



KASIKORNTHAI

Management Discussion and Analysis (MD&A)

For the Year Ending December 31, 2019

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary of Management Discussion and Analysis ¹

For the Year Ending December 31, 2019

Thai economy in 2019 showed decelerating growth at 2.4 percent compared to 4.2 percent in the previous year. The slowdown could be attributed to exports which contracted further due to the stronger Baht and a global economic slowdown. In addition, the investment environment of both the public and private sector remained weak, and private consumption, albeit growing steadily, slowed during the second half of the year. Meanwhile, the Thai economy in 2020 is expected to grow at a slower pace, likely to fall below the lower end of the projection range of 2.5-3.0 percent, beset by the COVID-19 outbreak, the global economic slowdown, delay in the implementation of 2020 Budget Act and drought. Furthermore, domestic spending may be limited due to weakening purchasing power and hefty household debt.

Apart from economic woes, businesses face numerous other challenges that have risen abruptly, especially the rapid evolution of digital technology, intensified effects of climate change, and regulatory changes in the financial business. To cope with these issues, most businesses have felt compelled to seek new business opportunities.

KASIKORNBANK has established our business directions on the foundation of a Bank of Sustainability, accounting for the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. Guided by the Customer Centricity strategy and our resolution of delivering an excellent customer experience in order to empower every customer's life and business, we prioritize the offering of attentive and inclusive services as a trustworthy service provider. We can deliver a positive customer experience anywhere, anytime through collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, startups and our business partners under the single brand of KASIKORNBANK.

In alignment with our business strategies for 2019, KBank and subsidiaries thus reported Baht 38,727 million in net profit, increasing Baht 268 million or 0.70 percent compared to the year before. Net interest income increased by Baht 4,150 million or 4.21 percent due mainly to interest income from loans and investments. Net interest margin (NIM) therefore stood at 3.31 percent. Non-interest income also increased by Baht 858 million or 1.51 percent, derived mainly from revenue from sales of securities, while net premiums earned - net and fees and service income decreased. Moreover, other operating expenses increased by Baht 4,381 million or 6.41 percent, especially from branding campaigns and marketing activities in line with KBank's business direction. As a result, the cost to income ratio stood at 45.32 percent. KBank has set aside higher allowance for impairment loss on loans from the preceding year, with

¹ In the 2019 Annual Report, this item is shown under the topic, "Management Report".

prudent consideration on factors in line with uncertainties stemming from the continued economic slowdown.

At the end of 2019, 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 19.62 percent, with a Tier 1 capital ratio of 16.19 percent.

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

To secure our status as a leading financial institution which can efficiently cope with potential economic uncertainties, KBank emphasizes predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, a risk-aware culture Bank-wide, as well as good corporate governance. All of the above endeavors and satisfactory operating performance, together with sound corporate governance, allowed KBank and K Companies to meet business targets, while we also gained wide acceptance and recognition at home and abroad, as reflected in the numerous awards we received in 2019.

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1. Overview of Operating Environment

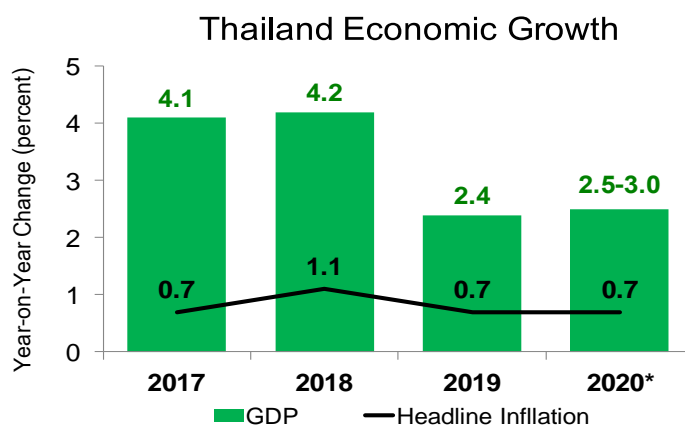
1.1 Global and Thai Economy in 2019 and Outlook for 2020

The global economy grew at a decelerating rate in 2019 amid uncertainty surrounding the US-China trade rift and concerns about Brexit which lingered throughout the year. The World Economic Outlook of the International Monetary Fund (IMF) thus revised downward its global economic growth projection for 2019 to 2.9 percent – the lowest level since the global economic and financial crisis in 2008-2009. For the 2020 outlook, any global economic recovery is expected to be feeble while close attention should be paid to several variables including the outbreak of the COVID-19, the Mid-east conflict and the US Presidential election slated in November 2020. Even though tension over the US-China situation eased somewhat after Phase One of a trade deal was reached in mid-January 2020, the details of any further negotiations are still uncertain, and much depends on how the Phase One trade deal develops. Meanwhile, IMF forecasts that the global economy may grow 3.3 percent, down from the previous projection of 3.4 percent.

Looking forward, any improvement in the global economy will mainly hinge on the above factors. As a result, several central banks are expected to maintain their accommodative stance. Even though the Federal Reserve has signaled that it could keep its policy rate unchanged throughout 2020, the US central bank is likely to adjust its monetary policy if the US economy remains on a downward trend. At the same time, the European Central Bank and the Bank of Japan may continue their monetary-easing stance. Likewise, many central banks in Asia may cut their policy rates to support their economic recovery.

For Thailand, the economy in 2020 is expected to see slower growth, likely to fall below the lower end of the projection range of 2.5-3.0 percent, plagued by the COVID-19 outbreak, the global economic slowdown, delay in the implementation of 2020 Budget Act and drought. Moreover, domestic spending remains limited amid weakening purchasing power and hefty household debt. Regarding inflation in 2020, headline inflation is expected to average 0.4-0.9 percent,

lower than the 0.7 percent in 2019 while the Monetary Policy Committee (MPC) may signal a more accommodative stance if the Thai economy sees only a lackluster recovery after the policy rate was cut to 1.00 percent during the MPC meeting held on February 5, 2020.



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

* Projection by KResearch as of December 9, 2019

1.2 Banking Industry, Competition and Emerging Risks

● Banking Industry and Competition

Commercial banks' overall performance in 2019 recorded an increase in net profit compared to 2018. The increase could be attributed to a rise in non-interest income, especially net profit from investment. Meanwhile, net interest income maintained its growth even though net interest margin (NIM) dropped as a result of impacts from interest rate reduction and a slowdown in loan in the banking system. Meanwhile, net fees and service income was stable, whereas fees from insurance, mutual fund and investment banking services helped offset the impact from cancellation of fees for funds transfer via digital channels. Most commercial banks remained cautious in setting aside allowance for impairment loss on loans as loan quality remained an issue needing close watch, especially amid the economic slowdown.

As of the end of 2019, net loans at 14 domestically-registered commercial banks totaled Baht 11.859 trillion, rising 1.94 percent over-year, decelerating from the growth of 5.17 percent at the end of 2018. Meanwhile, deposits equaled Baht 13.057 trillion, an increase of 3.81 percent, slightly decreasing from the growth of 3.96 percent at the end of 2018. This resulted in easing liquidity in the banking system. KBank ranked fourth in assets, deposits and net loans in the commercial banking system, with market shares of 13.56 percent, 14.72 percent, and 14.30 percent, respectively.

Market Shares in Assets, Deposits, and Net Loans within the Commercial Banking System

(Unit: Million Baht)

Bank	Assets	Market Share (%)	Deposits	Market Share (%)	Net Loans	Market Share (%)
Bangkok Bank	3,123,361	15.54	2,316,035	16.51	1,832,828	14.35
Siam Commercial Bank	2,952,447	14.69	2,156,489	15.37	1,995,248	15.62
Krung Thai Bank	2,908,358	14.47	2,158,460	15.38	1,879,541	14.71
KASIKORN BANK	2,724,055	13.56	2,065,669	14.72	1,862,520	14.30
Bank of Ayudhya	2,234,725	11.12	1,558,780	11.11	1,610,374	12.60
TMB Bank	1,045,343	5.20	663,559	4.73	646,194	5.06
Thanachart Bank	999,575	4.97	734,561	5.24	693,929	5.43
United Overseas Bank	566,212	2.82	465,411	3.25	404,342	3.16
CIMB Thai	385,109	1.92	199,132	1.42	222,002	1.74
Kiatnakin Bank	299,216	1.49	172,661	1.23	230,062	1.80
TISCO Bank	285,305	1.42	218,433	1.56	228,608	1.79
Land and Houses Bank	230,548	1.15	165,018	1.18	151,569	1.19
ICBC (Thai)	215,797	1.07	129,823	0.93	110,246	0.86
Standard Chartered Bank (Thai)	142,378	0.71	61,908	0.44	27,653	0.22
Sumitomo Mitsui Trust Bank (Thai)	81,785	0.41	19,133	0.14	52,014	0.41
Bank of China (Thai)	69,996	0.35	47,088	0.34	46,462	0.36
Thai Credit Retail Bank	56,635	0.28	47,325	0.34	48,204	0.38
ANZ Bank (Thai)	32,175	0.16	7,372	0.05	17,889	0.14
Mega International	25,555	0.13	13,237	0.09	19,917	0.16

Bank	Assets	Market Share (%)	Deposits	Market Share (%)	Net Loans	Market Share (%)
Domestically-registered commercial banks	18,378,575	91.46	13,191,092	94.01	12,043,602	94.26
Foreign bank branches	1,716,190	8.54	839,789	5.99	732,772	5.74
All commercial banks	20,094,765	100.00	14,030,881	100.00	12,776,374	100.00

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

For the outlook of commercial banks in 2020, limited economic growth and the implementation of rules and regulations to supervise and ensure fair treatment for retail and SME customers will pose a heightened challenge to banking performance. To cope with these issues, commercial banks may have to fine-tune their strategies, especially through efficient cost management and expansion of their customer base and income from financial transactions and services via digital platforms. Close attention should be paid to the overall economic situation which could affect loan quality, provisioning and guidelines for debt restructuring as commercial banks must comply with the Thai Financial Reporting Standards (TFRS9): Financial Instruments which took effect on January 1, 2020.

