabilities whereas debt issued and borrowings decreased. Significant changes in our consolidated liabilities included:

- Deposits at the end of the first quarter of 2018 equaled Baht 1,938,171 million, increasing Baht 59,499 million or 3.17 percent from the end of 2017, mainly as a result of an increase in savings deposit. KBank's deposits ranked fourth in the Thai banking system.
- Insurance contract liabilities at the end of the first quarter of 2018 registered Baht 377,046 million, up Baht 13,531 million or 3.72 percent from the end of 2017, in line with growth in life insurance business.
- Debt issued and borrowings at the end of the first quarter of 2018 equaled Baht 65,835 million, down Baht 4,740 million or 6.72 percent from the end of 2017.

At the end of this quarter, total equity attributable to equity holders of KBank amounted to Baht 360,635 million, increasing Baht 12,010 million or 3.45 percent from the end of 2017, driven largely by net operating profit for the first quarter of 2018, totaling Baht 10,766 million.

## □ Relationship between Sources and Uses of Funds

As of March 31, 2018, the funding structure as shown in the consolidated financial statement comprised Baht 2,593,730 million in liabilities and Baht 400,755 million in total equity, resulting in a debt-to-equity ratio of 6.47. The main source of funds on the liabilities side was deposits, which equaled Baht 1,938,171 million, or 64.72 percent of the total, as of March 31, 2018. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 2.24 percent and 2.20 percent of the total, respectively.

As of March 31, 2018, KBank's and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,839,892 million, resulting in loan-to-deposit ratio of 94.93 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.

## 4.3 Loans and Deposits

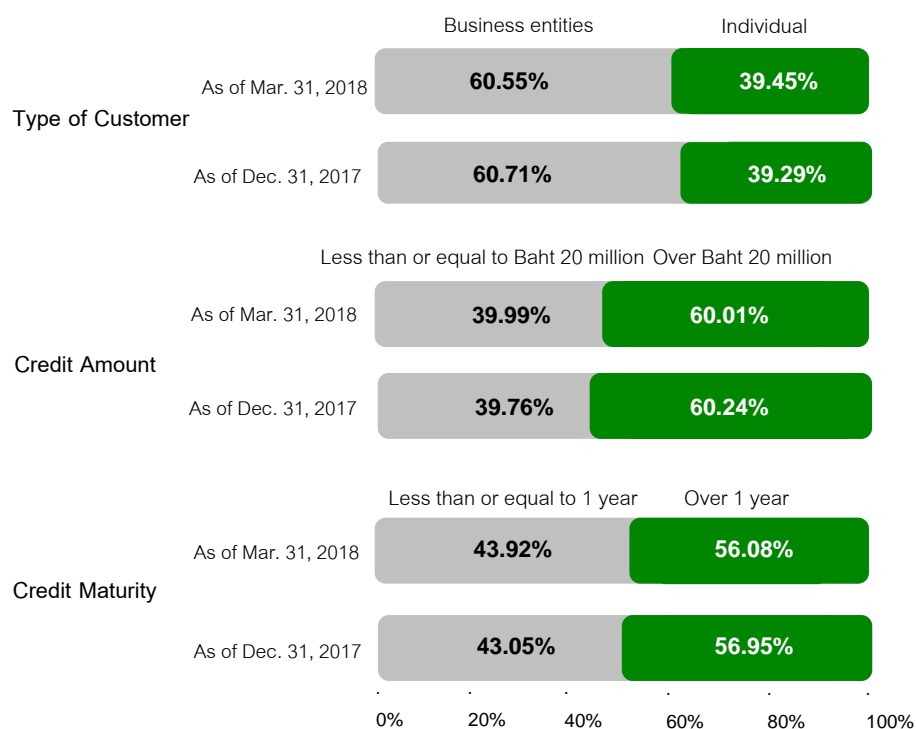
### Loans

As of March 31, 2018, KBank's consolidated outstanding loans stood at Baht 1,839,892 million, increasing by Baht 37,109 million, or 2.06 percent, compared to Baht 1,802,783 million as of December 31, 2017.

