



KASIKORNTHAI

Management Discussion and Analysis (MD&A)

For the Quarter Ending September 30, 2018

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary
Management Discussion and Analysis
For the Quarter Ending September 30, 2018

The Thai economy in the third quarter of 2018 grew at a decelerating rate due to slowdown in external sector and manufacturing production at home. Meanwhile, private consumption which continued to expand was derived mainly from increased expenditures on automobiles. Nonetheless, the business sector remained challenged by new modes of competition, the broader marketplace amid the advancing digital age, regulatory changes, the rapid pace of technological advancement and fast-changing consumer behavior. Given the increased degree of uncertainty in global economies and politics, businesses may have to contend with Thai Baht volatility and rising interest rate trends.

Within this context, KBank and K Companies operate our business as a Bank of Sustainability under appropriate risk management and good corporate governance. We accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our long-term market leadership. Guided by our core strategies of “Customers’ Life Platform of Choice” along with “Customer Centricity”, KBank has extended our aspiration to become the most-preferred platform that can meet customers’ needs in every aspect of their lives. All of these endeavors aim to understand and anticipate each individual customer’s needs under the “Segment of One” while also placing emphasis on the offering of financial innovations and products, including those of the “Beyond Banking” realm, in order to deliver an excellent customer experience. To this end, we have emphasized collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, startup firms and strategic partners.

In the third quarter of 2018, KBank and subsidiaries reported Baht 9,744 million in net profit, decreasing Baht 1,173 million or 10.75 percent over-quarter. The decrease could be attributed to non-interest income, which dropped Baht 3,187 million or 19.63 percent from the previous quarter, due mainly to declines in net premiums earned, revenue from capital market products as a result of one-time sales of securities, and dividend income. Meanwhile, net interest income rose Baht 637 million or 2.62 percent. Net interest margin (NIM) was equal to 3.43 percent, higher than the previous quarter, which was better than the target of 3.2-3.4 percent. Other operating expenses fell Baht 471 million or 2.83 percent over-quarter. Given that the decrease in income was more pronounced than that of other operating expenses, our cost to income ratio rose to 42.58 percent compared to the previous quarter, which was still better than the target.

In this quarter, our impairment loss on loans and debt securities increased slightly from the prior quarter, but dropped from the same period of last year. At the same time, our robust capital position was sufficient to cushion against risk, and greater than the Bank of Thailand’s requirement. As evidenced, capital adequacy ratio (CAR) of KASIKORNBANK FINANCIAL CONGLOMERATE (the Conglomerate) according to the Basel III Accord was 18.96 percent, with a Tier 1 capital ratio of 16.50 percent.

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

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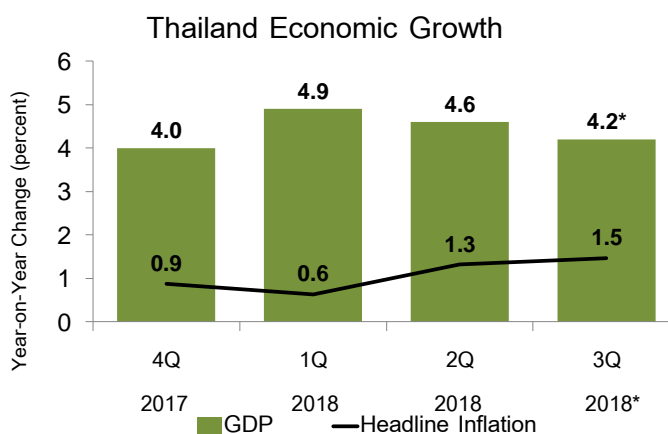
1. Overview of Operating Environment

1.1 Global and Thai Economy in the Third Quarter of 2018

Overall, the global economy exhibited ongoing growth. However, signs emerged that many countries, particularly emerging economies, which had been under pressure following the policy rate increase by the US Federal Reserve, may see an economic slowdown during this quarter. Aside from their fragile economic fundamentals, these countries were vulnerable to capital outflows. At the same time, the Chinese economy in the third quarter cooled amid concerns over the trade dispute between China and the US, after the US raised tariffs on certain products imported from China. Given the intensified global trade tension, the October 2018 World Economic Outlook of the International Monetary Fund cut its global economic projection for 2018 and 2019 to 3.7 percent, compared to the previous forecast of 3.9 percent.

Regarding monetary policy of central banks worldwide, the US Federal Reserve maintained its tightening stance by raising its policy rate and continuing to reduce its massive balance sheet, whereas the European Central Bank was gradually tapering its quantitative easing stance through reduced monthly asset purchases. Likewise, several other central banks signaled steps to be less accommodative in their monetary policies. Looking forward, global interest rates are therefore likely to be on an upward trend. Amid the trade rift which may make the global economic recovery vulnerable, however, many central banks may adopt a cautious stance in their monetary policies, primarily taking into account the right timing to mitigate possible foreign exchange volatilities as well as impacts that may have on other funding costs.

For Thailand, most economic indicators in the third quarter of 2018 grew at a decelerating rate, as evidenced by slowdowns in export value, international tourist arrivals and tourism receipts, as well as manufacturing production. Meanwhile, private consumption continued to expand, which was derived mainly from increased expenditures on durable goods, especially automobiles. Given this and the higher base of last year, the



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

Thai economy for the third quarter of 2018 may see ongoing slowdown, with growth of 4.2 percent, compared to 4.6 percent in the previous quarter. Overall, Thai economic growth for 2018 may be at 4.6 percent, while headline inflation is expected to average 1.1 percent. Meanwhile, the Bank of Thailand's policy rate is expected to stay low at 1.50 percent to accommodate the recovery path of domestic activity for the remainder of this year.

1.2 Banking Industry and Competition

In the third quarter of 2018, commercial banks recorded increased net profit over-year and over-quarter. Compared to the prior quarter, the rise could be attributed to gain on investments and increase in net interest income which was derived mainly from expansion in retail and SME business loans, in line with growth in net interest margin (NIM). Excluding gain on investments of certain banks in the third quarter of 2018, the overall banking system still showed rising net profit over-year due to a decrease in impairment loss on loan and debt securities. Nonetheless, fee income was still on a decline as a result of cancellation of fees on financial transactions via digital channels and a decrease in net premiums earned. Given that non-performing loans to total loans in this quarter crept slightly higher, commercial banks' asset quality still merits close watch.

As of the end of the third quarter of 2018, net loans at 14 domestically-registered commercial banks grew 0.33 percent over-quarter, and 5.78 percent over-year compared to 5.02 percent at the end of the second quarter of 2018. Meanwhile, deposits dropped 0.39 percent from the previous quarter and grew at a slower pace of 4.91 percent over-year, versus the growth of 5.78 percent at the end of the second quarter of 2018. Despite the slightly tightening liquidity compared to the end of the second quarter this year, overall liquidity in the banking system remained plentiful.

For the outlook of commercial banks, loans, both retail and business loans, are likely to see ongoing growth, buoyed by an expected overall economic rebound. Net interest income is also expected to maintain positive momentum in the final quarter of this year, which would somewhat cushion the negative impact of reduced online transaction fees which have affected non-interest income. Aside from debt quality, commercial banks may have to contend with several other challenges including such regulatory changes as new mortgage measures, implementation of the Basel III capital requirements in 2019, and preparations for International Financial Reporting Standards (IFRS9), as well as development of digital platform to help expand customer base and income from financial transactions and services.

1.3 Significant Regulations and Rules related to Business Operations

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

- **Permission Given to Commercial Banks to Act as Identity Provider or Source of Data in the Digital Format**

The Bank of Thailand (BOT) issued circular Ref. No. BOT.ForKorKor. c.2053/2561 (2018) Re: Permission Given to Commercial Banks to Act as Identity Provider or Source of Data in the Digital Format, effective from September 4, 2018. The regulation extends the business scope of banks which show readiness in work system, personnel and risk management to act as an identity provider and source of data in the digital format for their business partners. Major guidelines on these practices under the National Digital ID (NDID) program – which will become the nation's centralized system for digital identity verification and authentication – are as follows.

1. Banks must seek consent from customers and inform them of clear and specific objectives as well as their rights, namely right to access data, right to rectification, right to restrict data processing, and right to be forgotten.
2. Proper technology must be used to enable linkage to other service providers under the National Digital ID program in the future.
3. Customers' right to choose services must not be restricted.
4. IT risk management and cyber security system must be in place, which includes system readiness, service continuity, and monitoring of business partners regarding IT security and customer data privacy protection.

KBank will be able to act as identity provider within this year.

- **Bank of Thailand Act (No. 7) B.E. 2561 (2018)**

Bank of Thailand Act (No. 7) B.E. 2561, which came into force on July 28, 2018, empowered the Bank of Thailand, under the approval of the Financial Institutions Policy Committee, to propose a resolution plan for failing financial institutions which could adversely affect the country's overall economic and financial system, to the Ministry of Finance for consideration before forwarding to the Cabinet. The conditions of failing financial institutions include liquidity crisis, deteriorating financial position, and actions that maybe detrimental to the general public, or capital level lower than regulatory minimum requirement. These also include cases where financial institutions are placed in the control of the authorities and require financial bailouts, or where emergencies arise in which financial institutions fail to rectify the situations to prevent damage to the wider economic system.