● Emerging Risks

KBank will brace for numerous challenges over the next five years. Aside from impacts on economic and business trends, they may affect the commercial banking business, directly and indirectly. In detail:

Emerging Risks	Description of Risks	Potential Business Impact of the Risks	Mitigating Actions
1. Hyperconnectedness Risk	<p>Businesses in the digital age are hyperconnected within the ecosystem. On the plus side, KBank does not need to own all of the necessary expertise, but can instead link to other units or external organizations to maximize our strengths while ensuring cost-effectiveness, and to better serve customer needs that are ever more complex and varied.</p> <p>However, connectivity of KBank to other businesses within the ecosystem may bring about multiple risks that are more severe, more complex, and with a more</p>	<p>Given the hyperconnectedness of businesses within the ecosystem, businesses may gain benefits but may also be exposed to risks that are incurred from the connectivity of operations. For instance, if the system of any one partner faces instability or a security problem, it may have a wide-ranging impact on customers all along the business chain. This could jeopardize the credibility and financial position of every business unit within the ecosystem, not to mention the heightened complexity of addressing the problem.</p>	<p>KBank has in place measures to control risks across all processes, from the stage prior to connectivity, during connectivity, and through to the process end.</p> <p>We have assessed the respective credibility and risks of organizations that will link their systems to ours. Duties and responsibilities are clearly defined in the contract entered into with those organizations, while risk-monitoring measures have been established to ensure that we can undertake proactive risk management in all facets of the relationship.</p>

Emerging Risks	Description of Risks	Potential Business Impact of the Risks	Mitigating Actions
	wide-ranging potential impact, in particular, security and system stability risks.		Moreover, KBank can, if necessary, terminate services provided by certain partners to our customers.
2. Potential Emerging Technology Risk	Amid the proliferation of innovative technologies, new business formats have sprung up to accommodate changing customer lifestyles in the digital era. As technological innovations continue to be developed and adopted, tail-end risk remains unpredictable and potentially undiscovered. This may cause incorrect decisions that finally result in losses.	The adoption of innovative technologies may expose KBank to unknown risk, especially in overall service provision. Such risk may be incurred by related parties' lack of awareness with regard to emerging technology among service providers and users. Worse, technology risk may lead to credibility risk, security risk and system stability risk, which could eventually harm the Bank's financial standing.	<p>KBank has established sandbox testing measures to support innovative financial services that employ new technologies, to ensure that KBank can cope with potential problems and identify potential risks.</p> <p>In sandbox testing, we limit the numbers and groups of customers that can join a sandbox test, including the transaction volume and/or amount, with a scope based upon the product or service innovation, allowing us to develop the technology and identify relevant risks under a defined risk appetite.</p>
3. Climate Change and Adaptation Risk	Climate change directly impacts physical risk. It may come in the form of natural disasters, namely storms, floods and drought, which have become more frequent and severe. Indirectly, it could lead to transition risk, wherein new rules and regulations are to be implemented to mitigate environmental problems over the long term, especially during the transition to a low-carbon economy for a climate-resilient future.	<p>Climate change-induced natural disasters have become more frequent and intense. Aside from direct impacts on businesses, such extreme events have led to greater awareness in the society at all levels - from the community, to the national and global levels. To combat environmental issues over the long term, more stringent rules and regulations have been implemented.</p> <p>In response to regulatory changes and introduction of climate change risk management guidelines, businesses must bear increased costs in various forms, namely investment in additional equipment, indemnity expenses, delays in commercial operations, and forced cancellation of projects, not to mention indirect effects on the image of customers' and sponsors'</p>	KBank is aware of relevant risks and has a policy of supporting customers to adjust themselves to be prepared for said risks. KBank has thus conducted a climate-related scenario analysis to assess its potential impacts upon businesses, including those from the government's policies under the Paris Agreement, which aims to reduce greenhouse gas emissions by 20 to 25 percent by 2030, and in accordance with the United Nations Sustainable Development Goals (SDGs) which are to be met in the same year. Moreover, KBank has managed its credit portfolio by establishing and fine-tuning credit policy to align with the set goals, taking climate change and adaptation risk into account.

Emerging Risks	Description of Risks	Potential Business Impact of the Risks	Mitigating Actions
		businesses. Without proper and timely adjustment, competitiveness and debt servicing ability of the business sector may be jeopardized, which would eventually affect KBank's asset quality.	

1.3 Significant Regulations and Rules related to Business Operations²

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

- **Rules for Foreign Exchange Control**

The Bank of Thailand issued circular Ref. No. ForKorNgor. (21) Wor. 37/2562 (2019) Re: Notice of the Competent Officer of Foreign Exchange Control dated November 5, 2019 regarding Relaxed Rules on Foreign Exchange Control under the Foreign Exchange Rule Reform Program Phase 2 per Notification of the Ministry of Finance Re: Foreign Exchange Control (No. 8), Notification of the Ministry of Finance Re: Minister's Directive Given to Authorized Juristic Person (No. 12), and five Notices of the Competent Officer of Foreign Exchange Control, effective November 8, 2019, which contains the salient points as follows:

1. Relaxed rules for income repatriation: For instance, proceeds that are allowed to be kept abroad are increased to less than USD200,000, compared to less than USD50,000 previously.
2. Relaxed rules for purchase or exchange of foreign currencies: Outward funds transfers are allowed freely for any purpose, except for the purpose that requires permission from the competent officer of foreign exchange control. Moreover, outward funds transfer limit of retail investors is abolished, and criteria related to documentation have been streamlined to ensure greater flexibility, such as no documentary evidence required for purchase of foreign currencies of not more than USD200,000.
3. Relaxed rules related to foreign currency deposit (FCD): Types of FCD accounts are reduced to two, i.e., FCD account for general purpose and FCD account without obligation, for which the outstanding balance must not exceed USD5 million. Moreover, cash deposit into an FCD account is increased from not more than USD10,000 per day, to not more than USD15,000 per day, or not exceeding the amount of foreign currencies brought in from other countries, or not exceeding the obligation per the conditions.

² Details related to other Significant Regulations and Rules related to Business Operations during 2019 can be found in the Management Discussion and Analysis (MD&A) reports for the quarters ending March 31, 2019, June 30, 2019, and September 30, 2019.

4. Relaxed rules regarding investment in foreign securities: For instance, retail investors are allowed to invest up to USD200,000 per year in foreign securities without having to invest via an intermediary institution. Qualified investors who have investment/deposit of at least Baht 50 million receive leniency for investment requirements and are allowed to invest in additional products; there is no longer a restriction on countries that can be invested in, and they are allowed to invest in endowment life insurance products, unit-linked insurance policies or universal life insurance issued and sold in other countries. Other rules have also been relaxed; for example, investors are currently allowed to hedge against their investment including derivatives with underlying foreign assets and investment in life insurance products, while they are also allowed to unwind transactions for buying, selling or exchanging foreign currencies for investment.

Such relaxations will facilitate the private sector in conducting and managing foreign exchange transactions, together with providing Thai investors increased investment options with improved risk diversification. KBank has put in place relevant operational processes to accommodate these new regulations.

- **Regulations for Information Technology Risk of Financial Institutions**

The Bank of Thailand issued Notification No. SorNorSor.21/2562 (2019) Re: Regulations for Supervising Information Technology Risk of Financial Institutions dated October 1, 2019, which was published in the Government Gazette on November 14, 2019, effective November 15, 2019, which stipulated that financial institutions can adopt technology or improve their systems or technology to accommodate their business models and in alignment with rapid technological change. Key points of the regulations can be summarized as follows:

1. Domestic Systemically Important Banks (D-SIBs) and financial institutions with a high level of cyber inherent risk must appoint a Chief Information Security Officer (CISO) within one year of the effective date of this Notification.
2. Commercial banks must prepare a report on significant information technology projects for submission to the Bank of Thailand on an annual basis. Prior approval is not to be sought from the Bank of Thailand before the significant adoption or change in technology.
3. Commercial banks must undertake third party risk management in accordance with the Third Party Risk Management Implementation Guideline in cases where there is use of services, connection or access to information by a third party.

KBank has put in place relevant processes in preparation for and in compliance with the new regulations.

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

In 2019, the IFRS Conversion Project continued to closely monitor regulatory criteria regarding the implementation of IFRS 9 Financial Instruments. The Project, as an operating team, provided opinions to ensure that the new regulation is appropriate for business operations in Thailand. In parallel, the Project developed a work system and improved relevant work processes and guidelines for mapping out a business plan that is consistent with IFRS 9, ensuring that we are ready to comply with the new accounting standard to be enforced in January 2020. Likewise, we have been well-prepared for the implementation of IFRS 16 Leases.