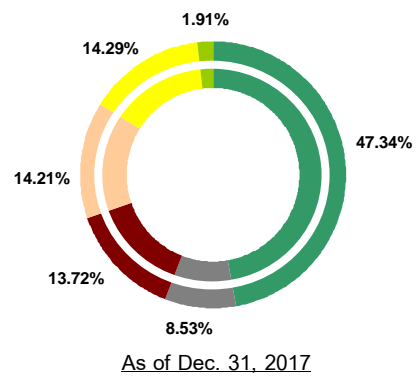
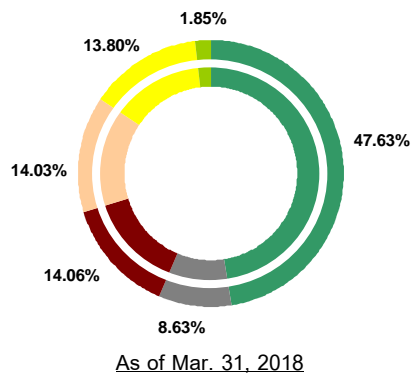
As of March 31, 2018, 60.55 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan accounts exceeding Baht 20 million totaled Baht 1,079,631 million, or 60.01 percent of the total; 39.99 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 43.92 percent of our total loans.

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

(The Bank)



### KBank's Consolidated Lending Portfolio



- Agriculture & Mining
- Manufacturing & Commerce
- Real Estate & Construction
- Utilities & Services
- Housing Loans
- Others

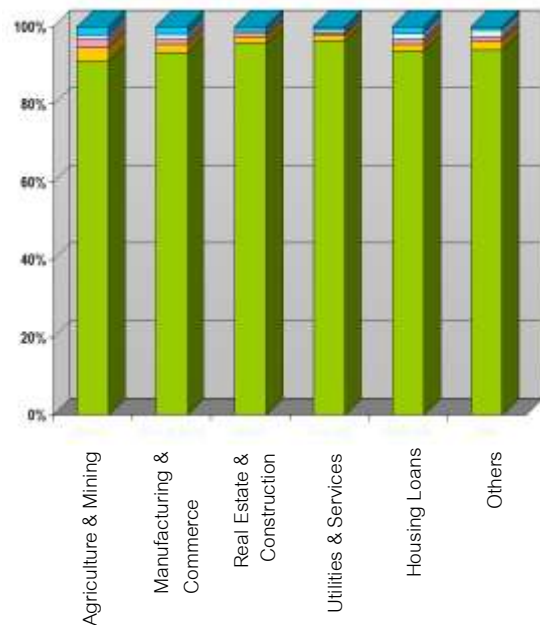
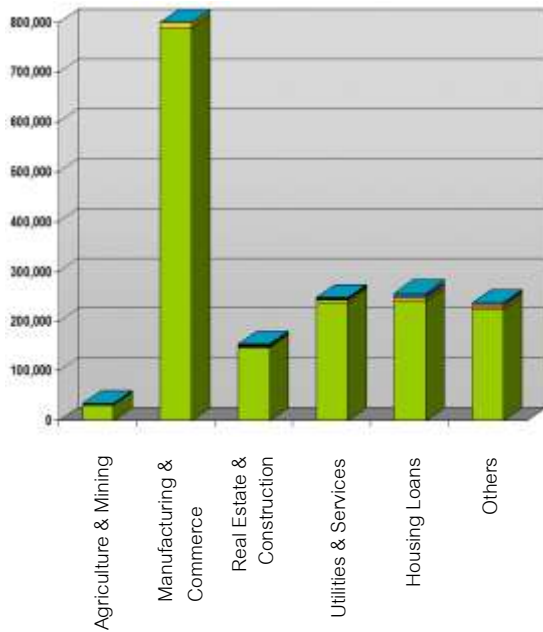
- Agriculture & Mining
- Manufacturing & Commerce
- Real Estate & Construction
- Utilities & Services
- Housing Loans
- Others

As of Mar. 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, 94.14 percent were classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 47.62 percent; of that 93.43 percent were classified as "Normal" loans.

### Loans Classified by Business

(Unit: Million Baht)

	Mar. 31, 2018		Dec. 31, 2017	
	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>
Loans	1,314,782	441,874	1,271,411	443,779

Notes: <sup>1)</sup> "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.