After the Cabinet approves the financial institution resolution plan, all financial institutions will be required to pay a contribution to the Financial Institutions Development Fund at the prescribed rate. The contribution – when combined with the amount paid to the Financial Institutions Development Fund in compliance with this law, the Deposit Protection Agency and the Bank of Thailand as required by the law on improvement of management for the Ministry of Finance's debt incurred from aiding the Financial Institutions Development Fund – must not exceed 1 percent p.a. of each bank's deposit base. Currently, financial institutions pay a contribution to the Deposit Protection Agency at the rate of 0.1 percent of the average deposit of protected accounts, and to the Bank of Thailand as required by the law on improvement of management for the Ministry of Finance's debt incurred from aiding the Financial Institutions Development Fund at the rate of 0.46 percent of the average deposit of protected accounts and each bank's deposit base.

This legislation stipulates additional measures and mechanisms for economic and financial stability, while also setting clearly defined roles and responsibilities of the Bank of Thailand and relevant authorities (resolution regimes), along with providing a broad range of resolution powers to resolve financial institutions' crisis timely, especially amid the global interlinkage across financial institutions which may cause widespread repercussions and rapid changes. Having studied this law and made preparations for the change, we are confident that we will be able to accurately and fully comply with the new legislation.

2. Risk Management and Risk Factors

2.1 Credit Risk Management

The Thai economy in the third quarter of 2018 grew at a decelerating rate due to slowdown in external sector and manufacturing production at home. Meanwhile, private consumption which continued to expand was derived mainly from increased expenditures on automobiles. Major challenges existed in the US's protectionist policy and its trade partners' retaliatory measures, bullish interest rates, and impacts of digital disruption which may adversely affect income and operating costs of certain businesses. At the same time, competition in the home loan market became more intense, which could potentially jeopardize the economic and financial system as a whole.

Under these circumstances, KBank has closely monitored trade negotiations, together with their impact on supply chains and the Thai business sector. We thus put in place more stringent customer approval criteria for commercial lending policies applied to small and micro businesses. We also prioritize risk assessment through prudent screening and close monitoring of borrowers. At the same time, KBank has focused mainly on borrowers with good track records, as well as existing low-risk customers. Regarding home loan, we will revise our credit policy to be consistent with the Bank of Thailand's macroprudential measure to be implemented to preclude speculation in the real estate sector.

2.2 Market Risk Management

Overall, movements in foreign exchange and interest rates during this quarter, at home and abroad, remained highly volatile in line with the global market. With the protectionist policy and retaliatory measures implemented by the US and China coupled with foreign exchange volatility in emerging countries, namely Argentina, Indonesia and Turkey, the Thai market encountered ongoing capital outflows which prompted the Thai Baht to weaken at the beginning and in the middle of the quarter. Given the healthy Thai economic fundamentals, brighter exports and growing tourism receipts, however, the country's current account turned to show a surplus. Moreover, clarity regarding Thailand's general election date helped curb capital outflows, and the Thai Baht resumed its appreciation towards the end of the quarter.

Regarding movements of domestic interest rates, some investors expected that the key policy rate would soon be on an upward trend after the Monetary Policy Committee resolved to keep the key policy rate unchanged at 1.50 percent, but the vote to maintain the rate was 5 to 2, compared to 6 to 1 in the previous meeting. As a result, some private operators expedited bond issuance to lock in their funding cost before any rate increase. Meanwhile, long-term bond yields moved within a narrow range amid heightened risks in emerging markets and escalating trade tension between the US and its trade partners. US bond yields soared, especially towards the end of the quarter, given that US economic indicators pointed to firm growth, though it faced intermittent pressure from rising risks in the global 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 in this quarter was tightening, compared to earlier this year. While net loans rose, deposits declined steadily. Broadly speaking, loans increased as seen from the rise in all types of retail loans, particularly home loan and auto hire purchase loan. At the same time, the decrease in deposits could be attributed to a decline in deposits among accounts of the business sector. Looking ahead into the final quarter of this year, overall loans may be supported by better-than-expected economic growth and seasonal demand for loans at year-end. The brighter prospect for loans may also come from an extraordinary factor, as rising demand is anticipated before the measures to curb mortgage lending are implemented. For deposits, pricing competition may be limited as most banks have turned their focus to improved capability in gaining access to new customers via electronic channels to boost their business opportunities going forward.

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

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

The Board of Directors approved the strategy of operating our business as a Bank of Sustainability under appropriate risk management and good corporate governance, while maintaining a balance in economic, social and environmental dimensions, in our belief that sustainable business practices will allow us to attain business goals with sustainable returns over the long term. We are therefore committed to ensuring that the philosophy of sustainable development is ingrained in all operations of our employees as part of their Green DNA, so that they concretely perform their work for enhancement of strategic capabilities in order to provide the maximum possible benefit to all stakeholders, thus being conducive to the nation's sustainable growth.

KBank recognizes the importance of good corporate governance, which is essential for sustainable business operations. Aside from creating confidence among all stakeholders, it is instrumental in making KBank a Bank of Sustainability. In this quarter, KBank granted the rights to shareholders to propose a candidate for directorship, and present issues for inclusion in the meeting agenda at the 2019 General Meeting of Shareholders. A number of activities undertaken continually to promote our good corporate governance practices included:

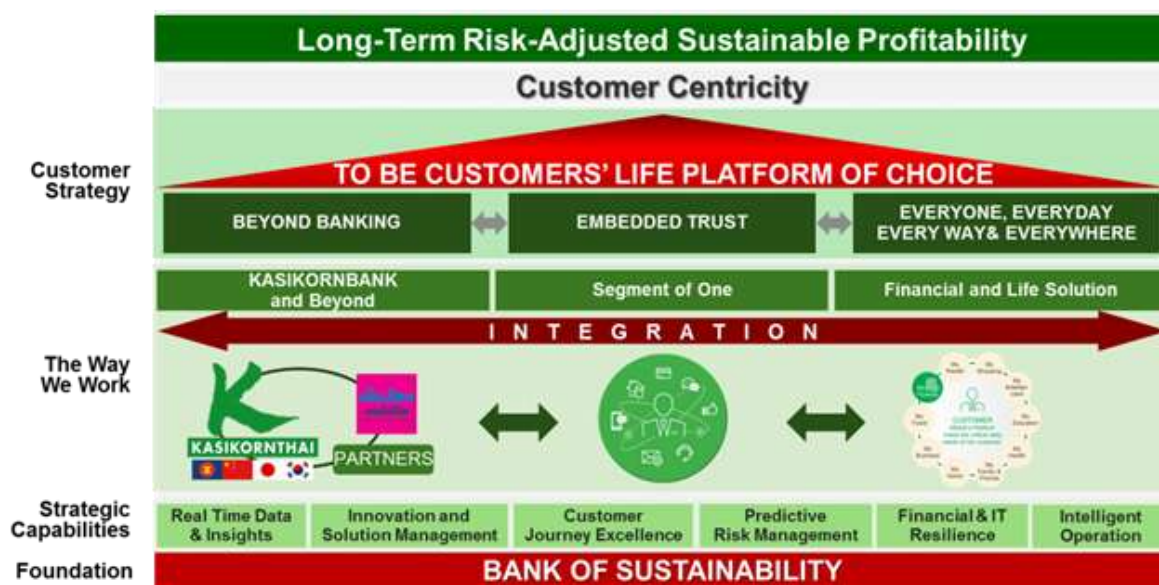
- Organizing training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via the KBank e-Learning system
- Holding a lecture on Governance, Risk Management and Compliance (GRC) for executives
- Launching the "KBank Honest People" campaign to promote a culture of integrity in the workplace, in adherence to the "Accountability, Transparency and Fairness" practical guidelines
- Communicating to employees the Anti-Corruption Policy and informing them of communication channels for accepting information, suggestions or complaints via Microsoft Office 365 and KASIKORNTV
- Participating in National Anti-Corruption Day
- Providing comments and recommendations on compliance with the Statement of Corporate Governance Principles and government regulations to departments within KBank, K Companies and P Companies

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

The Thai economy in the third quarter of 2018 grew at a decelerating rate due to slowdown in external sector and manufacturing production at home. Meanwhile, private consumption which continued to expand was derived mainly from increased expenditures on automobiles. Meanwhile, the business sector remained challenged by new modes of competition, the broader marketplace amid the advancing digital age, regulatory changes, the rapid pace of technological advancement and fast-changing consumer behavior. Given the increased degree of uncertainty in global economies and politics, businesses may have to contend with Thai Baht volatility and rising interest rate trends.

Within this context, KBank and K Companies operate our business as a Bank of Sustainability under appropriate risk management and good corporate governance. We accentuate enhancement of our business capabilities to achieve sustainable growth and returns while maintaining our long-term market leadership. The philosophy of sustainable development is instilled in all our operations as part of our Green DNA to ensure the maximum benefits for all, primarily taking into consideration both internal and external stakeholders. 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. All of these endeavors aim to understand and anticipate each individual customer’s needs under the “Segment of One” while also placing emphasis on the offering of financial innovations and product management, including those of the “Beyond Banking” realm, in order to deliver an excellent customer experience. To this end, we have emphasized collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, startup firms and strategic partners.

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



3.3 Customer Segments and Services

During the third quarter of 2018, KBank and K Companies continued to adhere to our “Customer Centricity” strategy, being attentive to the impact of domestic and global economic circumstances, sustaining our customers’ business and financial standing, as well as supporting their growth and opportunities, led by the government’s economic stimulus measures and other factors. Along with that, we developed our business in various dimensions – customers, product domains, data collection ability, data analysis and analytics, and development of service channels – whether in the physical branch, electronic or digital formats – 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.