2. Risk Management and Risk Factors³

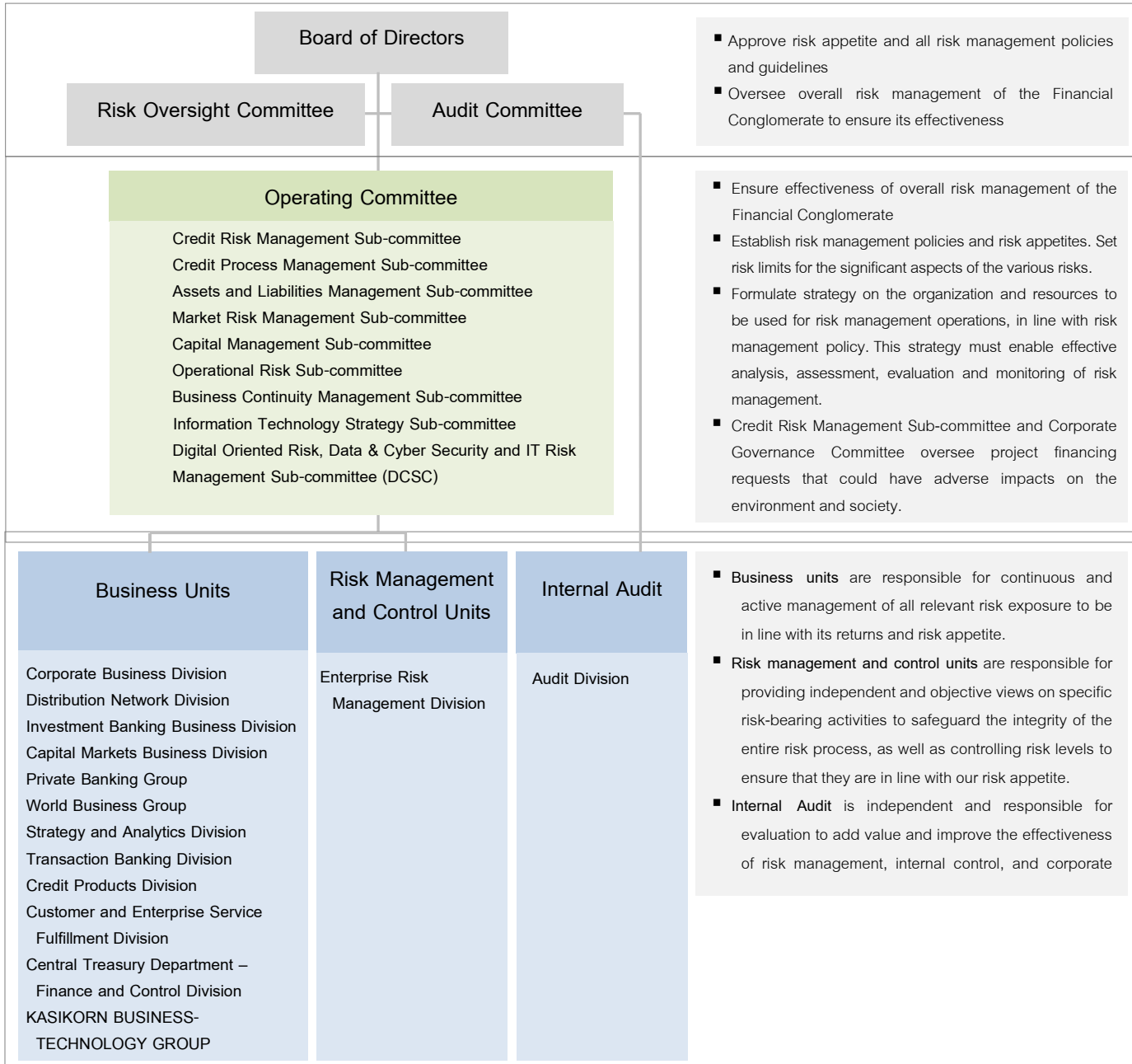
2.1 Overall Risk Management

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

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

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

Risk Management Structure¹⁾



¹⁾ Data as of December 31, 2019

Key Developments to Strengthen Risk Management

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

- **Continuous uplift of information security management to meet global standard:** KBank's information security management system has been awarded ISO 27001:2013 certification for the sixth consecutive year. We were also awarded PCIDSS V3.2.1 for our credit card data security system, which covers Payment Gateway on Cloud available for card accepting merchants, and PCI PIN Security V2.0 for the security system for card use at ATMs.
- **Strengthening of customers' data protection and privacy management:** A working group was set up to study and progress action to comply with the personal data protection law which will come into force in May 2020. The actions include policy revision, process and technology update to support consent management and customers' exercising of rights. Progress reports have been reviewed and presented to KBank's executives on a regular basis.
- **Implementation of measures for controlling advanced threats** including advanced threat prevention, e.g. implementation of various cyber security solutions to prevent zero-day attack, proactive threat detection e.g., increase visibility to detect external threats, and timely and effective threat response, for enhanced capability in tackling digital risk and cyber security challenges while staying ahead of fast-changing cyber threats that are always becoming more diverse and more complicated.
- **Reinforcing a cyber risk-aware culture** that involves the Board of Directors, management, employees, customers and suppliers, through dissemination of knowledge in various media such as cyber awareness campaign for customers, e-Learning, security newsletter, cyber news alert, and infographics. Moreover, a phishing drill exercise was conducted to raise employees' awareness of the phishing threat.
- **Preparation for allowance for expected credit loss under the new accounting standard TFRS9:** Credit risk model, asset classification criteria, provisioning, capital calculation system and economic factor determination have been developed in accordance with the TFRS9 international standard. In addition, credit risk process has been revised to be consistent with asset classification and provisioning under TFRS9 so as to cope with and mitigate the impact that may arise from the implementation of the new accounting standard.
- **Enhancement of processes and econometric models for stress testing** to ensure that KBank's business growth is in line with our risk appetite while also improving efficiency in the Conglomerate's risk and reserve management as well as capital adequacy and liquidity position assessment for improvement of the Conglomerate's forward-looking and preventive portfolio management to comply with the Bank of Thailand's regulations and directions.
- **Reinforcing of Active Credit Portfolio Management (ACPM) concept:** KBank has applied ACPM concept to dynamically manage credit risk while setting the direction of credit portfolio and business targets at customer and product levels on a continual basis. ACPM facilitates proactive management of credit risks on potential customers impacted from credit events or

changing economic circumstances. ACPM has been applied to strive for the highest capital efficiency while ensuring capital adequacy and to ensure that the Conglomerate's business can maintain healthy growth within appropriate risk limits under normal and stress scenarios.

- **Enhancement of End-to-End Product Management Framework** to ensure that all key products and services are managed efficiently, aligned with customers' need and controlled with acceptable risk level.
- **Establishment of Third-Party Risk Management Policy and Framework** which cover risk assessment, selection process, contract preparation, risk monitoring and termination of service with third party to ensure that risk management of service provision, system interface, or data access by third party is managed appropriately, accounting for customers' business operations and service provision.
- **Uplift of risk and compliance related functions to be more integrated and efficient** by setting up "Risk and Compliance Working Team" which comprise key members from related parties. The uplift is to ensure that the bank can provide various products/services to align with customers' need and increasing business growth in digital world more efficiently while key risks and compliance issues are defined and managed securely and appropriately.
- **Continual Enhancement of Fraud Management and Intelligent System** to ensure enhanced security for customers' transactions and increased efficiency in fraud detection via transaction fraud module for a broader coverage of transactions via various channels.
- **Enhancement of market conduct management** to ensure that customers receive fair service and treatment with complete and accurate information about products and services and align with good market conduct practice.

2.2 Risk Management

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

□ Credit Risk Management

'Credit risk' refers to risk whereby a counterparty or borrower may default on contractual obligations or agreements, or have an intention not to abide by an agreement, resulting in losses to KBank. KBank thus places significance on credit risk management compatible with international standards and regulatory requirements, environmental impacts that may affect KBank business operations, as well as impacts of climate change, to ensure sustainable growth and reasonable returns to stakeholders.

In 2019, KBank focused on customer service and credit risk management for every customer segment. Customers' businesses were challenged by international protectionism that continued from the previous year, limited purchasing power at home, and a changing business landscape due to digital disruption. KBank thus put in place more stringent customer screening criteria, particularly for small and micro businesses as well as retail customers, while the Bank also sought to acquire customers with stronger financial status and sound debt servicing ability. KBank has also emphasized customers' early warning sign detection and behavior monitoring to ensure efficient monitoring, recovery and collection processes.

Credit Risk Management

Credit Risk Management Policy

To achieve sustainable growth, our credit strategy focuses on a balance between portfolio value creation and protection within our risk appetite. Portfolio management, credit policy and related credit procedures must comply with this strategy and must be in line with the Bank of Thailand's regulatory requirements, the government's policy adjustment and the plan that focuses on United Nations Sustainable Development Goals (SDGs), including how to cope with climate change, that may affect business operations in terms of risk and business opportunity.

KBank reviewed credit risk management policy, both in terms of credit risk and impacts on the environment and society, including the launch of new products and services in different circumstances, to ensure that our business operations are in compliance with relevant standards, accommodating changes in credit quality and sustainable growth of KBank. Such revisions were monitored for their impacts on portfolios, and updated for reference in KBank's database available to relevant users covering criteria for credit granting, management and credit risk management tools.

Credit Risk Management Process

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

● Portfolio Management

KBank emphasized active portfolio management corresponding to prevailing circumstances, particularly economic factors that could affect our customers and our portfolio quality. Via Active Credit Portfolio Management (ACPM) and stress testing, KBank ensured timely portfolio management towards any deviation against our planned targets. Meanwhile, KBank has also focused on portfolio management so as to control credit concentration within the established limits. Close monitoring of customer risk profile across industries was undertaken through

the establishment of loan growth target in alignment with prevailing economic conditions, taking into account customer segments, product domains and industry outlooks, to maximize returns from each customer segment portfolio under defined risk appetite.

KBank adopted credit risk management mechanisms as follows:

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

- **Credit Underwriting and Approval**

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

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

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

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

- **Post-Credit Approval Operations**

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

- **Allowance for Impairment Losses**

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

- **Debt Quality Monitoring**

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

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

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

- **Asset Quality Review**

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

- **Market Risk Management**

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

In 2019, global financial markets were quite volatile due mainly to the unresolved US-China trade war and Brexit. These two factors contributed to risk-off sentiment in financial markets. Investors therefore increased their holding of safe-haven assets. This led to greater capital inflows into Thailand thanks to its economic stability, as evidenced by an ongoing current account surplus – albeit at a decelerating rate amid the global trade slowdown, as well as the relentless rise of the Thai Baht. Meanwhile, major risk factors remained in the global market. As market sentiment was plagued by downbeat economic indicators of core economies, most investors focused mainly on debt instruments. Therefore, Thai bond and US Treasury yields saw a decline across all maturities. Regarding the outlook for 2020, the protracted US-China trade negotiations will remain a major concern, which may cause volatility in both money and capital markets at any time. This is despite the success of an agreement to “Phase One” of the trade deal, reached in January 2020.

- **Market Risk in Trading Book Activities**

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

- **Market Risk in Banking Book Activities**

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

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

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

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

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

Net Interest Income Sensitivity to Interest Rate Change

(Unit: Million Baht)

For the Year Ending	Dec. 31, 2019
	+100 bps
THB	543
Foreign Currencies	(36)
Total Effect of Interest Rate Change	506

— **Equity Risk in Banking Book Activities**

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

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

KBank is exposed to foreign exchange risk incurred from our overseas operations and investment. KBank has chosen not to retain foreign currency position stemming from such activities, except where there is market limitation of risk hedging, or for the purpose of appropriate cost management in risk hedging during certain periods. KBank has a monitoring process and control measures in place to ensure that risk is within an acceptable level. Foreign exchange risk management is under supervision of the Assets and Liabilities Management Sub-committee, with the goal of obtaining the highest returns under the risk limits approved by the Risk Oversight Committee and the Board of Directors.

□ Liquidity Risk Management

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

Liquidity in the banking system during 2019 was ample due to slower growth of net loan; in fact, deposits saw stronger growth than loans. Meanwhile, liquidity management at given periods may vary from bank to bank, depending on its liquidity position and management guidelines. KBank has been fully equipped with tools for appropriate liquidity management both in terms of foreign currencies and Thai Baht to protect ourselves against any potential liquidity shortage. Aside from efficient monitoring of liquidity risk in light of situations that may incur risk indirectly, we have also adopted a Business Continuity Plan to guard against disruptions to essential operations and systems, allowing us to fulfill our obligations in the event of an emergency.

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

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

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

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

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

❑ Operational Risk Management

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

In 2019, KBank strengthened operational risk management in various key areas to assure that customers will receive fair service and treatment with appropriate risk management environment. Key focus areas cover the enhancement of product management throughout product cycle, development of the third party risk management, strengthening risk-related functions to be more integrated and efficient, and enhancement of market conduct management to ensure that customers receive fair service and treatment through efficient and practical process & management.

❑ Digital Risk Management

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

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

In 2019, KBank conducted risk assessment and revised a plan for development of digital risk control system to be consistent with cyber threats and past performance. Significant risks include risk incurred from operations and IT that accommodate innovative financial services and products or new channels to respond to customers' needs, heightened risk in linkage with business partners, adoption of innovative technology to services, various types of cyber threats which have more severe impacts, as well as change in rules and regulations which become ever more stringent.

KBank has additionally revised risk policy and management framework to ensure that it brings tangible results in accordance with the set goals. For instance, the IT outsource risk management policy was upgraded to the third party risk management policy so as to cover all groups of external parties, development of sandbox policy to support innovative financial services that adopt new technology. Overall, risk management focuses on risk controls for prevention, detection, response, recovery and creation of

an cyber hygiene culture. The risk controls covers four areas including governance, policies, processes and technology, and people and culture. Key performance can be summarized as follows.