<sup>2)</sup> "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 March 31, 2018, our Corporate Business loans (Corporate and SME customers) increased due to higher demand for loans from our corporate customers mainly those in export-related industries namely agriculture, agro-processing industry and those related to the government's infrastructure projects such as construction and construction materials. Our SME business loans also enjoyed higher growth in line with the ongoing economic improvement, as evidenced by those granted to construction and construction materials, food and beverages, and hotel and restaurants.

For our retail loans, KBank placed our focus on loan quality along with holding onto our market leadership in major loan products. We thus maintained a cautious growth policy in alignment with the market and economic situation amid a low interest rate environment. In the first quarter of 2018, our retail loans slightly decreased from the end of 2017 owing mainly to credit card loan repayment for tax-saving funds purchased during the last year-end. For home loans - our core product - KBank continued collaborative efforts with our business partners to launch special interest rate campaigns and marketing activities both in Bangkok and other strategic provinces, as well as comprehensive home-related services via mobile banking application. At the same time, we prioritized campaigns aimed at promoting financial disciplines among our K-Personal Loan and K-Express Cash customers on a continual basis.

## □ Deposits

### Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Mar. 31, 2018	Dec. 31, 2017	Million Baht	Percent
<b>Total Deposits</b>	<b>100.00</b>	<b>1,938,171</b>	<b>1,878,672</b>	<b>59,499</b>	<b>3.17</b>
Current accounts	5.38	104,311	108,468	(4,157)	(3.83)
Savings accounts	73.69	1,428,118	1,372,947	55,171	4.02
Fixed-term deposit accounts	20.93	405,742	397,257	8,485	2.14

During the first quarter of 2018, total deposits of both Corporate Business and Retail Business increased 59,499 million, or 3.17 percent from the end of 2017, which was mainly attributed to increased savings accounts. This was line with our policy for management of deposits which must be kept at the levels appropriate for business operation and competition while maintaining savings accounts at the highest proportion of total deposits. KBank thus launched K-eSavings Account via K PLUS in response to customer needs for saving and convenience in account opening, and other investment vehicles in the form of multiple life insurance policies and mutual funds yielding higher returns with acceptable risk levels, as alternatives to matured fixed deposits.

## 4.4 Treasury Operations

### □ Treasury Operations

During the first quarter of 2018, average overnight interbank lending rates were at 1.46 percent p.a. Those rates were influenced by the resolutions from the MPC meetings held on February 14, 2018 and March 28, 2018 wherein the key policy rate was kept at 1.50 percent p.a.

KBank's liquidity position and investment portfolios were managed primarily to cope with future changes in business conditions and in line with the domestic economy as well as money and capital markets both at home and abroad. In the first quarter of 2018, our liquidity position was appropriately managed, and we were able to enhance returns on investments by using excess liquidity to invest in long-term Thai government bonds when market returns were favorable, while reducing the holding of short-term bonds of which returns were lower than the policy rate. In addition, KBank invested in top-rated short-term foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

## Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q1-2018	Q4-2017	Change	
				Million Baht	Percent
<b>Interest income<sup>1)</sup></b>					
Interbank and money market items <sup>2)</sup>	80.81	1,836	1,862	(26)	(1.40)
Investments	19.19	436	513	(77)	(15.01)
<b>Total</b>	<b>100.00</b>	<b>2,272</b>	<b>2,375</b>	<b>(103)</b>	<b>(4.34)</b>

Notes: <sup>1)</sup> Managerial figures

<sup>2)</sup> Including loans

During the first quarter of 2018, total interest income stood at Baht 2,272 million, decreasing Baht 103 million from the previous quarter, due to reduced liquidity, thus resulting in portfolio adjustment to match the said economic circumstances.

### 4.5 Capital Requirements

As of the end of the first quarter of 2018, KBank, under the Basel III capital requirements, had capital funds of Baht 325,751 million, consisting of Baht 276,351 million in Tier-1 capital and Baht 49,400 million in Tier-2 capital. The capital adequacy ratio of KBank was 16.95 percent, above the BOT's minimum requirement and conservative buffer of 9.75 percent. Details of the capital adequacy ratio of KBank are shown in the following table:

#### Capital Adequacy Ratio<sup>1)</sup>

- KASIKORNBANK FINANCIAL CONGLOMERATE<sup>2)</sup>

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer <sup>4)</sup>	Mar. 31, 2018	Minimum Requirement & Conservation Buffer <sup>4)</sup>	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Tier-1 Capital Ratio <sup>3)</sup>	7.875	15.41	7.25	15.66	15.91	15.25	15.03
<i>Common Equity Tier-1 Ratio</i>	6.375	15.41	5.75	15.66	15.91	15.25	15.03
Tier-2 Capital Ratio	-	2.29	-	2.30	2.32	2.38	2.48
<b>Capital Adequacy Ratio</b>	<b>10.375</b>	<b>17.70</b>	<b>9.75</b>	<b>17.96</b>	<b>18.23</b>	<b>17.63</b>	<b>17.51</b>

● The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer <sup>4)</sup>	Mar. 31, 2018	Minimum Requirement & Conservation Buffer <sup>4)</sup>	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Tier-1 Capital Ratio <sup>3)</sup>	7.875	14.38	7.25	14.62	14.81	14.25	14.17
<i>Common Equity Tier-1 Ratio</i>	6.375	14.38	5.75	14.62	14.81	14.25	14.17
Tier-2 Capital Ratio	-	2.57	-	2.58	2.59	2.62	2.68
<b>Capital Adequacy Ratio</b>	<b>10.375</b>	<b>16.95</b>	<b>9.75</b>	<b>17.20</b>	<b>17.40</b>	<b>16.87</b>	<b>16.85</b>

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

## 4.6 Credit Ratings

At the end of March 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.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Mar. 31, 2018
Moody's Investors Service <sup>1)</sup>	
<u>Foreign Currency</u>	
Outlook	Stable
Long-term - Senior Unsecured Notes	Baa1
- Deposit	Baa1
- Counterparty Risk Assessments	Baa1(cr)
Short-term - Debt/Deposit	P-2
- Counterparty Risk Assessments	P-2(cr)
Baseline Credit Assessment	Baa2

Domestic Currency

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

Standard & Poor's<sup>1), 2)</sup>Global Scale Ratings

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

Fitch Ratings<sup>1)</sup>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: <sup>1)</sup> 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.

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

## 5. Operations of Support Groups

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### 5.1 Human Resource Management

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

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

KBank has formulated a plan to foster a knowledge-driven working culture, to ensure that all our staff members can efficiently cope with change in the advancing digital age. To this end, the KBank Digital Academy has been set up to enhance the knowledge and ability of employees classified into three target groups by the degree of intensity for development.

- 1.1 Live Digital: The target group is all of KBank's employees. This group is equipped with learning skills via a KBank online learning platform under the name KDwise, which encompasses more than 100 training courses, specifically designed to change the way our staff work each day in order to broaden their horizons and smoothly adjust themselves to any change. Notable courses are Digital Collaboration Tools, which enables them to efficiently use digital tools at work, and Digital Competency to enhance the employees' necessary digital skills.
- 1.2 Execute Digital: The target group is the digital product and service development team. Learning courses are designed to emphasize insights and best practices, especially through intensive workshops. Notable initiatives in the first quarter of 2018 included seminars on KBank Data Analytics Series, organized for data scientists, and on cyber security to encourage relevant staff members to innovate through maximizing the available data.
- 1.3 Lead Digital: The target group is KBank executives who are key attributes in leading staff through the path of change in alignment with our business strategies. One noteworthy initiative for this employee group was the Digital Leadership Program.

Moreover, the Digital Workplace program was initiated with the aim of improving our IT infrastructure to enable staff members of KBank and K Companies to gain access to data and work anytime, anywhere. We placed our focus on upgrading the database of K Companies to facilitate our employees' access to data essential for their work, expanding the scope of human resource services within the organization while also promoting our staff's greater understanding of the use of new tools for a better working environment in keeping with the new generation's styles of work in the digital world.

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

To enhance operational efficiency and cash in on the growing banking business within the region, KBank has studied human resource policies and procedures of AEC+3 countries. To this end, we devised a plan for personnel recruitment, job rotation, employee development, and career path planning and development appropriate for and consistent with business formats per the established strategies. KBank has thus reviewed our plan for employee development based on job position, including the Individual Development Plan (IDP) for local and expatriate staff members within Cambodia, Lao PDR, Myanmar, Vietnam and Indonesia (CLMVI), to ready them for their present work and future assignments. Placing importance on employee engagement, we customize plans to strengthen our staff members' cohesiveness in alignment with business operations in each country.