- **Multi-Corporate Business**

Prioritizing financial service efficiency enhancement and reduced costs for our customers, we developed payment platforms to link large companies with retail customers via QR code payment with Electronic Data Capture (EDC) and e-Wallet that enables cash-on-delivery payment with transport service providers. The innovation provides a new and more secure payment experience for retail customers in support of the drive towards a cashless society.

Meanwhile, KBank remained committed to providing advisory services on various products such as loans and those for international trade, investment, fund raising and risk management, to better suit each client. In this quarter, we granted support to customers in the food and beverage industry, leasing, and financial institutions seeking to issue bonds.

- **Large Corporate Business**

KBank emphasizes the importance of understanding customers’ business formats and their needs. We have thus focused on development of our personnel and work processes to ensure that our products and

services can efficiently meet customer needs through simplified, faster and more convenient procedures, thus elevating their competitiveness in the digital era.

In this quarter, KBank developed an application for public hospitals' patient management system with the use of technologies and innovations to enhance service efficiency for greater convenience of patients through alerts for their appointments with physicians, queuing, and payment. The initiative aims to extend our scope of services to new groups of customers in addition to those operating public and private universities.

■ **Medium Business**

KBank prioritizes development of financial innovations and application of important data in analyzing and planning of work to ensure that our customers are provided total solutions. Focus has also been placed on analysis of data on both income and expenditure of trade partners, with the aim of expanding the customer base within value chains. One noteworthy development was construction material operators who have acquired customers of their trade partners dealing with distributors, as well as industries with brighter growth prospects, namely energy, automobiles and spare parts, and consumer goods.

Meanwhile, we collaborated with the public and private sectors to organize various activities providing customers advisory service and in-depth knowledge from our relationship managers (RMs), especially on product development and guidelines for business expansion to bolster their competitiveness. Along with this, our customers were encouraged to apply innovations and digital tools to their business undertakings for sustainable growth.

■ **Small and Micro Business**

KBank prioritizes innovation development and application of data in loan underwriting to allow for the offering of loan products that comprehensively serve our customers either via loan officers or digital channels. Meanwhile, we continue to provide support to the portfolio guarantee scheme (PGS7) to help our customers minimize operating costs while elevating their competitiveness, particularly SME entrepreneurs who have registered as a juristic person with one account, in line with the government's policy. Moreover, loan products were tailored to customers with good credit history for their business expansion and working capital enhancement.

KBank has also worked with tech startups and experts in various fields to equip our customers with knowledge and bolster their competitiveness through total solutions. To this end, seminars were held covering various topics including basic laws, business management techniques, as well as account management and taxation. We encouraged our clients to apply innovations and digital tools appropriate for their business operations, such as the use of software for accommodation management and pharmacies, for increased efficiency in account and inventory management. Another notable effort in this quarter included "K SME Good to Great", organized specifically for auto parts manufacturers, hardware and plastics businesses. The event featured a workshop and advisory service entailing production process, product development, and business networking with KBank partners.

For card accepting merchant business, KBank launched a PR campaign to broaden the K PLUS SHOP customer base via mobile phone. One notable endeavor was development of a Social Payment feature on the K PLUS SHOP application, which facilitates buyers in their payment via QR code while automatically sending transfer amount summaries or bills as QR code rather than account details, together with a payment status alert, to merchants. In addition, campaigns were launched to promote spending via QR code with popular merchants, as well as acceptance of payment via Alipay and WeChat Pay.

■ High Net Worth Individual

We are determined to perform at the standard of an international comprehensive wealth management service through our KBank Private Banking, provided to our High Net Worth Individual clients who have various asset classes in their portfolio. Given that the majority of their assets are non-liquid land and property, which are typically more difficult to manage than other assets, KBank introduced Property and Land Credit for Investment – specifically designed for this customer segment, which allows customers to use their credit line to invest in order to gain returns on their property holdings, while the approved credit limit is based on discounted loan-to-value ratio. Being built upon our Non-Capital Market Solutions and K-Lombard Financing, the new product serves as an alternative investment vehicle which covers all asset classes, thus comprehensively responding to our customers' needs.

Meanwhile, KBank presented “KPB Academy: Next Generation” for the fourth consecutive year. The training course is intended to groom successors for leadership in their family business. Participants were equipped with knowledge of many topics provided by qualified experts and specialists, especially in how to manage their private assets in the capital market and non-capital market, namely real estate and passion investments, as well as their business assets. They were also given the chance to participate in the “Lombard Odier Signature Event”, a world-class seminar organized by Lombard Odier in Japan. Moreover, KBank gave support to our customers to join networking sessions and activities throughout the course so as to further develop their cordial relationships.

■ Affluent

We continued to place our focus on becoming our Customers' Main Bank. We prioritized development of products and services based on big data analysis and processing through collaboration of relevant divisions, branches and relationship managers (RMs) as well as KASIKORN ASSET MANAGEMENT Co., Ltd., to better meet both personal and business needs of our customers. With our focus placed on advisory services with no hard selling tactics, KBank, in this quarter, introduced deposit and investment products, including special fixed-term deposit offering attractive interest rates, various types of mutual funds and life insurance products such as Life Insurance: Endowment 1/10 Extra together with Life Insurance: Whole Life 99/5, Life Insurance: Endowment 615, Life Insurance: Endowment 1525 including unit-linked life insurance as alternative investment vehicles that are suited to the different circumstances of each customer, with the use of asset allocation techniques to control or minimize overall risks. In addition, KASIKORN ASSET MANAGEMENT Co., Ltd. was approved by the Office of Securities and Exchange Commission to be the

designer of fund investment via K-My Funds application – the first of its kind in Thailand – which reinforces our status as a leading digital wealth advisor, a personal investment assistant for customers of all levels to ensure that they can attain their investment goals by themselves.

Meanwhile, we elevated THE WISDOM brand to mark its 10th anniversary and maintain our leadership status through the delivery of extraordinary experience and knowledge to our clients under the Forward Your WISDOM concept. One noteworthy endeavor was the production of a short film featuring Prof. Dr. Krisana Kraisintu's trip to Congo to disseminate knowledge on formulating an HIV “cocktail” drug, which was broadcast via online media. Moreover, myriads of benefits were offered to our valued customers, including new exclusive car parking spaces at Siam Paragon, upgrade of air tickets and special activities to respond to the need for wealth enhancement, all for an impressive customer experience.

▪ Middle Income

We continued to act on our aspiration to become “Customers’ Life Platform of Choice” – the most-preferred platform that can meet the needs of all customer groups in every aspect of their lives, in order to promote greater use of KBank products while maintaining our status of “Customers’ Main Bank”. To this end, we provided knowledge on various financial matters, especially through articles derived from customer behavioral studies – selected and screened by a K-Expert team – for our KBank Payroll customers via K PLUS, on a monthly basis. Major topics involved how to harness self-discipline for saving, investment and daily spending. At the same time, we still focused on establishing “THE PREMIER” brand as the brand of millennial customers whose investments range from Baht 2-10 million, through seminars and special activities held regularly for them.

Regarding our credit policy, KBank prioritizes prudent credit underwriting which must be consistent with market conditions, through effective customer screening, in order to maintain overall portfolio quality. In parallel with this, we developed data analytics technologies so as to introduce loan promotional campaigns that are better suited to customers’ potential and needs, while also increasing opportunities to broaden the customer base, especially those using KBank Payroll service. In this quarter, we focused on development of loan products for comprehensive needs. One notable initiative was the launch of K-Home for Cash and mortgage services for customers seeking to apply for housing loan for purchase of residential projects on baania.com – a leading property website. Regarding K-Credit Card, KBank teamed up with Siam Piwat Co., Ltd. to launch the OneSiam KBank Credit Card while further promoting the “One Card for Use Every Day” strategy to spur greater spending via numerous campaigns across all spending categories in every area. Moreover, we employed digital marketing to communicate with our customers to build brand awareness and loyalty. For K-Personal Loan, we focused on the offering of a Machine Lending Program for KASIKORNBANK Personal Loans via K PLUS, whereas special offers were designed for new K-Express Cash applicants who are KBank Payroll customers and employees with regular income.

In cooperation with Muang Thai Insurance Public Company Limited, we developed K-Motor, a tool for offering online motor insurance premiums and notifications for enhanced efficiency, to accommodate expansion of motor insurance service provided by KBank.

■ Mass

Guided by a strategy of attracting customers with the potential to become Middle Income clients to use KBank as their main bank, we debuted KBank Service as part of our effort to broaden the new customer base in provincial areas where the digital banking penetration is still low and there is no KBank branch service available. To this end, Thailand Post Company Limited was appointed as our first KBank Service agent to accept cash deposits into KBank accounts via Thailand Post offices across the country, with a special service charge of Baht 10 per transaction offered until the end of this year.

Moreover, KBank has continuously encouraged our customers to use electronic services and conduct transactions via electronic channels, especially the K PLUS application. We also launched K-Provincial Debit Card under the concept “We Love Our Hometown” with eight themes for eight provinces, and K-Shopee Debit Card to acquire customers who are online shopping enthusiasts, along with the continual offering of numerous benefits for loans, deposits, investments and other lifestyle privileges via the K-Payroll Benefits program.