- **Governance:** The Risk Oversight Committee is responsible for supervising risk management in alignment with risk management policy and strategy, and consistent with the established risk appetite.
- **Policies:** We have reviewed and revised relevant policies to be consistent with our organizational structure and KBank's Vision of maintaining our growth and leadership of Thailand's digital banking service market, regulatory requirements, as well as capability to efficiently cope with present and future threats.
- **Processes and technology:** We have been given priority to continuous improvement of our information security management to ensure that we can meet global standards for broader coverage of financial transactions and services. Along with this, we have implemented data leakage preventive measures while also bolstering the capacity to protect ourselves from advanced threats.
- **People and culture:** KBank has bolstered personnel capabilities in line with our business directions, new risks and threats. We have emphasized the creation of a cyber risk-aware culture which involves four personnel groups, i.e., the Board of Directors and management, employees, customers and suppliers of KBank, via communications in different formats to keep them abreast of cyber risks as well as provision of knowledge related to best practices. Notable endeavors included a phishing drill to test how employees respond to phishing emails and fraudulent websites to ensure that they can identify phishing threats and can properly cope with them for efficient prevention.

□ Strategic Risk Management

At KBank, strategic risk management has been highlighted and integrated into the organization's strategy formulation and implementation process. The process begins with systematic data collection and analysis for use in review and determination of appropriate Bank-wide strategies, which are then translated into those for business and support units, and key performance measurement. It also involves efficient resource allocation, organization-wide communication of strategic plans, establishment of clear operational plans and monitoring processes, as well as identification of problems and solutions. Strategic risk management refers to management of risks that arise from formulation and implementation of strategic and business plans that are unsuited to and inconsistent with internal factors and the external environment, which may affect earnings, capital fund or viability of the business. For 2019, material factors affecting strategic risk included local and global economic growth, technological advances which affected consumer behavior and demands, as well as government policies and new rules and regulations for financial institution supervision.

Our strategic risk management can be divided into two parts, as follows:

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

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

□ Sustainable Development in Action⁴

KBank has conducted our business on the foundation of a Bank of Sustainability, with good corporate governance practices and appropriate risk management in order to create the balance in economic, social and environmental dimensions for the optimum benefit of all stakeholders and in line with the United Nations Sustainable Development Goals (SDGs).

• Sustainable Development Policy

In 2019, the Board of Directors reviewed the sustainable development policy and practical guidelines and approved the inclusion of the policy on adaptation and mitigation of the impact of climate change and revised the policy on financial support to environmentally-friendly businesses and environmentally friendly and reducing the environmental impacts of our own operations to be consistent with KBank’s materiality and the global sustainability trend, as shown in the figure for sustainable development policy.



	Economic Aspect	Social Aspect	Environmental Aspect
Goals	Sustainable Profitability	Good Corporate Citizenship	Zero-Carbon Society
Sustainable Development Policy	<ul style="list-style-type: none"> • Business operations defined by good corporate governance principles • Adherence to the “Customer Centricity” philosophy and effective customer responsiveness • Efficient risk management • Sharing of financial knowledge with the general public • Customer data security and privacy • Product and service enhancements via value-added innovations 	<ul style="list-style-type: none"> • Fairness of labor relations management and care for employees • Employee development • Promotion of occupational health and safety for employees • Youth education development and community and social development 	<ul style="list-style-type: none"> • Adaptation and mitigation of the impact of climate change • Environmentally friendly and reducing the environmental impacts of our own operations • Financial support to environmentally-friendly businesses

⁴ More details on Sustainable development and Materiality for KBank can be found on pages 247-251 of Annual Report 2019 and in Sustainability Report 2019 on KBank website.

Moreover, KBank's Board of Directors reviewed and improved the Human Rights Policy which has been applied across the operations of KBank and other companies in KASIKORNBANK FINANCIAL CONGLOMERATE as well as counterparties and joint ventures in conformity with key legal principles and international standards such as the United Nations Guiding Principles on Business and Human Rights (UNGPs), principles of humanity and rights in accordance with the International Labor Organization (ILO), and Principles of the United Nations Global Compact (UNGC).

KBank, in collaboration with the Thai Bankers' Association, has expressed our intention to elevate Thai financial institutions' business practices. To this end, responsible lending guidelines have been formulated as part of sustainable business operations which account for environmental, social and governance (ESG) criteria, in an effort to ease potential problems from lending and protect against adverse consequences, allowing financial institutions to embrace sustainable business practices.

We have prioritized communication to all stakeholders regarding sustainable development operations with the aim of transferring, sharing and exchanging relevant experiences to allow the continued growth of sustainable practices.

□ **Corporate Governance**

KBank strongly believes that good corporate governance is essential for sustainable business operations. Aside from creating confidence among all shareholders and stakeholders, it is instrumental in making KBank a Bank of Sustainability. In 2019, we reviewed and developed policies and practical guidelines in conformity with international standards and kept them up-to-date and appropriate for KBank business, revised our Tax Policy and KBank Disclosure Policy. and reviewed our corporate governance practices to ensure compliance with the CG Code of 2017, Corporate Governance Report of Thai Listed Companies (CGR) and the ASEAN CG Scorecard.

In addition, a number of activities were undertaken continually to promote our good corporate governance practices. They included orientation sessions held for new directors, provision of news and information to directors via CG Journal and KBank Bulletin, training provided to executives and employees through various programs on the Code of Conduct and the Anti-Corruption Policy, risk management of modern organizations through Governance, Risk Management and Compliance (GRC), including online-based evaluation of employees' knowledge of compliance with the Code of Conduct. Moreover, a meeting was arranged to communicate to representatives of companies within KASIKORNBANK FINANCIAL CONGLOMERATE CG practices, requirements of government agencies, risk management and internal control. Along with this, we promoted our No Gift Policy, Anti-Corruption Policy, Supplier Code of Conduct and Human Rights Policy to encourage good governance practices. Meanwhile, we took part in a show of support to recognize International Anti-Corruption Day 2019.

3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK in 2019 and Outlook for the Next Five Years

KASIKORNBANK has established business directions on the foundation of a Bank of Sustainability, accounting for the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. Guided by the Customer Centricity strategy and resolution of delivering an excellent customer experience in order to empower every customer's life and business, we prioritize the offering of attentive and inclusive services as a trustworthy service provider. We can deliver a positive customer experience anywhere, anytime through collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE and our business partners under the single brand of KASIKORNBANK.

In 2019, KBank emphasized data analytics for predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, efficient capital management and a risk-aware culture Bank-wide, as well as good corporate governance, in strict compliance with relevant rules, regulations and laws in order to efficiently cope with potential economic uncertainties as well as new policy guidelines and measures of the Bank of Thailand and other regulatory agencies.

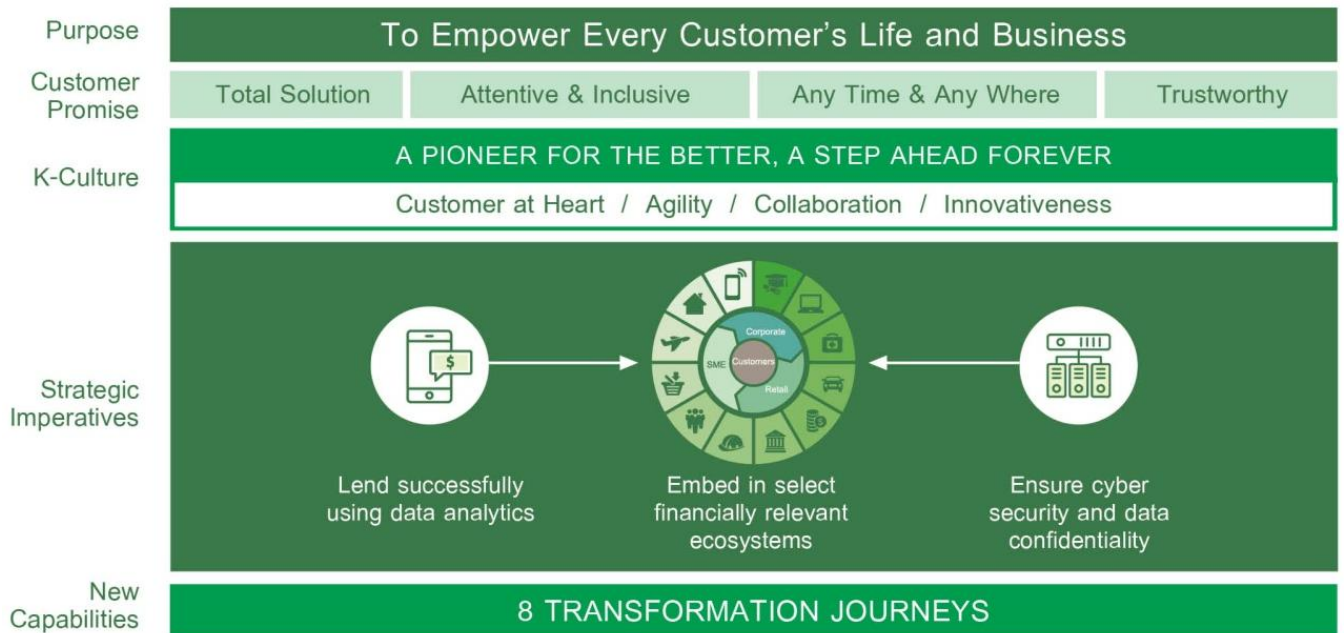
KBank has established our strategic imperatives by embedding in select financially relevant ecosystems, lending successfully using data analytics and ensuring cyber security and data confidentiality. As a guideline for coping with impacts from digital disruption and fast-changing customer demands, we have emphasized strategic capabilities through the following eight transformation journeys.

- Ecosystem Orchestrator & Harmonized Channel: Orchestrating ecosystems with partners and providing excellent experiences throughout customer journeys
- Intelligent Lending: Levering customer data to offer personalized lending experience
- Proactive Risk & Compliance Management: Proactively identifying potential risk and establishing loss prevention and detection
- New Growth in Regional Market: Exploring new growth opportunities in other countries.
- Data Analytics: Expanding data analytics capability to enhance business opportunity and operational efficiency
- Cyber Security & IT Resilience: Enhancing comprehensive cyber security and IT capabilities
- Performing Talent and Agile Organization: Developing employee potential in the drive towards an agile organization
- Modern World-Class Technology Capability: Adopting modern world-class technology to make KBank the top regional financial service provider

The K-Strategy

KASIKORNBANK Guiding Foundation

- Remain a top tier size with strong brand, distribution, and capital base
- Acquire enduring customers and ensure excellent customer experience across all segments
- Be a digital-oriented AEC+3 Bank
- Be a data-driven bank and ensure data confidentiality
- Be a cost competitive operator
- Be a Bank of Sustainability



1 Ecosystem Orchestrator & Harmonized Channel

Orchestrating ecosystems with partners and providing excellent experiences throughout customer journeys

2 Intelligent Lending

Leveraging customer data to offer personalized lending experience and achieve fair risk-adjusted return

3 Proactive Risk & Compliance Management

Proactively identifying potential risk and establishing loss prevention and detection



4 New Growth in Regional Market

Exploring new growth by

- Regional Payment for All
- "Better Me" Finance

5 Data Analytics

Expanding data analytics capability to enhance business opportunity and operational efficiency

6 Cyber Security & IT Resilience

Enhancing comprehensive cyber security and IT capabilities

7 Performing Talent and Agile Organization

8 Modern World-Class Technology Capability

In alignment with the above strategy, KBank prioritizes total solutions in order to fully meet the needs of all customer segments. Our endeavors for each business are as follows:

- (1) **Retail Business:** KBank has focused on data analytics in order to deliver products and services that can meet each individual customer's needs via physical branches and digital channels for the best customer experience. Along with this, we have collaborated with our partners in various businesses to develop multiple products that accommodate every aspect of their lives for enhanced competitiveness and sustainable business operations over the long term. Focus has been placed on improvement of private banking service quality through the offering of advice, products and services of international standard so as to deliver excellent services that can comprehensively respond to High Net Worth Individual clients' needs, namely wealth planning, wealth creation, custodian service and family business succession plan through our advisory services for both domestic and foreign investment.
- (2) **SME Business:** KBank aspires to become a Total Solution Provider for our SME customers. Through solid teamwork among our Relationship Managers (RMs), who are well-versed in KBank products, and branch officers who have in-depth understanding of our customers' businesses, we aim to efficiently expand our customer base. Along with this, we have deployed innovative digital technologies and data analytics for customers' enhanced business efficiency along with knowledge-based assistance and business networking, with emphasis given to asset quality management to ensure the sustainable business growth of both our customers and KBank.
- (3) **Corporate Business:** KBank is determined to meet all of our corporate customers' business needs, especially through funding support, advisory services and multiple formats of fund mobilization, to ensure their cost effectiveness under appropriate risk management. Along with this, we have given staunch support to their transactions via all formats of electronic channels, while focusing on the offering of products and services responsive to all parties, including customers, suppliers, business owners and employees throughout the ecosystem, for increased competitiveness and effective business management in a comprehensive manner. These efforts are aimed at maintaining our status as customers' Main Operating Bank (MOB).

Meanwhile, KBank continues to gear up for being a Regional Digital Bank. To this end, we have expanded our financial services for the purpose of saving and investment, borrowing, transactions and risk prevention. In parallel, we have upgraded our digital capability for improved access to a large number of customers, by starting with the offering of transaction banking service in order to have better understanding of customer demands. Meanwhile, we act as a digital platform provider for both financial and non-financial services in order to meet customers' needs beyond the banking realm in a bid to broaden our customer base in the digital age, especially our SME and retail customers.

3.3 Customer Segments and Services

During 2019, KBank and K Companies continued to adhere to our “Customer Centricity” strategy, being attentive to the impact of domestic and global economic circumstances and rapid technological development. KBank remains committed to strengthening customers’ capabilities in order to empower every customer’s life and business and to ensure total solutions through the provision of attentive and inclusive services anytime and anywhere as a trustworthy service provider. These endeavors can be achieved through collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE and our strategic partners in the dimensions of customers, products and service channels. Our key operations in eight customer segments are as follows:

■ Multi-Corporate Business

Focusing on our customers’ sustainable growth, KBank has provided them support through advice on funding sources via both conventional methods and capital markets through financial innovations, as well as the offering of risk management products suited to each customer’s needs. We have also enhanced transaction banking products and services in alignment with the fast-paced digital era to aid our customers in their business operations.

In 2019, KBank granted support to customers in food and beverages, real estate and leasing businesses through their issuance of debentures. Another notable initiative was development of the CBH PLUS application of Chonburi Hospital to provide patients easier access to healthcare services. Moreover, we collaborated with the Provincial Electricity Authority to link our payment system to the PEA Solar Hero application to facilitate those interested in installing a solar rooftop. As part of our effort to forge cordial ties with this customer segment, KBank held various activities, such as a learning course on the economy and foreign exchange fluctuation.

■ Large Corporate Business

KBank always focuses on personnel development to ensure that our employees gain knowledge and understanding of the overall industry picture vis-à-vis customers’ businesses. Equipped with in-depth knowledge on products and services, our staff members can offer customers advisory services along with products suited to their needs for increased business efficiency.

In 2019, KBank assisted our clients in the construction material industry in their fundraising via capital markets. We also gave our customers financial advice tailored to their respective needs in order to efficiently cope with foreign exchange risk in the midst of the fluid global economic situation and impacts of the present international trade war.

Furthermore, we focused on the offering of products to enhance our customers’ business efficiency beyond the financial realm. Of note, KBank signed a memorandum of cooperation with two universities to support co-learning spaces and applications tailored to each university that could also serve

as a prototype in the move towards a cashless society. Moreover, we arranged numerous activities to enhance relationships with our clients.

■ **Medium Business**

We prioritized our support to Medium Business through total solutions. Focus was also on in-depth data analysis in order to gain insights about customers' business and personal needs. Along with this, we enhanced our personnel's skills to reinforce their in-depth knowledge and know-how on products and services. This is to ensure that we can provide accurate and swift services in alignment with our resolution of delivering an excellent customer experience.

In 2019, we applied data analytics to credit underwriting, allowing us to offer product solutions with accuracy and swiftness via both our RMs and digital channels. Multiple loans were developed to meet customers' needs, such as Revolving Loan for SMEs which features working capital with repayment and re-borrowing flexibility. Based on existing customer data, we have expanded the customer base within value chains, especially among businesses with brighter growth prospects, namely construction and construction materials, consumer products and communications. To provide funding support to our customers, KBank launched several loan programs including Portfolio Guarantee Scheme Phase 8 (PGS8) which features loans guaranteed by the Thai Credit Guarantee Corporation (TCG), assistance measures for disaster-affected SMEs in the south and a soft loan program for machinery replacement. We also continued to promote the "Do Good and Get Loan" program which features loans granted to SMEs under the SME Single Account scheme initiated by the government.

Furthermore, KBank developed "MyPromptQR" which is a new format of QR payment to facilitate Medium Business and larger segment customers with more options for bill payment. Another notable initiative is collaboration with KFC – KBank's business partner – to install the first self-ordering kiosk for accepting credit/debit card payment and QR code via KBank electronic data capture (EDC), at its Samyan Mitrtown location. We also worked with Big C Foodplace at Samyan Mitrtown to install self-service machines to accommodate payment with credit/debit card and QR code as well as via Alipay and WeChat Pay applications and Big C Wallet.

■ **Small and Micro Business**

KBank has supported our customers by providing them funding, bolstering their competitive capabilities and promoting business opportunities via online channels. We teamed with Shopee and Lazada to launch the online business loan – a financial solution that requires no documentation or collateral, offered via K PLUS. Under the "Better Together" collaboration, KBank aims to join forces with business partners in order to leverage our status as a leading digital banking provider that is well-versed with financial solutions that can respond to the needs of customers across all segments in alignment with their lifestyles, especially online sellers, to cash in on the thriving e-commerce business.

Moreover, we are determined to offer comprehensive financial products to our customers via the MADHUB project – the solution hub for online traders which comprises six key services, i.e., MADCARD which offers privileges for Facebook advertising via debit card, MADFUND to provide financial support, MADDEAL that offers discounts for online business and transportation costs, MADCOURSE which involves learning courses, MADVISOR for giving advisory services, and MADSPACE which is designed to support online business growth in line with the e-commerce boom. Thanks to our in-depth understanding of SME clients and online business, KBank has initiated solutions that can assist such customers in gaining access to funding sources as well as knowledge, useful advice, learning courses and special deals specifically designed for online business.

For card-accepting merchants, KBank has developed the QR Credit Card as another channel for accepting QR payment; cardholders may make payment via QR code rather than using their physical card. Meanwhile, the K PLUS SHOP application has been continually enhanced for greater service efficiency and stability. Along with this, KBank has made preparations in order to accommodate payment of Chinese tourists via Alipay and WeChat Pay e-Wallets.

Moreover, we developed the e-Donation system via mobile banking application to facilitate customers who want to donate money to charitable organizations linked to the Revenue Department's e-Donation system for broader service coverage.

■ High Net Worth Individual

2019 was another challenging year for investors amid a volatile global market. KBank therefore worked with our business partner Lombard Odier in developing innovative products and services across all dimensions. Notable strategies and offerings in 2019 included:

- (1) Diversified investment: Aside from investing in mixed funds through the adoption of a risk-based allocation strategy, we focused on alternative assets such as gold and over-the-counter stocks in order to control risk for a balanced portfolio. To minimize overall risk, customers were recommended to adjust their portfolios via varied tactics, for instance, cutting their investment in emerging-market stocks while strengthening risk control mechanisms.
- (2) Introduction of products as alternatives for generating returns to customers: These innovative products include K Global Risk Allocation Fund Not for Retail Investors (K-GLAM), which has
- (3) applied the latest risk limit, giving KBank more leeway in investment in mixed funds using three distinct levels for risk; K Fixed-Dated High Yield 2023A Fund Not for Retail Investors (K-HY23A-UI) offering a fixed return that is higher than deposit interest rate amid the downward interest rate trend; K Positive Change Equity Fund (K-CHANGE) which invests in global stocks of companies operating businesses that have a positive impact on society, and Land Loan for Investment, which features an overdraft loan product that allows customers to use their land as collateral for their investment.

■ Affluent

With the aim of becoming Customers' Main Bank in this segment and increasing this customer group's share of wallet devoted to KBank, we prioritized expansion of new potential customers who reside in strategic provinces across the country through the introduction of products and services based on big data analytics. Along with this, focus was on upselling and cross-selling tactics for use with existing clients.

In 2019, KBank focused on the launch of alternative saving and investment products. Notable products were special 8-month and 11-month fixed-term deposits with monthly interest payment, Life Insurance: Endowment 215 which offered attractive returns, and Life Insurance: Whole Life 85/5, for those wanting to leave an estate for their heirs. KBank also teamed with KASIKORN ASSET MANAGEMENT Co., Ltd. to introduce '4D' strategies which focus on 'Diversification' of asset classes in order to cope with market volatility, 'Defensive' investment for generating constant income, appropriate 'Duration' of asset holding, and 'Disciplined' investment. Notable funds included K Guaranteed 5 Years B Fund (KGT5YB), K Global High Impact Thematic Equity Fund (K-HIT), K Fixed-Dated Asian Bond 2022A (KAB22A), K Property Infra Flexible Retirement Mutual Fund (KPROPIRMF) and K Multi-Strategy Bond Fund Not for Retail Investors (K-MBOND). Meanwhile, we recommended five top-performing funds based on Morningstar Rating as well as new funds focusing on thematic investing in line with megatrends, namely the K Positive Change Equity Fund (K-CHANGE). All of these funds met with an overwhelming response from our customers.

To elevate THE WISDOM brand and maintain our leadership status, we delivered a superior experience with exclusive privileges for optimum customer satisfaction. Among the highlights were workshops on hairstyles and painting, namely "Discover the Beauty in You" and "Paint the Portrait with Khru Parn".