As support for our business operations as a locally incorporated institution (LII) in the People's Republic of China, KBank concentrates on building a strong foundation of human resource management for the highest operational efficiency in harmony with our business directions. In the initial stage, we have applied a competency model to personnel recruitment in order to select quality employees, and will later conduct competency-based performance assessment. Along with this, e-Learning courses are available within and outside of the organization to encourage our employees to learn at their convenience.

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

We have continually carried out intensive recruitment and development of personnel to be a part of KBTG's workforce. To this end, activities were held for students and experienced personnel with IT skills, such as an Open House activity held jointly with Thai universities, KBTG Career Day, Young Tech Scholarship 2018 to award scholarships to the general public, and the KBTG Intensive Program 2018 to provide new graduates opportunities to work as trainees with KBTG experts. Other notable efforts were Data Engineer Bootcamp 2018 and Developer Bootcamp 2018, for development of employee capabilities, especially in working with tech experts.

With regards to the employee engagement enhancement program for KBTG employees, we endeavor to establish a family-like work environment. To this end, activities were organized to promote camaraderie among high-ranking KBTG executives and employees to ensure that the company grows healthily in today's highly-competitive IT market.

## **4. Other Human Resource Management Operations**

- 4.1 Employee recruitment: Emphasis is placed on recruitment of high-potential personnel to meet business needs, along with the implementation of KBank branding programs. Notable activities included "Moving Your Digital Career Forward" to recruit new-generation personnel suited to the digital banking business, the KBank Private Banking Open House to present

opportunities for those interested in private banking jobs, the Young Credit Analyst Program held to select university students to be credit analysts with fast-track career development, and K SME Career Day.

- 4.2 Employee development: To maximize our employees' potential and leadership abilities, we organized the Management Development Program (MDP) to enhance their learning path while also supporting them to participate in study courses organized by institutions. Meanwhile, the K-Coaching Academy program was continually implemented to equip our executives with International Coaching Federation (ICF)-based coaching skills, enabling them to provide advice to their staff and to fully realize their potential, thus strengthening relationships between managers and workers. Other initiatives of note were the "Seniors Want to Coach – Juniors Want to Talk" program wherein employees were coached by department heads, and First Executive Vice Presidents a forum where qualified experts were invited to share their perspectives, opinions and experiences in coaching to our executives, along with the launch of campaigns via various activities and media to promote a good coaching environment within the organization.
- 4.3 Promotion and maintenance of employee engagement: KBank carried out the Employee Engagement Survey 2017 and developed a plan to enhance employee engagement in a sustainable manner at the division and corporate-wide levels. Three major factors are thus considered for short- and long-term engagement, i.e., career opportunities, work-life balance and enabling infrastructure. Guidelines have been established for the changing of work formats and work spaces to enhance efficiency and flexibility in response to demands of employees of all ages. We thus introduced a Talent & Employee Experience Creation Unit Initiative to monitor progress of the operation throughout the year.
- 4.4 Organizational culture creation: To promote employee behavioral guidelines per KBank's Core Values, "The Happenings: Out of the Box, Differentiation and Fun-filled Activities" theme was employed in keeping with the strategy of "New Possibilities Start from Doing Differently". In this quarter, "The Happenings: Bake the Happiness" activity was organized wherein K-Culture Representatives from all KBank divisions and K Companies were invited to join a teamwork experience in order to open up new perspectives and create brand-new happenings.
- 4.5 Employee relations and benefits: KBank reached an agreement on change in annual salary increase to be in line with the prevailing economic circumstances and a competitive environment with the KASIKORNBANK Labour Union and KASIKORNBANK Officer Labour Union. The first Employees' Committee meeting for 2018 was also 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 two Labour

Unions, KBank took remedial actions for employees performing in violation of regulatory requirements, to ensure strict compliance among our staff members. These factors were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks. We also established practical guidelines on various key issues in compliance with labor laws of AEC countries and the People's Republic of China so that our employees can perform their work correctly.