3.4 Service Channels

In the third 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 included:

- **Domestic branch network:** Our focus was on development of new branch formats to accommodate service use of customers in relevant areas to ensure a novel brand perception. We also enhanced efficiency of existing service channels with the application of technology and big data for sales and service development and through linkage of digital channels to physical and electronic branches as well as banking services outside branches for sales and service enhancement. In this quarter, KBank teamed up with its partners to launch K PARK, a new branch format located at the PTT Saeng Aree service station on Hathairat 33 Road, which serves as a lifestyle community providing a variety of services to meet the everyday needs of customers. In response to changing consumer behavior, as evidenced by the increase use of mobile banking service, we therefore continued to consolidate branches with relatively low traffic and to expand service channels at viable locations to ensure that the number of branches is sufficient to meet demands of customers in all areas.

Meanwhile, we took into account the appropriate management of foreign exchange booths, especially in viable areas. While we closed some of them at certain sites, more booths were opened in strategic areas, especially at major tourist attractions. To remain competitive, we revised foreign exchange buying and selling rates at highly competitive locations. In addition, marketing activities were organized at specific booths, including a campaign to promote the use of K-Credit Card for purchase of foreign currencies,

a four-month installment plan with no fee or interest charged, and redemption of credit card reward points for a discount of up to 10 percent on the purchase of foreign currencies 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 in the Socialist Republic of Vietnam, the Republic of the Union of Myanmar and the Republic of Indonesia, along with upgrading services in the countries into which we have already branched out, in order to highlight our regional footprint in response to customers seeking to venture into other ASEAN 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.

Guided by our strategy of becoming the Regional Life Platform of Choice in the AEC+3 region via digital and mobile solutions to accommodate a large number of new customers in the future, making KBank part of their personal and business lives anytime, anywhere, via either our own or our partners’ platform, we established KASIKORN VISION COMPANY LIMITED (KVision) as an investment holding company to be responsible for scouting tech communities to find innovative firms and tech talents from all corners of the world to collaborate and develop new technological capabilities. The investment may be held directly under KVision or through Beacon Venture Capital Fund. KVision will initially focus on building a strong foundation in the four target countries, including the People’s Republic of China (PRC), where there is a large pool of fintech companies, the Republic of Indonesia, and the Socialist Republic of Vietnam, where tech startups have been among the fastest-growing sectors in ASEAN, and the State of Israel – an incubator of tech talents where new technologies originate. This endeavor is aimed at bolstering KBank’s digital technology capabilities.

Branches and Financial Service Offices/Centers

Domestic Service Network	Number of Locations		Overseas Service Network	Number of Locations		
	Sep. 2018	Jun. 2018		Sep. 2018	Jun. 2018	
Branch Network ¹⁾	1,000	1,032	Branches and Overseas Service Network:	17	17	
Foreign Exchange Booth	141	144	Branches of Locally Incorporated Institution	6	6	
THE WISDOM	107	108	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2	
Corporate Business Center	-	-	KASIKORNBANK (CHINA) CO., LTD.	4	4	
SME Business Center ²⁾	121	121	Branches	3	3	
International Trade Service Center	58	58	Representative Offices	8	8	
Cheque Direct Service	20	33	Electronic Banking Services	Number of Units		
				Sep. 2018	Jun. 2018	
				Self-Service Channel (K-ATM and K-CDM)	11,846	11,806
				K-ATM (Automated Teller Machines)	9,228	9,191
				K-CDM (Cash Deposit Machines)	2,618	2,615
			K-PUM (Passbook Update Machines)	1,099	1,131	

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

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

(2) **Electronic Network** comprises:

- **K-ATMs and K-CDMs:** We are developing K-ATMs and K-CDMs to accommodate the new services of K PLUS for service efficiency enhancement, especially in terms of security for round-the-clock financial transactions. At the same time, we prioritized machine management for broader service coverage to effectively meet the increased needs of customers. We installed self-service machines with various languages available for greater convenience of our foreign clients, while also encouraging customers to conduct financial transactions by themselves. Moreover, new PR campaigns of our business partners were conducted via ATM screen to offer the highest benefits to our clients.

- **Digital Banking Services:** To highlight our digital banking leadership, we focused on development of full-service digital innovations for the highest efficiency of financial transactions in line with changing consumer lifestyles, with the aim of encouraging our customers to conduct more digital banking transactions. Notably, we have teamed up with our business partners to develop features and new payment channels as follows.

- 1) **K PLUS:** To differentiate ourselves from peers and deliver the most impressive customer experience, we used big data for analyzing demand of each individual customer, leading to the launch of pioneering marketing campaigns. Distinguished efforts included sales of mooncakes of 16 famous brands via K PLUS, the Pay with K PLUS service or payment in Facebook that offered the highest bonus of Baht 5,000 if the number of transactions meets the established limit, and a "Member Card" that allows customers to accumulate points earned from merchants, as well as a campaign jointly conducted with KBank's business partners to promote QR code payment.
- 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 improved 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 aim to become the "Best Contact Center" through provision of service information, banking news and complaint handling available 24 hours a day in four channels, i.e., K-Contact Center, KBank Live social media including Facebook, Twitter, YouTube and LINE, Pantip website under the name K8888, and email info@kasikornbank.com. We emphasized development of services in two key dimensions, i.e.,

1) **Smart People:** To effectively tackle complicated problems, we focus on employee empowerment to ensure comprehensive solutions along with establishment of a solution hub in major provinces. Most recently, a solution hub has been established in Phitsanulok to act as a center providing assistance to our representatives in handling complaints. In parallel with this, we have streamlined service processes and time period available, including collaboration with other commercial banks, to better meet all customers' needs.

2) Smart Innovated Technology: For a better customer experience through greater service convenience, we prioritized IT investment in order to employ new technology for service development, notably, in our full-service digital channels. We recently launched K-Buddy, featuring a chatbot or conversational computer program that answers frequently asked questions (FAQs) via KBank Live on LINE, 24 hours a day.

3.5 Awards and Commendation

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

Awards to KBank and K Companies
<p>Awards to KBank</p> <ul style="list-style-type: none"> ● Selected for inclusion in Dow Jones Sustainability Indices (DJSI) 2018 - both the DJSI World and DJSI Emerging Markets indices for the third consecutive year ● Selected for inclusion in the FTSE4Good Emerging Index 2018 for the third year running ● Three awards: Best Cash Management in Thailand 2018 , The Best Credit Evaluation Initiative and The Best Frictionless Mobile Initiative from The Asian Banker journal ● Best DCM House in Thailand for the second consecutive year from FinanceAsia magazine ● Five awards: Top Sellside firms in research - THB (2nd place), Top arrangers - Investors' Choice for primary issues - Corporate bonds - THB (1st place), Top arrangers - Investors' Choice for primary issues - Government bonds - THB (2nd place), Top Sellside firms in the secondary market - Government bonds - THB (2nd place) and Top Sellside firms in the secondary market - Corporate bonds - THB (3rd place) from The Asset magazine ● Four awards: Domestic Cash Management Bank of the Year – Thailand for the second year running, Domestic Retail Bank of the Year – Thailand for the fifth consecutive year, Financial Inclusion Initiative of the Year – Thailand and Credit Card Initiative of the Year – Thailand for the second consecutive year from Asian Banking & Finance magazine ● Three awards: Best Cash Management Bank in Thailand, Best FX Bank for Corporates & FIs in Thailand and Best Retail Bank in Thailand from Alpha Southeast Asia magazine ● Thailand's Top Corporate Brand Values 2018 from research of Faculty of Commerce and Accountancy, Chulalongkorn University for the second year in a row ● Two Cannes Lions awards from K PLUS commercial: Gold Award in Film Lions and Entertainment Lions category and Silver Award in Film Craft category ● Carbon Neutral Certification from Thailand Greenhouse Gas Management Organization (Public Organization) <p>Awards to K Companies</p> <ul style="list-style-type: none"> ● Editors' Triple Star for K-My Funds application from The Asset magazine

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for the third quarter of 2018 totaled Baht 9,744 million, decreasing Baht 1,173 million or 10.75 percent over-quarter, and operating profit before provision expense and income tax expense also decreased Baht 2,079 million, or 8.68 percent, over-quarter, due to a decrease of Baht 2,550 million or 6.28 percent in net income. Meanwhile, other operating expenses decreased Baht 471 million, or 2.83 percent. Our cost to income ratio therefore rose from the previous quarter to 42.58 percent, which is better than the set target.

Net operating income decreased Baht 2,550 million or 6.28 percent over-quarter. Non-interest income declined Baht 3,187 million or 19.63 percent, due mainly to decreases in net premiums earned, revenue from capital market products as a result of one time sales of securities, and dividend income. Meanwhile, net interest income increased Baht 637 million, or 2.62 percent. Net interest margin (NIM) was equal to 3.43 percent, higher than the previous quarter, which is better than the set target of 3.2-3.4 percent.