■ Middle Income

In adherence to our Customer Centricity strategy, KBank aims to maintain THE PREMIER as the top-of-mind brand, as well as our status of Customers' Main Bank. To this end, we have studied customer data, in both their financial and lifestyle needs, in order to develop products including savings products, loan solutions and financial investment advice that meet our new-generation customers' demands. In 2019, KBank developed a service for the opening of K-eSavings Account via K PLUS and facilitated customers seeking to open a deposit account at a KBank branch in filling out relevant information via tablet while waiting in line. Moreover, we offered bancassurance products tailored for specific groups of customers, namely the debut of life insurance with health rider designed for KBank Payroll customers, PA for kids covering seven common childhood diseases, and Takaful Life Insurance, designed for Muslim customers. Customers also had more options to apply for life insurance One Plus 10/1, travel insurance and personal accident (PA) coverage via K PLUS. Notable initiatives were the launch of JOURNEY Card – a lifestyle debit card, and YouTrip Card – a prepaid multi-currency card that offers distinctive forex benefits to travel enthusiasts.

Regarding loan products, KBank prioritized customer screening per our prudent credit policy which must be consistent with economic circumstances, in order to maintain overall portfolio quality of major loan products. Along with this, we applied digital technologies for data analytics in order to enhance lending efficiency, streamline the credit underwriting process and minimize credit risk. Moreover, focus was on digital lending in order to reach out to payroll customers, SME operators and customers acquired through our business partnerships such as Grab drivers, and sellers of e-Commerce companies Shopee and Lazada. For major loan products, KBank introduced the following promotional campaign to expand our customer base.

(1) K-Home Loan: Partnering with property developers, we conducted co-promotion activities in Bangkok and strategic provinces to provide home loans with special interest rates to customers seeking to purchase new homes, refinance their mortgage or apply for K-Home for Cash. We also granted support to the application development of a property developer which is our partner in order to facilitate homebuyers, especially through the offering of the best refinancing conditions. Moreover, we teamed with www.baania.com to conduct digital marketing to gain access to the target customers while also cooperating with Provincial Electricity Authority to launch a special interest loan via the PEA Solar Hero application to promote the installation of solar rooftops.

(2) K-Credit Card: Aside from the offering of credit card loan via digital channel to KBank Payroll customers, KBank continued to expand our customer base in alignment with the “One Card for Use Every Day” strategy. We also launched a campaign to promote spending in all categories and meet all lifestyle needs for holders of KBank JCB Credit Card, OneSiam-KBank Credit Card and PTT Blue Credit Card. Other notable initiatives were the transfer of KBank Reward Points to loyalty programs of our business partners via K+ Market and promotion of spending at home and in foreign currencies via digital marketing campaign.

(3) Personal Loan: We focused on digital lending to both existing and potential new clients. K-Express Cash was renamed Xpress Cash, while K-Personal Loan was changed to Xpress Loan, in order to increase product acceptance. Along with this, special interest rates were offered to customers who fully complied with the established conditions. We also added a channel for loan application via tablet at Bank branches, while customers can express their intention to apply for the loan via KBank’s website. Additional information about the loan was made available via phone, and we also provided a service to pick up application forms and other documents from customers.

■ Mass

KBank prioritizes the expansion of its new customer base. Along with this, we have explored opportunities to work with our business partners in order to develop user-friendly products and services to match customers’ financial and lifestyle needs with the aim of becoming Customers’ Main Bank.

To reach out to new customers in 2019, we launched the KBank x BLACKPINK – Empower Your Belief campaign, which offered applicants a BLACKPINK-themed deposit passbook and debit card in

order to familiarize them with the brand at the start of their use. Moreover, we tailored multiple services in response to the new generation's needs such as the opening of K-eSavings Account via K PLUS with no minimum deposit required, application for a debit card together with opening of a K-eSavings Account via K PLUS without going to a Bank branch, outward funds transfer via K PLUS, which is suitable for payment to students studying abroad, and top-up of RoV game on termgame.com via K PLUS to facilitate mobile gamers – a market that has seen rapid growth. We also aimed to acquire new customers at universities, both corporate and individual clients, through establishment of long-term relationships. To this end, we focused on promoting students' learning capabilities through development of educational applications, training sessions, and the continuous launch of projects in the drive towards a cashless society within the campus.

Moreover, we continued to offer multiple benefits on KBank products and services to KBank Payroll customers working in leading companies. Furthermore, we teamed with our business partners to develop products and services to facilitate payment for our customers. Notable efforts included the launch of an e-Wallet service via Blue CONNECT application for use at PTT Station and PTT Group retail stores; GrabPay Wallet that can be linked to and topped up via K PLUS, and the offer of a first-year fee discount for Grab Drivers who applied for K MAX PLUS Debit Card.

3.4 Service Channels

In 2019, KBank focused on providing seamless online and offline services of both KBank and our business partners to ensure a positive customer experience anywhere, anytime. We have orchestrated ecosystems with partners while also developing our core service channels for enhanced efficiency in accessing customers in order to deliver them excellent services with the greatest cost effectiveness.

1. **Branch Network:** Key initiatives for branch network management in 2019 included:

- **Domestic branch network:** We are determined to maintain our leadership status over the long-term amid changing consumer behavior, as evidenced by the increased use of digital banking services. Our focus was on the development of new branch formats to accommodate service use of customers in relevant areas and to create a novel brand perception. We also enhanced service and sales efficiency with the application of technology and big data, and thorough linkage of all service channels including digital channels, physical and electronic branches as well as services outside of branches. At the same time, KBank continued to consolidate branches to reduce redundancy, especially those with relatively low traffic.

In 2019, K PARK was expanded to five branches while new hybrid branches were opened, bringing the total number of KBank branches in this format to 10 in order to deliver a new customer experience through the use of self-service electronic machines. Moreover, we expanded the mini branch format to three branches – this branch format shares the space of our business partners to provide customers basic services. KBank also introduced two Happy Loan Centers by KBank to offer loan products and advisory services dedicated to retail clients. Meanwhile, KBank Service was expanded to post offices,

Big C Supercenters, Café Amazon and Inthanin as well as convenience stores including 7-Eleven outlets, FamilyMart and SPAR stores to allow customers to conduct deposit/withdrawal transactions, and opening of deposit account for individual customers, with different scopes of services available at each banking agent.

We also considered the appropriate management of foreign exchange booths, especially in viable areas, in order to maintain our market share. Along with this, we unveiled automated currency exchange machines at Airport Rail Link, Suvarnabhumi Station, which offer special foreign exchange rates to customers without a currency conversion fee, available 24 hours a day. To remain competitive, we revised our foreign exchange buying and selling rates. In parallel, other notable endeavors included joint promotional campaigns held with K-Credit Card and the use of redeemed points for discounts.

- **International Branch Network:** We have adhered to our strategy of becoming a “Regional Digital Bank” through the Three-Track Regional Digital Expansion. In detail:

- **Conventional Expansion** – We have expanded our business network and services within the AEC+3 region. In response to customers seeking to venture into other Asian countries, we set our sights on expanding business operations in the People’s Republic of China, Lao People’s Democratic Republic, and Kingdom of Cambodia, as well as upgrading the representative offices in the Socialist Republic of Vietnam and the Republic of the Union of Myanmar to the status of a branch within 2020.
- **Digital Expansion** – KBank prioritized development of regional electronic payment systems, allowing us to build a database of customers’ financial transactions within the region which can be further applied in our loan services and investment. One notable initiative was the development of QR KBank – an e-Wallet application which can be used for top-up, funds transfer and QR payment, available in Lao People’s Democratic Republic. Aside from not requiring a bank account, this e-Wallet also helps ease customers’ burden of carrying cash.
- **Industry Solutions and Ecosystem Expansion, especially in target countries within CCLMVI*** – We have sought opportunities to foster collaboration with new tech partners, to allow Thai and local businesses to gain better access to financial services. In 2019, KBank teamed with an e-Commerce partner in the Republic of Indonesia to implement a pilot project that aims to push Thai businesses and products to compete in the regional arena.

*CCLMVI means People’s Republic of China, Kingdom of Cambodia, Lao People’s Democratic Republic, Republic of the Union of Myanmar, Socialist Republic of Vietnam and Republic of Indonesia.

Branches and Financial Service Offices/Centers

Domestic	Number of Locations		International	Number of Locations		
	2019	2018		2019	2018	
Branch Network ¹⁾	886	958	Branches of Locally Incorporated Institution	6	6	
Foreign Exchange Booth	137	137	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2	
THE WISDOM	97	102	KASIKORNBANK (CHINA) CO., LTD.	4	4	
SME Business Center ²⁾	135	121	Branches	3	3	
International Trade Service Center	58	58	Representative Offices	7	8	
Cheque Direct Service	22	20	Electronic Banking Services	Number of Units		
				2019	2018	
				Self-Service Channel (K-ATM and K-CDM)	10,973	11,985
				K-ATM (Automated Teller Machines)	8,168	9,369
				K-CDM (Cash Deposit Machines)	2,805	2,616
				K-PUM (Passbook Update Machines)	1,028	1,075
			Automated Currency Exchange Machines	5	-	

Note: ¹⁾ Excluding 8 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:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus to accommodate secure, round-the-clock financial transactions, in alignment with customer behavior to ensure optimum satisfaction. For the greater convenience of our foreign clients, the self-service machines offer prompts in multiple languages. To ensure broader service coverage, KBank and Government Savings Bank (GSB) jointly launched a pilot project for white-label ATMs, with no withdrawal fees and unlimited withdrawals, allowing customers to conduct the same transactions as those done at their own bank's ATM terminals. The project is being tested in five provinces, i.e., Sakon Nakhon, Nakhon Phanom, Pattani, Yala and Narathiwat, thus bringing the total number of shared ATM terminals of the two banks to nearly 400. In addition, we launched our first KBank ATM Drive Thru at a PTT station on inbound Borommaratchachonnani Road to create a brand-new customer experience with easier access to banking service, allowing them to conduct financial transactions without leaving their cars.

- **Digital Banking Services:** To maintain our status as the number-one digital banking provider, we have prioritized the development of our digital service channels for service enhancement in order to accommodate changing lifestyles and completely meet customers' needs. Major initiatives in 2019 included:

- 1) **K PLUS:** We focused on development of K PLUS to ensure linkage with our business partners' platforms in order to make K PLUS a lifestyle platform fit for our customers' everyday use. We have also enhanced features to allow for 24-hour financial transactions on K PLUS, with new services available as follows:

- Linkage of K PLUS to our partners' applications: Notable endeavors were Register with K PLUS which allows customers to apply for an e-Wallet service with identity verification via K PLUS, and Pay with K PLUS which features a top-up of e-Wallets of our business partners such as PTT e-Wallet, GrabPay Wallet, YouTrip Card and Dolfon Wallet.
 - QR payment in other countries: Customers simply scan their QR code at shops bearing the K PLUS and Smart Code logo in Japan or VIA in Singapore to make payment with no minimum amount required and without fee charged.
 - Opening of K-eSavings Account and issuance of debit card for new customers who have no existing account with KBank.
 - Cardless withdrawal at KBank branches or K-ATMs and convenience stores which are our banking agents nationwide.
 - Outward funds transfer which covers six currencies in 24 countries worldwide with no fee charged and notification sent when the recipient's account is credited.
 - Purchase/sale/switch of mutual funds of any type to meet the needs of all customer segments.
- 2) **K-Cyber:** We focused on maintaining the integrity of the K-Cyber system, giving our customers more confidence when conducting financial transactions via all digital banking channels. This allowed us to maintain our online customer base in a sustainable manner.
- 3) **K-Payment Gateway:** This service channel has been enhanced in conformity with the Payment Card Industry Data Security Standard (PCI-DSS). Focus was on development of capabilities in service links to meet the demands of online merchants, covering all types of businesses. We have also improved the work process system to ensure service stability.
- **K-Contact Center:** We are determined to deliver the best customer experience with enhanced services that can meet customer behavior in the digital era anywhere, anytime. KBank aims to be the "Smart Customer Solution Center" through our services available via the K-Contact Center – the major channel that interacts with our customers in order to provide service information, banking news and complaint handling. We emphasized development of services in four key dimensions, i.e.,
- 1) **Non-Voice Channel & Self-Service:** The chatbot program has been improved and is presented in a user-friendly infographic format to provide relevant, interesting and easy-to-understand content, and menu options of available KBank products and services that meet customers' needs.
 - 2) **Empowerment:** We focused on employee empowerment to ensure comprehensive solutions, along with establishment of a Solution Hub to effectively tackle complicated problems, including collaboration with other commercial banks, to better meet all customers' needs.