4.6 Communication management for economic, social and environmental sustainability under the “Green DNA” resolution: KBank organized the “100,000 Chuamong Chuan Kan Tham Di Tham Dai (100,000 Volunteer Hours – Let’s Do Good Together)” project to encourage employees of KBank, K Companies, P Companies and KBTG to each take one day off in order to perform public service activities. Other notable efforts included the introduction of a workplace safety program, participation in the Occupational Safety, Health and Environment promotional campaign and fire evacuation drills to familiarize workers in buildings with their fire escape plan, in alignment with our workplace safety policy.

4.7 Promotion of communication to support business operations: Numerous activities were arranged in keeping with our aspiration of becoming the “Customers’ Life Platform of Choice” - the most-preferred platform that can meet customers’ needs in every aspect of their lives. To this end, we provided our employees with knowledge of the Quick Pay QR Code product and its functions and enhanced their understanding of the K PLUS SHOP application for both customers and merchants so that they can recommend our clients to use the service, and deliver an impressive experience to them as well as others within their circle. Notably, the TV commercial “K PLUS Ther Ther” was introduced with the aim of increasing the number of K PLUS application users to 10.8 million within 2018.

KBank also launched a Good Market Conduct program to accentuate quality and fair financial services rendered to our customers under the “Honest KBank People” campaign, wherein our employees must have accountability and transparency, and must not take advantage of customers. Another notable initiative was the Cyber Risk Awareness program to provide our staff with knowledge of cyber threats and behavioral guidelines in order to stay ahead of cyberattacks, efficiently bracing for challenges in the digital world.

## 5.2 IT Management

In the first quarter of 2018, KBTG conducted studies in technological development, in alignment with our strategy of maintaining KBank’s competitiveness together with our position as the number-one digital banking provider, to cope with fast-changing consumer behaviors in this highly competitive, technology-driven marketplace. Our key initiatives can be summarized as follows.

- **Development of “KADE” or K PLUS AI-Driven Experience** – a financial innovation driven by artificial intelligence (AI) technology that blends KBank’s financial experience with KBTG’s technological expertise and design. AI-based machine intelligence is a key element to provide smart services via digital channels of the K PLUS application under the “From Digital to Intelligence” concept that emphasizes the linkage of a working system which truly understands customers’ needs. The K PLUS platform will thus be transformed into the K PLUS Intelligence Platform, which will integrate services of different formats in a single place.

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

- 1.1 The Request to Pay function has been added to K PLUS. The function, which is a part of the PromptPay program under the Bank of Thailand’s policy, requests payment from the holder of a deposit account linked to the PromptPay service. For K PLUS users, they can request payment from other K PLUS users with no need to link the Request to Pay to the PromptPay service.

- 1.2 Flowers were offered via Life PLUS on Valentine’s Day with a trial use of machine learning technique for selecting florist shops for KBank employees. The results obtained have been analyzed to shed light on their behaviors for identifying formats and methods for offering products and services to other customers with similar behaviors.

2. K PLUS SHOP: KBank mobile banking application for merchants: A function for generating Loyalty Platform on K PLUS Lifestyle was added as a “member card” for customers. The function allows customers to add a member card and accumulate points via K PLUS. In the future, it will also display accumulated points. The new function has been linked to the PTT Blue Card. Moreover, a “Thrilling Promo” was also launched to offer special privileges to customers. Initially, there were three Digital Deals, including sales of admission tickets at special prices for the Bangkok International Motor Show, JOOK and Ookbee.

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

- **Study and develop an Application Programming Interface (API) Manager system:** We are in the process of compiling data and mapping out strategies in response to the FinTech requirements. Initially,

the system structure has been developed for further connectivity, with prominence given to data suitability and security. K PLUS SHOP API has been linked to our trade partners to enable QR payment on their application.

- **Develop technology to apply machine learning techniques to KBank businesses:** We employed machine learning techniques to offer personal loan via the K PLUS application. Through this machine lending service, machine intelligence has been applied to provide greater opportunity for small retailers to gain access to micro finance. KBTG uses AI technology to find prospective customers appropriate for this type of loan and then offers the service to them directly via K PLUS. For those who use the service, loan approval will be granted and the loan amount will be credited to their account within one minute. Since the machine intelligence-based loan offering was launched on a trial basis in November 2017, it has been much better received by customers compared to the traditional method.

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

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

**Disclaimer**

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