Operating Performance for the Third Quarter of 2018

(Unit: Million Baht)

	Q3-2018	Q2-2018	Change		Q3-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	25,004	24,367	637	2.62	23,710	1,294	5.46
Non-Interest Income	13,050	16,237	(3,187)	(19.63)	16,435	(3,385)	(20.60)
Total Operating Income - net	38,054	40,604	(2,550)	(6.28)	40,145	(2,091)	(5.21)
Total Other Operating Expenses	16,204	16,675	(471)	(2.83)	16,338	(134)	(0.82)
Impairment Loss on Loans and Debt Securities	8,211	7,995	216	2.70	10,405	(2,194)	(21.09)
Net Profit (attributable to equity holders of KBank)	9,744	10,917	(1,173)	(10.75)	9,473	271	2.85
Basic Earnings per Share (Baht)	4.07	4.56	(0.49)	(10.75)	3.96	0.11	2.85

When compared to the same quarter of the previous year, an increase of Baht 271 million in our consolidated net profit, or 2.85 percent, was due to a decrease of Baht 2,194 million or 21.09 percent in impairment loss on loans and debt securities. However, operating profit before provision expense and income tax expense decreased Baht 1,957 million or 8.22 percent, compared to the same quarter of previous year, due to a decrease of Baht 3,385 million or 20.60 percent in non-interest income which came mainly from a decrease in revenue from capital market products as a result of one time sales of securities and net fee income which was affected by cancellation of fees via digital channels and net premiums earned. Meanwhile, net interest income rose Baht 1,294 million, or 5.46 percent which was mainly derived from interest income from loans and interest income from investment. Other operating expenses were close to the same period of previous year.

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

(Unit: Percent)

Financial Ratio	Q3-2018	Q2-2018	Change	Q3-2017	Change
Return on Assets (ROA) ¹⁾	1.28	1.45	(0.17)	1.33	(0.05)
Return on Equity (ROE) ¹⁾	10.65	12.10	(1.45)	11.20	(0.55)
Net Interest Margin (NIM) ¹⁾	3.43	3.39	0.04	3.47	(0.04)
Non-Interest Income to Average Assets ¹⁾	1.72	2.16	(0.44)	2.30	(0.58)
Non-Interest Income Ratio	34.29	39.99	(5.70)	40.94	(6.65)
Cost to Income Ratio	42.58	41.07	1.51	40.70	1.88

¹⁾ Annualized

(Unit: Percent)

Financial Ratio	Sep. 30, 2018	Jun. 30, 2018	Change	Sep. 30, 2017	Change
Net NPLs to Total Loans	1.89	1.93	(0.04)	1.96	(0.07)
Gross NPLs to Total Loans	3.30	3.29	0.01	3.30	-
Coverage Ratio	155.95	150.08	5.87	140.66	15.29
Loans ²⁾ to Deposits Ratio	96.22	96.63	(0.41)	95.00	1.22
Capital Adequacy Ratio ³⁾	18.96	18.05	0.91	18.23	0.73
Tier 1 Capital Ratio ³⁾	16.50	15.57	0.93	15.91	0.59

²⁾ Loans = Loans to customers less deferred revenue

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

□ Net Interest Income

KBank's consolidated net interest income for the third quarter of 2018 was Baht 25,004 million, increasing Baht 637 million, or 2.62 percent over-quarter due mainly to higher interest income from investment as a result of increasing average investment, and higher interest income from loans in line with rising average loans. Meanwhile, interest income from interbank and money market items dropped due largely to a decrease in average repurchase agreement transactions. Our NIM for the third quarter of 2018, therefore, equaled 3.43 percent, increasing from the previous quarter, and remained within the set target range of 3.2-3.4 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 1,294 million, or 5.46 percent, which came mainly from higher interest income from loans in line with increasing average loans and interest income from investment as a result of rising average investment. However, our NIM in this quarter was lower than the same period of 2017.

(Unit: Million Baht)

	Q3-2018	Q2-2018	Change		Q3-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Interest Income							
Interbank and Money Market Items	1,529	1,975	(446)	(22.58)	1,848	(319)	(17.24)
Deposits	162	162	-	(0.14)	254	(92)	(36.27)
Loans without Repurchase Agreements	147	153	(6)	(3.84)	146	1	0.48
Repurchase Agreements	1,220	1,660	(440)	(26.50)	1,448	(228)	(15.70)
Investments	4,877	4,352	525	12.07	4,161	716	17.22
Trading Investments	62	67	(5)	(7.25)	65	(3)	(3.81)
Available-for-Sale Investments	912	570	342	59.97	495	417	84.09
Held-to-Maturity Investments	3,903	3,715	188	5.07	3,601	302	8.40
Loans	23,567	23,137	430	1.86	22,662	905	3.99
Finance leases	1,314	1,287	27	2.07	1,283	31	2.45
Others	3	4	(1)	(6.59)	3	-	(0.07)
Total Interest Income	31,290	30,755	535	1.74	29,957	1,333	4.45
Total Interest Expenses	6,286	6,388	(102)	(1.59)	6,247	39	0.64
Total Interest Income – net	25,004	24,367	637	2.62	23,710	1,294	5.46
Yield on Earning Assets (percent)	4.29	4.28		0.01	4.38		(0.09)
Cost of Fund (percent)	1.18	1.21		(0.03)	1.23		(0.05)
Net Interest Margin (NIM) (percent)	3.43	3.39		0.04	3.47		(0.04)

□ Non-Interest Income

For the third quarter of 2018, KBank's consolidated non-interest income totaled Baht 13,050 million, decreasing Baht 3,187 million, or 19.63 percent over-quarter. The decrease came mainly from net premiums earned, revenue from capital market products as a result of one time sales of securities and dividend income. Meanwhile, net fees and service income increased slightly over-quarter, largely derived from fee income from card business. In the third and second quarter of 2018, non-interest income ratio of KBank and our subsidiaries accounted for 34.29 percent and 39.99 percent, respectively. This was in alignment with KBank's target wherein non-interest income ratio would be around 40 percent of total income.

When compared to the same quarter of last year, consolidated non-interest income for the third quarter of 2018 decreased Baht 3,385 million, or 20.60 percent due mainly to decreases in revenue from capital market products as a result of one time sales of securities, net fee income which was affected by cancellation of fees via digital channels and net premiums earned.

(Unit: Million Baht)

	Q3-2018	Q2-2018	Change		Q3-2017	Change		
			Million Baht	Percent		Million Baht	Percent	
Non-Interest Income								
Fees and Service Income	12,716	12,491	225	1.81	13,180	(464)	(3.52)	
Fees and Service Expenses	3,364	3,271	93	2.86	2,538	826	32.55	
Fees and Service Income - net	9,352	9,220	132	1.43	10,642	(1,290)	(12.12)	
Gain on Trading and Foreign Exchange Transactions	2,242	2,675	(433)	(16.19)	1,710	532	31.05	
Loss on Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	(2)	2	100.00	
Gain on Investments	724	1,355	(631)	(46.60)	2,175	(1,451)	(66.73)	
Share of Profit from Investments using Equity Method	15	26	(11)	(42.01)	48	(33)	(68.62)	
Dividend Income	501	831	(330)	(39.77)	475	26	5.50	
Net Premiums Earned	18,613	24,445	(5,832)	(23.86)	19,790	(1,177)	(5.95)	
Other Operating Income	297	368	(71)	(19.46)	293	4	1.31	
<u>Less</u> Underwriting Expenses	18,694	22,683	(3,989)	(17.59)	18,696	(2)	(0.01)	
Total Non-Interest Income	13,050	16,237	(3,187)	(19.63)	16,435	(3,385)	(20.60)	
Non-Interest Income to Average Assets (percent)	1.72	2.16		(0.44)	2.30		(0.58)	
Non-Interest Income Ratio (percent)	34.29	39.99		(5.70)	40.94		(6.65)	
Net Fee Income to Net Total Operating Income Ratio (percent)	24.58	22.71		1.87	26.51		(1.93)	

□ Other Operating Expenses

KBank's consolidated other operating expenses for the third quarter of 2018 was Baht 16,204 million, falling Baht 471 million, or 2.83 percent over-quarter, due mainly to decrease in other expenses. Our cost to income ratio was equal to 42.58 percent, up from 41.07 percent in the previous quarter due largely to decline in income despite lower expenses than the previous quarter. However, the figure was better than the set target.

When compared to the same quarter of the previous year, other operating expenses were almost unchanged. Our cost to income ratio of the third quarter of 2018 was however higher than the 40.70 percent in the same quarter of last year due to a decrease in overall income.