- 3) **Knowledge Management:** We have developed and implemented a knowledge management system for effective database searching so that our employees can swiftly and accurately answer customers' questions while also conducting self-learning at any convenient time.
- 4) **Case Management:** KBank worked with the Thai Bankers' Association in implementing the Banking Industry-Wide Customer Incident Management Standard for handling customer complaints within the same day, while also preparing guidelines for communication with our customers to ensure the positive public image of the banking industry.

3.5 Awards and Commendation

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 2019, notably:

Awards to KBank and K Companies¹⁾

- Selected for inclusion in **Dow Jones Sustainability Indices** - both the DJSI World and DJSI Emerging Markets indices for the fourth consecutive year from S&P Dow Jones and RobecoSAM,
- Selected for inclusion in the **FTSE4Good Emerging Index** based on Environment, Social and Governance (ESG) from FTSE and Russel for the fourth year running
- Rated **AA** for its leading Environment, Social and Governance (ESG) performance among banks in emerging markets from MSCI
- Selected to be a member of **2020 Bloomberg Gender-Equality Index (GEI)** for the second consecutive year from Bloomberg
- Rated **A-** (Leadership Level) in the assessment of climate change management under the Carbon Disclosure Project (CDP)
- Three awards: **ASEAN Most Honored Companies**, **ASEAN Overall Best ESG/SRI Reporting** and **Best CFO – Thailand** from Institutional Investor magazine
- Two awards: **Silver medal in Best Recruitment Marketing and Employer Branding Program** and **Bronze medal in Best Learning Program Supporting a Change Transformation Business Strategy** from Brandon Hall Group
- **HR Asia Best Companies to Work for in Asia™ 2019 (Thailand Edition)** from Business Media International
- 13 awards from The Digital Banker journal
 - The Winner: **Best Retail Bank in Thailand**
 - Winner: **Excellence in Next-Gen Customer Experience**
 - Highly Acclaimed: **Outstanding Digital Innovation in SME Banking**
 - Highly Acclaimed: **Best Customer Centric Business Model**
 - Highly Acclaimed: **Outstanding Innovation Program**
 - Highly Acclaimed: **Best App for Customer Experience**
 - Highly Acclaimed: **Best Customer Relations & Brand Engagement Initiative**
 - Highly Acclaimed: **Outstanding Personalized 1:1 Marketing Initiative**
 - Highly Acclaimed: **Outstanding Staff Training, Learning & Development Program**
 - Highly Acclaimed: **Best Product or Service Innovation**
 - Highly Acclaimed: **Best Customer Insight & Feedback Initiative**
 - **Best Private Bank in ASEAN**
 - **Best Private Bank in Thailand**
- Seven awards: **Best Retail Bank in Thailand for the 10th consecutive year**, **Best Cash Management Bank in Thailand**, **Best Digital Brand Initiative, Application or Programme**, **Best Frictionless Customer Relationship Management**, **Best E-Commerce**

Awards to KBank and K Companies¹⁾

Proposition, Best Data Analytics Initiative, Application or Programme and Best Wealth Management Services in Thailand: Private Banking Digitalisation, from The Asian Banker journal

- Seven awards: ESG Corporate Awards – Platium Award, Best IPO, Thailand: Gulf Energy Developmant Public Company Limited, Best Service Provider Cash Management, Thailand, Best Service Provider: E-Solutions Partner, Thailand, Best Private Banker – HNWIs Thailand, Project Finance House of the Year, Thailand and Best Private Bank, Thailand from The Asset magazine
- Four awards: Best Cash Management Bank in Thailand for the eighth consecutive year, Best Refinancing Deal in Southeast Asia, Best Local Bond Deal in Thailand and Most Improved Bond House, from Alpha Southeast Asia magazine
- Three awards: Winner: Outstanding RM Training and Development Program, Highly Commended: Outstanding Private Bank- Southeast Asia and Winner: Outstanding Wealth Management Technology Initiative - Back Office, from Private Banker International magazine
- Three awards: Winner: Best Debit Card Initiative, Highly Commended: Excellence in Service Innovation and Highly Commended: Best Staff Training and Development Programme from Retail Banker International magazine
- Three awards: Domestic Retail Bank of the Year - Thailand for the sixth successive year, Thailand Domestic Cash Management Bank of the Year, for the third successive year and Advertising Campaign of the Year – Thailand from K PLUS commercial “Friendshit”, from Asian Banking & Finance
- Two awards: Global Finance Best Foreign Exchange Providers - Thailand and Best Trade Finance Provider in Thailand from Global Finance
- Two awards: Best DCM House in Thailand for the third consecutive year and Best Private Bank in Thailand, from Finance Asia
- Two awards: Best Private Bank for Digital Culture Asia and Best Private Bank for Digitally Empowering Relationship Managers Asia, from Professional Wealth Management under Financial Times magazine
- Best Private Bank in Thailand from Asian Private Banker
- Gold medal for The Best Asia Pacific Contact Center Innovation Award from The Contact Center Assocaiations of Asia Pacific (CC-APAC)
- Awarded Carbon Neutral Certification for the second consecutive year from Thailand Greenhouse Gas Management Organization (Public Organization)
- Four awards: Human Resource Management Excellence, Excellence Leadership, Product/Service Excellence and Sustainable Development Excellence from Thailand Management Association (TMA) and Sasin Graduate Institute of Business Administration of Chulalongkorn University
- Two awards: Best Innovation Award: Machine Lending and Best Sustainability Award from the Stock Exchange of Thailand and Money & Banking magazine
- Two awards: ESG 100 Certificate – being one of the top 100 listed companies that are most outstanding in Environmental, Social and Governance (ESG100) for the fourth consecutive year and Sustainability Disclosure Award from ThaiPAT Institute
- Selected to be on the Thailand Sustainability Investment (THSI) list by the Stock Exchange of Thailand
- Rated “Excellence”, based on the Corporate Governance Report of Thai Listed Companies by Thai Institute of Directors Association (IOD)
- Graded “Excellence” for AGM Meeting , based on the AGM Quality Assessment Program, organized by Thai Investors Association
- Named the Excellent Establishment on Labor Relations & Welfare by Ministry of Labour for the 14th consecutive year
- HR Excellence Awards: Excellence in HR Communication Strategy from Human Resources Online

Awards to KBank and K Companies¹⁾

Awards to KAsset

- Four awards: Top Investment Houses in Asian Local Currency Bonds, Thailand for the sixth consecutive year and three other awards in Most Astute Investors in Asian Local Currency Bonds, Thailand from The Asset
- Four awards: Best Pension Fund Manager (Thailand) for the fourth consecutive year, Best Fund House (Thailand) for the second consecutive year, Fund House of the Year (Thailand) for the second consecutive year and Best Investor Education (Thailand), from Asia Asset Management magazine
- Most Prominent Fund House in Corporate Bond Market for the second consecutive year from the Thai Bond Market Association (ThaiBMA)
- Best Mutual Fund of the Year 2019 in the category of Global Equity for K Global Healthcare Equity Unhedged Fund (K-GHEALTH (UH)) from Money & Banking magazine

Awards to KSecurities

- Asia-Pacific IPO Deal from International Financing Review (IFR)
- Thailand Capital Market Deal from International Financing Review Asia (IFR Asia)
- Best Thailand Deal from FinanceAsia
- Best Equity Deal/IPO in Thailand from Alpha Southeast Asia magazine

¹⁾ In the Annual Report 2019, this item is shown under the topic "Awards and Commendations"

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

KBank's consolidated net profit for 2019 totaled Baht 38,727 million, increasing Baht 268 million or 0.70 percent. Net interest income increased by Baht 4,150 million or 4.21 percent due mainly to interest income from loans and investments. NIM therefore stood at 3.31 percent. Non-interest income also increased by Baht 858 million or 1.51 percent, derived mainly from revenue from sales of securities while net premiums earned - net decreased. Likewise, fees and service income fell due to a waiver of fees for funds transfers via digital channels. Moreover, other operating expenses increased by Baht 4,381 million or 6.41 percent due mainly to branding campaigns and marketing activities in line with KBank's business direction. As a result, the cost to income ratio stood at 45.32 percent. KBank has set aside higher allowance for impairment loss on loans from the preceding year, with prudent consideration on factors in line with uncertainties stemming from continued economic slowdown.

Operating Performance for 2019

(Unit: Million Baht)

	2019	2018	Change	
			Increase (Decrease)	Percent
Net Interest Income	102,688	98,538	4,150	4.21
Non-Interest Income	57,803	56,945	858	1.51
Total Operating Income - net	160,491	155,483	5,008	3.22
Total Other Operating Expenses	72,729	68,348	4,381	6.41
Impairment Loss on Loans and Debt Securities	34,012	32,532	1,480	4.55
Net Profit (attributable to equity holders of KBank)	38,727	38,459	268	0.70
Basic Earnings per Share (Baht)	16.18	16.07	0.11	0.70

Major financial ratios that reflected operating performance of KBank and our subsidiaries in 2019 and 2018 are as follows:

(Unit: Percent)

Financial Ratio	2019	2018	Change
Return on Assets (ROA)	1.20	1.27	(0.07)
Return on Equity (ROE)	9.90	10.61	(0.71)
Net Interest Margin (NIM)	3.31	3.39	(0.08)
Cost to Income Ratio	45.32	43.96	1.36

(Unit: Percent)

Financial Ratio	2019	2018	Change
Net NPLs to Total Loans	2.45	1.89	0.56
Gross NPLs to Total Loans	3.65	3.34	0.31
Coverage Ratio	148.60	160.60	(12.00)
Loans ¹⁾ to Deposits Ratio	96.62	95.94	0.68
Capital Adequacy Ratio ²⁾	19.62	18.32	1.30
Tier 1 Capital Ratio ²⁾	16.19	15.90	0.29

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

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

□ Net Interest Income

KBank's consolidated net interest income for 2019 was Baht 102,688 million, increasing Baht 4,150 million or 4.21 percent over-year, due mainly to rising interest income from loan in line with average growth of loan and interest income from investments in line with an increase in average return and average investment. Meanwhile, interest expenses rose due to an increase in average deposit interest rates and average deposits. Our NIM for 2019 equaled 3.31 percent, lower than the previous year, which was in line with the set target even though the referene rate was lower than expected.