(Unit: Million Baht)

	Q3-2018	Q2-2018	Change		Q3-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	7,721	7,677	44	0.57	8,239	(518)	(6.29)
Directors' Remuneration	24	85	(61)	(72.28)	22	2	5.77
Premises and Equipment Expenses	3,117	3,155	(38)	(1.21)	3,015	102	3.38
Taxes and Duties	1,210	1,231	(21)	(1.71)	1,128	82	7.28
Others	4,132	4,527	(395)	(8.71)	3,934	198	5.04
Total Other Operating Expenses	16,204	16,675	(471)	(2.83)	16,338	(134)	(0.82)
Cost to Income Ratio (percent)	42.58	41.07		1.51	40.70		1.88

□ Impairment Loss on Loans and Debt Securities

During the third quarter of 2018, KBank and our subsidiaries had Baht 8,211 million of impairment loss on loans and debt securities, an increase of Baht 216 million or 2.70 percent, over-quarter. However, this item declined Baht 2,194 million or 21.09 percent from the same period of last year. Thus, our credit cost in the third quarter of 2018 stood at 1.78 percent, higher than 1.74 percent in the previous quarter but lower than 2.38 percent in the same quarter of last year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q3-2018	Q2-2018	Change		Q3-2017	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	8,211	7,995	216	2.70	10,405	(2,194)	21.09
Credit Cost (percent)	1.78	1.74		0.04	2.38		(0.60)

Allowance for Doubtful Accounts and Allowance for Impairment of Assets

As of September 30, 2018, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 113,310 million. This amount was equivalent to 294.54 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of September 30, 2018, KBank's consolidated NPLs stood at Baht 72,659 million, 3.30 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 70,655 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	Sep. 30, 2018	Jun. 30, 2018
Consolidated NPLs		72,659	72,446
Percent of total outstanding credit, including that of financial institutions		3.30	3.29
Bank-only NPLs		70,655	70,451
Percent of total outstanding credit, including that of financial institutions		3.25	3.24

Net Non-Performing Loans

As of September 30, 2018, KBank's consolidated net NPLs stood at Baht 41,148 million – 1.89 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 40,534 million – 1.89 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Sep. 30, 2018	Jun. 30, 2018
Consolidated net NPLs	41,148	41,895
Percent of total outstanding credit, including that of financial institutions	1.89	1.93
Bank-only net NPLs	40,534	41,248
Percent of total outstanding credit, including that of financial institutions	1.89	1.92

Debt Restructuring

As of September 30, 2018, KBank's consolidated restructured debts which incurred losses, totaled Baht 65,584 million, increasing by Baht 3,894 million, or 6.31 percent when compared to the second quarter of 2018.

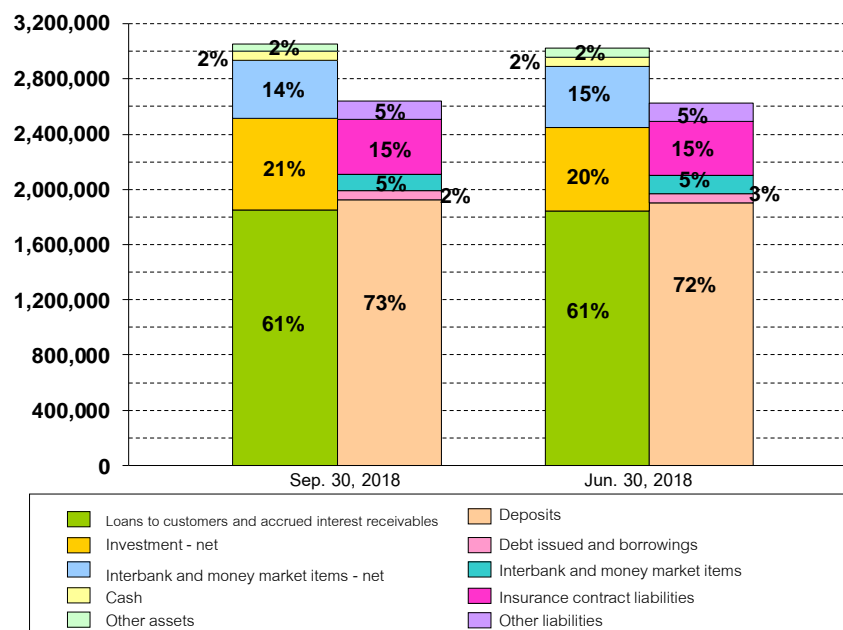
Foreclosed Properties

As of September 30, 2018, our consolidated foreclosed properties had a cost value of Baht 23,564 million, thus being 0.77 percent of total assets, and allowance for impairment on foreclosed properties stood at Baht 2,519 million, equivalent to 10.69 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)

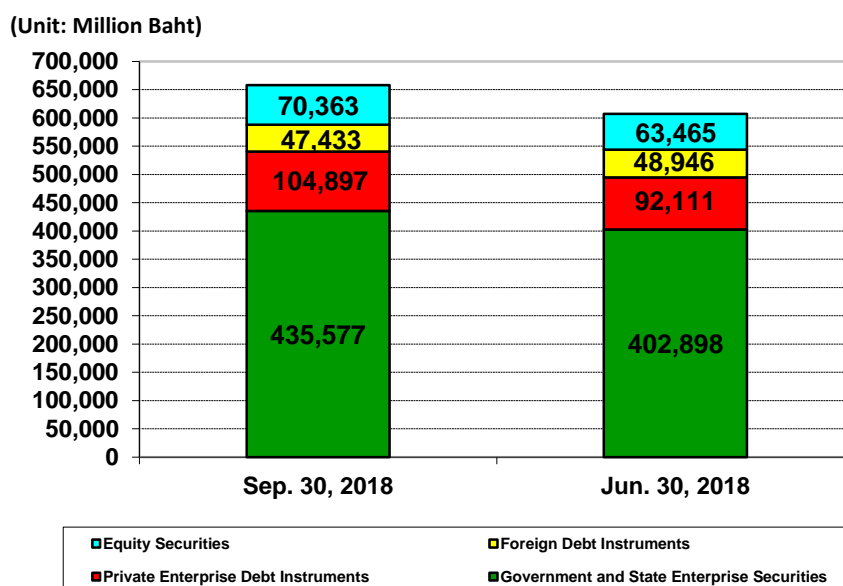


□ **Assets**

At the end of the third quarter of 2018, KBank's consolidated assets totaled Baht 3,053,804 million, increasing Baht 28,607 million or 0.95 percent from the end of the second quarter of 2018. The rise was due mainly to increase in net investment and loans to customers whereas net interbank and money market items (assets) decreased. In detail:

- Net investment totaled Baht 659,183 million, increasing by Baht 50,798 million or 8.35 percent from the previous quarter, due mainly to greater investment in government bonds
- Loans to customers (less deferred revenue) amounted to Baht 1,848,848 million, increasing Baht 10,446 million or 0.57 percent over-quarter, which were derived mainly from commercial loan and housing loan. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net interbank and money market items (assets) totaled Baht 427,031 million, decreasing Baht 16,197 million or 3.65 percent from the previous quarter, due mainly to KBank's liquidity management.

Investments in Securities



□ **Liabilities and Equity**

Our consolidated liabilities, at the end of the third quarter of 2018, amounted to Baht 2,640,480 million, increasing Baht 16,470 million or 0.63 percent, from the end of the second quarter of 2018. The increase was mainly attributable to increase in deposits and insurance contract liabilities while interbank and money market items (liabilities) and debt issued and borrowings decreased. Significant changes in our consolidated liabilities included:

- Deposits totaled Baht 1,921,446 million, increasing by Baht 18,911 million or 0.99 percent from the prior quarter. The increase came mainly from savings deposit. KBank's deposits were the fourth-largest among Thai commercial banks.
- Insurance contract liabilities were registered at Baht 399,163 million, up Baht 9,210 million or 2.36 percent from the previous quarter, in line with growth in life insurance business.
- Interbank and money market items (liabilities) equaled Baht 123,055 million, decreasing Baht 10,549 million or 7.90 percent from the second quarter of 2018, due largely to a decrease in borrowings per private repurchase transactions.

At the end of this quarter, total equity attributable to equity holders of KBank amounted to Baht 370,536 million, increasing Baht 9,289 million or 2.57 percent from the previous quarter, driven largely by net operating profit for the third quarter of 2018, totaling Baht 9,744 million.

□ Relationship between Sources and Uses of Funds

As of September 30, 2018, the funding structure as shown in the consolidated financial statement comprised Baht 2,640,480 million in liabilities and Baht 413,324 million in total equity, resulting in a debt-to-equity ratio of 6.39. The main source of funds on the liabilities side was deposits, which equaled Baht 1,921,446 million, or 62.92 percent of the total, as of September 30, 2018. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 4.03 percent and 2.19 percent of the total, respectively.

As of September 30, 2018, KBank's and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,848,848 million, resulting in loan-to-deposit ratio of 96.22 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

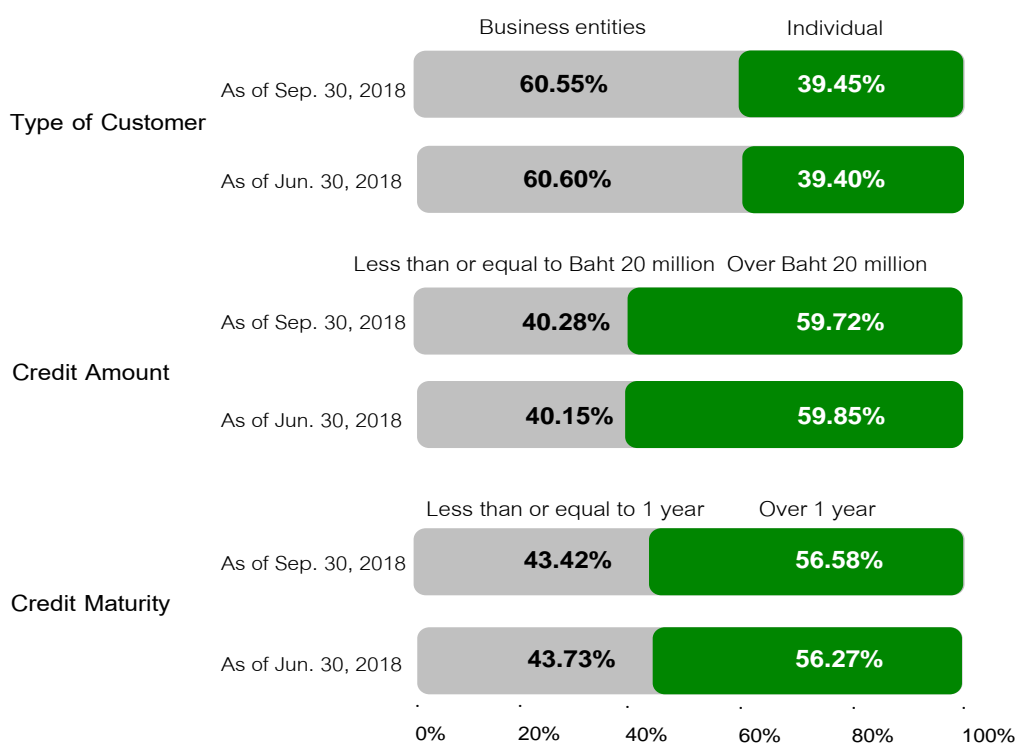
□ Loans

As of September 30, 2018, KBank's consolidated outstanding loans stood at Baht 1,848,848 million, increasing by Baht 10,446 million, or 0.57 percent, compared to Baht 1,838,402 million as of June 30, 2018.

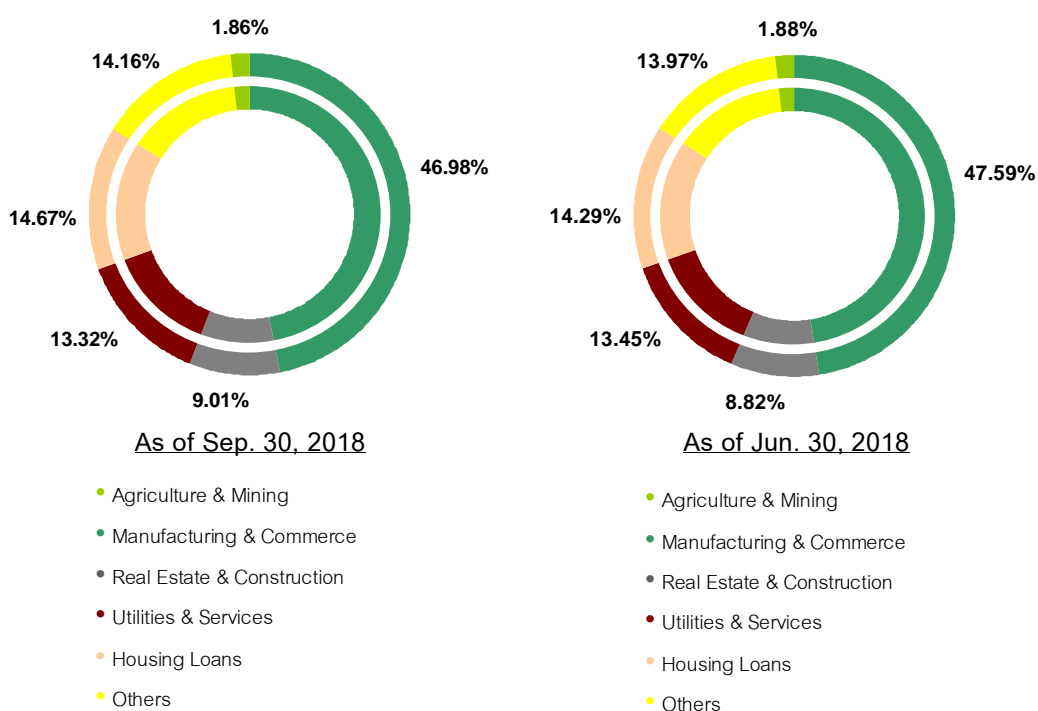
As of September 30, 2018, 60.55 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,078,157 million, or 59.72 percent of the total; 40.28 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 43.42 percent of our total loans.

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

(The Bank)



KBank's Consolidated Lending Portfolio

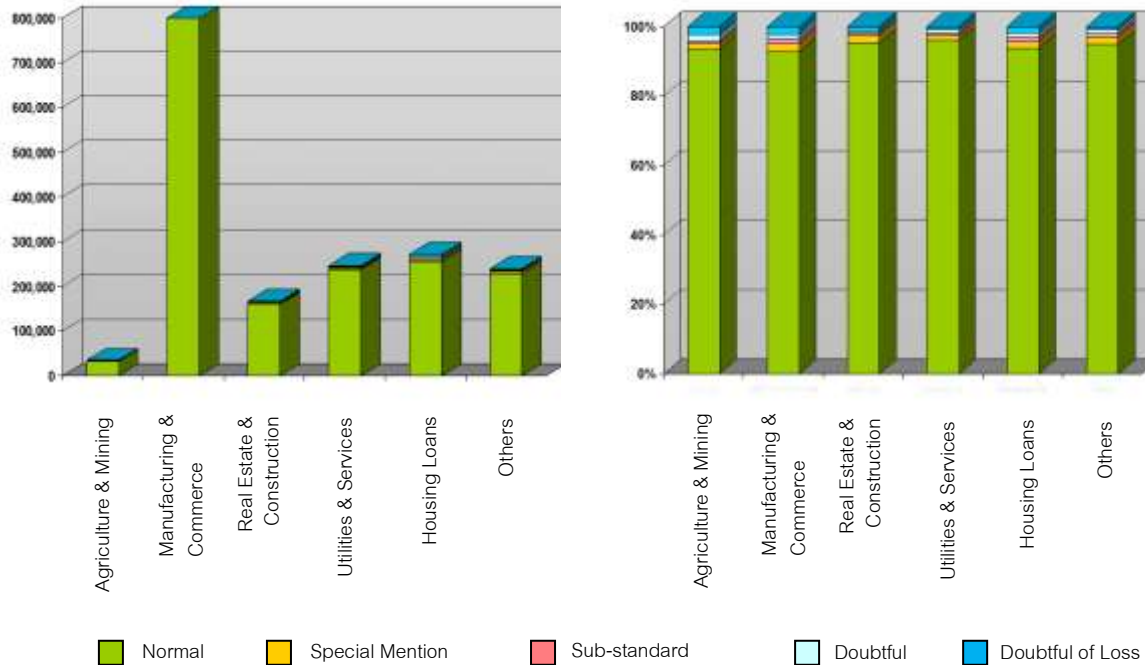


As of Sep. 30, 2018

Consolidated Loans Classified
by Type of Business and Loan Classification

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

Unit: Million Baht



Within KBank’s consolidated lending portfolio, 93.91 percent were classified as “Normal” loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 46.98 percent; of that 92.08 percent were classified as “Normal” loans.

Loans Classified by Business

(Unit: Million Baht)

	Sep. 30, 2018		Jun. 30, 2018	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,308,672	458,184	1,306,864	447,411

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

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

As of the end of the third quarter of 2018, our corporate business loans (corporate and SME customers) increased Baht 1,808 million, or 0.14 percent, from the end of the second quarter amid an upbeat economy and greater private investment which was in line with rising household income and improved consumer confidence. Among the business sectors continually seeking financial support were the real estate and consumer goods industries. Overall, demand for loan from our corporate and SME customers in 2018 is expected to increase thanks to thriving exports, accelerating farm goods prices and the government's large infrastructure projects, particularly those under the public-private joint venture and development in the Eastern Economic Corridor (EEC).

Meanwhile, retail loans grew Baht 10,773 million from the previous quarter, or 2.41 percent. We continued with a cautious growth policy to ensure that our loan grew in line with the market and economy so as to maintain our loan quality as well as our market leadership in major loan products. For home loans, KBank launched special interest rate campaigns for our customers seeking to purchase new or custom-built homes or to refinance their mortgage, while also joining hands with our business partners and home experts to conduct marketing activities and provide comprehensive home-related services via leading property websites. Moreover, we prioritized offering K-Personal Loan via K PLUS application to the right target customers with the use of a machine learning program for customer data analyses, thus ensuring improved customer responsiveness.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Sep. 30, 2018	Jun. 30, 2018	Million Baht	Percent
Total Deposits	100.00	1,921,446	1,902,535	18,911	0.99
Current accounts	5.68	109,199	103,940	5,259	5.06
Savings accounts	71.93	1,382,160	1,368,229	13,931	1.02
Fixed-term deposit accounts	22.39	430,087	430,366	(279)	(0.06)

During the third quarter of 2018, total deposits of both Corporate Business and Retail Business increased slightly from the previous quarter, which was mainly attributed to increased current and savings accounts. This was in line with our policy for management of deposits, which must be kept at levels appropriate for business operation and competition. Along with this, we continued to focus on K-eSavings Account via K PLUS in order to meet customers' needs for savings and convenience in account opening while also steadily expanding the low-cost deposit base. Meanwhile, we introduced special fixed-term deposit products in response to the needs of customers seeking such options for saving their money. In parallel, we offered other investment vehicles – especially a myriad of life insurance and mutual fund products – yielding attractive returns with an acceptable risk appetite.

4.4 Treasury Operations

□ Treasury Operations

During the third 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 August 8 and September 19, 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 third quarter of 2018, our liquidity position was appropriately managed and suited to changes in businesses, and we were able to maintain returns on investments by reducing the holding of short-term bonds of which returns were lower than the policy rate. In addition, KBank invested in top-rated foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q3-2018	Q2-2018	Change	
				Million Baht	Percent
Interest income ¹⁾					
Interbank and money market items ²⁾	59.82	1,364	1,795	(431)	(24.01)
Investments	40.18	916	610	306	50.16
Total	100.00	2,280	2,405	(125)	(5.20)

Note: ¹⁾ Managerial figure

²⁾ Including loans

Total interest income for the third quarter of 2018 stood at Baht 2,280 million, decreasing Baht 125 million from the previous quarter due to reduced liquidity.

4.5 Capital Requirements

As of the end of the third quarter of 2018, KBank, under the Basel III capital requirements, had capital funds of Baht 347,195 million, consisting of Baht 297,501 million in Tier-1 capital and Baht 49,694 million in Tier-2 capital. The capital adequacy ratio of KBank was 17.81 percent, above the Bank of Thailand's minimum requirement and conservative buffer of 10.375 percent. Details of the capital adequacy ratio of KBank are shown in the following table:

Capital Adequacy Ratio¹⁾

● KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017
Tier-1 Capital Ratio ³⁾	7.875	16.50	15.57	15.41	7.25	15.66	15.91
<i>Common Equity Tier-1 Ratio</i>	6.375	16.50	15.57	15.41	5.75	15.66	15.91
Tier-2 Capital Ratio	-	2.46	2.48	2.29	-	2.30	2.32
Capital Adequacy Ratio	10.375	18.96	18.05	17.70	9.75	17.96	18.23

● The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer ⁴⁾	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Minimum Requirement & Conservation Buffer ⁴⁾	Dec. 31, 2017	Sep. 30, 2017
Tier-1 Capital Ratio ³⁾	7.875	15.26	14.43	14.38	7.25	14.62	14.81
<i>Common Equity Tier-1 Ratio</i>	6.375	15.26	14.43	14.38	5.75	14.62	14.81
Tier-2 Capital Ratio	-	2.55	2.56	2.57	-	2.58	2.59
Capital Adequacy Ratio	10.375	17.81	16.99	16.95	9.75	17.20	17.40

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

4.6 Credit Ratings

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

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Sep. 30, 2018
Moody's Investors Service ¹⁾	
<u>Foreign Currency</u>	
Outlook	Stable
Long-term - Senior Unsecured Notes	Baa1
- Deposit	Baa1
- Counterparty Risk	Baa1
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
Baseline Credit Assessment	Baa2
<u>Domestic Currency</u>	
Outlook	Stable
Long-term - Deposit	Baa1
- Counterparty Risk	Baa1
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
<hr/>	
Standard & Poor's ^{1), 2)}	
<u>Global Scale Ratings</u>	
Outlook	Stable
Long-term Counterparty Credit Rating	BBB+
Long-term Certificate of Deposit	BBB+
Short-term Counterparty Credit Rating	A-2
Short-term Certificate of Deposit	A-2
Senior Unsecured Notes (Foreign Currency)	BBB+
<hr/>	
Fitch Ratings ¹⁾	
<u>International Credit Ratings (Foreign Currency)</u>	
Outlook	Stable
Long-term Issuer Default Rating	BBB+
Short-term Issuer Default Rating	F2
Senior Unsecured Notes	BBB+
Viability	bbb+
Support	2
Support Rating Floor	BBB-

National Credit Ratings

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

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

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

5. Operations of Support Groups

5.1 Human Resource Management

KBank has placed emphasis on achieving greater efficiency in our human resource management operations in three key areas, namely driving KBank towards a digital workplace, creating positive employee experience and engagement, and other facets of human resource management operations.

- **Driving KBank towards a Digital Workplace**

The Digital Workplace program aims to build the capability of our personnel to gain access to data or work anywhere, anytime. To this end, KBank has revised our mobile device management for enhanced security in the use of mobile devices for employees authorized to use Microsoft Office 365 via private mobile devices, including smartphones and tablets. We also communicated to employees the benefits of various tools under the Digital Workplace program via video presentations, while continually holding activities to promote understanding about the use of such tools.

- **Creating Positive Employee Experience and Engagement**

Based on an employee engagement survey, KBank developed a plan to enhance employee engagement at the division and corporate-wide levels to promote a positive employee experience across all dimensions and in alignment with the Employee Life Cycle at each generation, as part of our drive towards a sustainable digital bank. Distinguished initiatives included new employee orientation and learning courses via digital learning platform, activities via online community and the introduction of K Parking Care, providing shuttle bus service before and after office hours for the security of employees parking their cars outside the Bank's premises, an initiative under the newly-launched Possibilities program. To create a better talent experience, KBank used online self-assessment for leadership development, as well as for devising an individual development plan (IDP) and career path plan for employees.

- **Other Human Resource Management Operations**

- 1) **Employee recruitment:** Emphasis is placed on recruitment of high-potential personnel in specific fields. Notable activities included Interview Day to recruit capable personnel in the fields of sales & strategy, risk management and analytics, as well as IT infrastructure. Meanwhile, we developed online job application channels via social networking sites, including Facebook and LINE, to improve access to prospective applicants. Moreover, we implemented KBank branding programs at target universities where activities were held as part of our effort to build relationships with those universities over the long-term.
- 2) **Employee development:** We emphasize employee development to help them thrive together with the organization. To this end, KBank organized a Management Development Program (MDP) for our employees and sent them to participate in training courses outside KBank. The K-Coaching Academy program was continually implemented to equip our executives with International

Coaching Federation (ICF)-based coaching skills so that they can offer consultation to employees and maximize their potential, thus strengthening cordial relationships between managers and their teams. Another ongoing initiative of note was the “Seniors Want to Coach – Juniors Want to Talk” program, wherein employees, especially talents were coached by department heads and First Executive Vice Presidents. Furthermore, we launched campaigns via various activities and media to promote a good coaching environment within the organization.

- 3) **Organizational culture creation:** To strengthen relationships and collaboration among executives at the Assistant Vice President level or executives of equivalent positions of KBank and K Companies, the AVP Retreat: K-Unity “Becoming a Data-Driven Bank” was held in continuation from last year, which was also aimed at promoting innovation – among KBank’s Core Values.
- 4) **Employee relations and benefits:** KBank was named the Excellent Establishment on Labor Relations & Welfare by the Ministry of Labour, for the 13th consecutive year, which reflected our commitment to good practices in labor relations and welfare management. In this quarter, the third Employees’ Committee meeting for 2018 was held to allow for consultations and problem-solving discussions between KBank and the Employees’ Committee, deepening our bond with the workforce. In collaboration with the KASIKORNBANK Labour Union and KASIKORNBANK Officer Labour Union, KBank took remedial actions towards employees performing in violation of regulatory requirements, to ensure strict compliance among our staff members. These efforts were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks. We also established practical guidelines on various key issues in compliance with labour laws of AEC countries and the People’s Republic of China so that our employees abroad can perform their work correctly, thus mitigating compliance risk in those countries.
- 5) **Communication for economic, social and environmental sustainability under the “Green DNA” resolution:** KBank implemented the “Tham Di Tham Dai 100,000 Chuamong (100,000 Volunteer Hours)” project as part of our effort to promote a culture of sustainability in three dimensions, namely economy, society and environment. In this quarter, KBank produced a series of videos featuring work at KBank units to highlight our drive towards a Bank of Sustainability, which were broadcast internally. As of the end of September, our staff members had performed more than 112,512 hours of service.

5.2 IT Management

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

- **Development of “KADE”, or K PLUS AI-Driven Experience**, a financial innovation that is driven by Artificial Intelligence (AI) technology. Based on the concept “From Digital to Intelligence”, this financial service blends KBank’s financial experience with KBTG’s technological expertise; the AI-based mechanism is adopted with services available in K PLUS for comprehensive linkage, allowing for in-depth understanding of customers’ real demand. The initiative aims to transform K PLUS into K PLUS Intelligence Platform, which integrates services of various forms at a single place. We are now developing new versions of K PLUS and K PLUS SHOP which are scheduled to roll out in October.
- **K PLUS Beacon**: Thailand’s first application that empowers the visually impaired. KBank and Beacon Interface Co., Ltd. – a fintech startup which is a joint venture set up by KBank – have worked together to develop the K PLUS Beacon application, which is designed specifically for the 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 meeting the security standards of K PLUS. Having been tested with volunteers from the four target groups, the service is now undergoing improvement, and is scheduled to be available in the second quarter of 2019.
- **Study and development of an Application Programming Interface (API) Manager system**: We are compiling data which will be used for formulating strategies for the launch of API to meet the needs of fintech business. Meanwhile, we are going to develop the system structure for further linkage with other businesses, primarily taking into account data appropriateness and security. K PLUS SHOP API has been developed for broader linkage, thus allowing merchants to accept QR payment via their trade partners’ applications.
- **Development of technology to apply machine learning techniques to KBank businesses**: We have employed machine learning technology to analyze customer lifestyle based on their spending behaviors, in order to offer products matching each customer’s specific needs via the Hot Promotions menu option on K PLUS.
- **Development of functions of blockchain to better respond to business needs**: The Hyperledger blockchain platform was further developed for a letter of guarantee issuance service, which is being provided to more Multi-Corporate Business customers.
- **Development of Electronic Know-Your-Customer (National Digital Identity)**: KBank, the Electronic Transactions Development Agency (Public Organization) and other banks have established a working group to design formats for sharing data among banks via a Digital Identity Platform as a common standard for electronic transactions. The service, which is now operating on a trial basis, is expected to roll out in the first quarter of 2019.

Disclaimer

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

A large, solid green abstract shape that starts as a thin point at the top left and curves downwards and to the right, ending in a vertical line on the right side. The shape is smooth and organic in form.

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