(Unit: Million Baht)

	2019	2018	Change	
			Increase (Decrease)	Percent
Interest Income				
Interbank and Money Market Items	6,390	7,197	(807)	(11.22)
Deposits	1,249	818	431	52.66
Loans without Repurchase Agreements	506	635	(129)	(20.26)
Repurchase Agreements	4,635	5,744	(1,109)	(19.31)
Investments	21,539	18,192	3,347	18.39
Trading Investments	395	244	151	61.80
Available-for-Sale Investments	4,707	2,822	1,885	66.79
Held-to-Maturity Investments	16,437	15,126	1,311	8.66
Loans	96,376	93,246	3,130	3.36
Hire Purchase and Finance leases	5,859	5,273	586	11.12
Others	14	14	-	1.05
Total Interest Income	130,178	123,922	6,256	5.05
Total Interest Expenses	27,490	25,384	2,106	8.29
Total Interest Income – net	102,688	98,538	4,150	4.21
Yield on Earning Assets (percent)	4.19	4.27		(0.08)
Cost of Fund (percent)	1.23	1.19		0.04
Net Interest Margin (NIM) (percent)	3.31	3.39		(0.08)

□ Non-Interest Income

For 2019, KBank's consolidated non-interest income totaled Baht 57,803 million, increasing Baht 858 million, or 1.51 percent over-year, which was better than the set target. The increase was due mainly to revenue from sales of securities. Meanwhile, net premiums earned – net decreased as a result of declining premiums in line with the insurance business slowdown. Likewise, net fees and service income fell due mainly to an impact from a waiver of funds transfer fee via digital channels and a decrease in fee from card business.

(Unit: Million Baht)

	2019	2018	Change	
			Increase (Decrease)	Percent
Non-Interest Income				
Fees and Service Income	50,580	51,187	(607)	(1.19)
Fees and Service Expenses	13,840	13,070	770	5.89
Fees and Service Income – net	36,740	38,117	(1,377)	(3.61)
Gain on Trading and Foreign Exchange Transactions	8,362	9,003	(641)	(7.12)
Gain on Investments	8,412	2,652	5,760	217.17
Share of Profit from Investments using Equity Method	44	50	(6)	(11.02)
Dividend Income	2,817	2,118	699	33.00
Net Premiums Earned	80,489	91,434	(10,945)	(11.97)
Other Operating Income	1,592	1,468	124	8.43
<u>Less</u> Underwriting Expenses	80,653	87,897	(7,244)	(8.24)
Total Non-Interest Income	57,803	56,945	858	1.51

□ Other Operating Expenses

KBank's consolidated other operating expenses for 2019 was Baht 72,729 million, rising Baht 4,381 million, or 6.41 percent over-year. The increase was due mainly to branding campaigns and marketing activities in line with KBank's business direction and increased retirement reserve from the change in defined benefit plan according to our employment policy which is not related to labor law. Our cost to income ratio of 2019 was thus equal to 45.32 percent, higher than 43.96 percent in the previous year, which was within the set target.

(Unit: Million Baht)

	2019	2018	Change	
			Increase (Decrease)	Percent
Employee Expenses	33,261	31,369	1,892	6.03
Directors' Remuneration	159	143	16	10.84
Premises and Equipment Expenses	12,910	12,649	261	2.06
Taxes and Duties	5,031	4,868	163	3.37
Others	21,368	19,319	2,049	10.61
Total Other Operating Expenses	72,729	68,348	4,381	6.41
Cost to Income Ratio (percent)	45.32	43.96		1.36

□ Impairment Loss on Loans and Debt Securities

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

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

KBank's consolidated classified loans and allowance for doubtful accounts, as of December 31, 2019, are shown in the table below:

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

(Unit: Million Baht)

	Loans and Accrued Interest Receivables	Allowance for Doubtful Accounts	
		Percent per BOT's Regulations	Total Provision
Normal	1,839,131	1	5,729
Special Mention	56,035	2	217
Sub-Standard	23,075	100	9,218
Doubtful	23,068	100	8,223
Doubtful of Loss	37,931	100	10,886
Total	1,979,240		34,273
Revaluation Allowance for Debt Restructuring			1,676
Total			35,949
Excess Allowance			88,654
Credit Balance Transaction	1,693		-
Loans from Life Insurance Business	23,853		276
Total	2,004,786		124,879

As of December 31, 2019, KBank's consolidated allowance for doubtful accounts, comprising allowance for doubtful accounts of customers and financial institutions of Baht 123,203 million and revaluation allowance for debt restructuring of Baht 1,676 million, totaled Baht 124,879 million. This amount was greater than the level required by the Bank of Thailand.

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

— Impairment Loss on Loans and Debt Securities

During 2019, KBank and our subsidiaries set aside impairment loss on loans and debt securities at Baht 34,012 million, an increase of Baht 1,480 million or 4.55 percent over-year in line with our improved asset quality, with prudent consideration on factors in line with uncertainties stemming from continued economic slowdown. Thus our credit cost for 2019 stood at 1.74 percent, slightly lower than 1.75 percent in the previous year.

Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	2019	2018	Change	
			Increase (Decrease)	Percent
Impairment Loss on Loans and Debt Securities	34,012	32,532	1,480	4.55
Credit Cost (percent)	1.74	1.75		(0.01)

Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of December 31, 2019, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 124,879 million. This amount was equivalent to 347.38 percent of the level required by the Bank of Thailand.

— Non-Performing Loans and Debt Restructuring

Non-Performing Loans

As of December 31, 2019, KBank's consolidated NPLs stood at Baht 84,038 million, 3.65 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 81,814 million, 3.62 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Non-Performing Loans

(Unit: Million Baht)

For the Year Ending	Dec. 31, 2019	Dec. 31, 2018
Consolidated NPLs	84,038	74,400
Percent of total outstanding credit, including that of financial institutions	3.65	3.34
Bank-only NPLs	81,814	72,346
Percent of total outstanding credit, including that of financial institutions	3.62	3.31

Net Non-Performing Loans

As of December 31, 2019, KBank's consolidated net NPLs stood at Baht 55,682 million or 2.45 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 55,079 million or 2.47 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

For the Year Ending	Dec. 31, 2019	Dec. 31, 2018
Consolidated net NPLs	55,682	41,431
Percent of total outstanding credit, including that of financial institutions	2.45	1.89
Bank-only net NPLs	55,079	40,769
Percent of total outstanding credit, including that of financial institutions	2.47	1.89

Debt Restructuring

As December 31, 2019, KBank's consolidated restructured debts which incurred losses totaled Baht 67,241 million, decreasing by Baht 2,364 million, or 3.40 percent when compared to 2018.

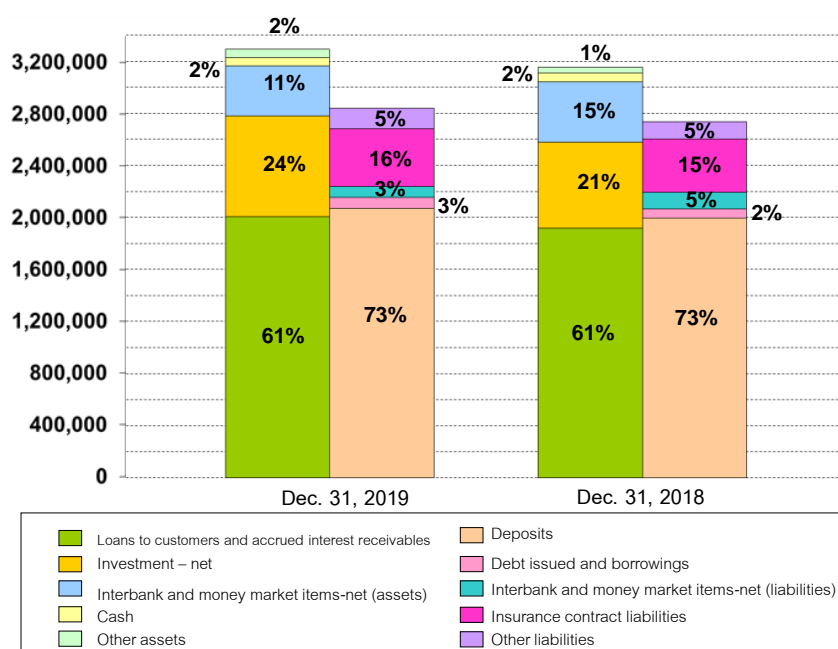
Foreclosed Properties

As of December 31, 2019, our consolidated foreclosed properties had a cost value of Baht 24,988 million, thus being 0.76 percent of total assets.

4.2 Financial Position Analysis

Assets and Liabilities Structure

(Unit: Million Baht)

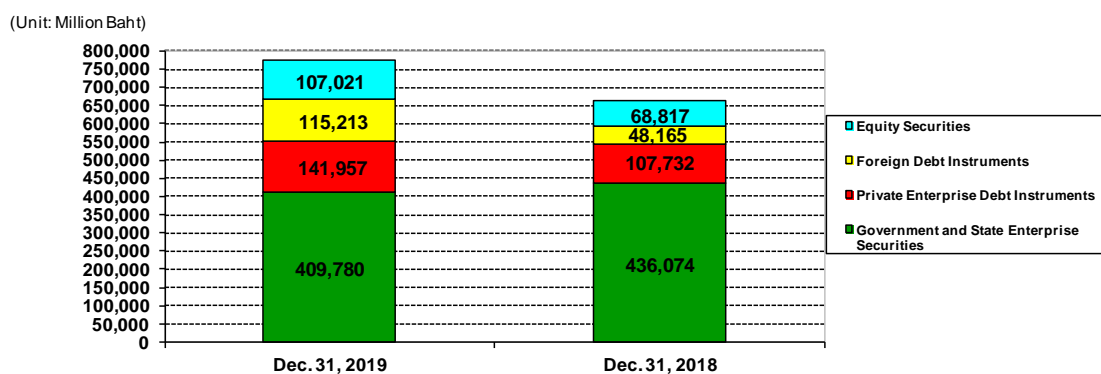


□ Assets

At the end of 2019, KBank's consolidated assets totaled Baht 3,293,889 million, increasing Baht 138,798 million or 4.40 percent from the end of 2018. The rise was due mainly to increase in net investments and loans to customers. Key details are as follows:

- Net investments totaled Baht 774,640 million at the end of 2019, increasing by Baht 112,985 million or 17.08 percent from the end of 2018 due mainly to rising investment in debt instruments overseas and equity instruments.
- Our consolidated loans (less deferred revenue) at the end of 2019 amounted to Baht 2,001,956 million, increasing by Baht 87,884 million or 4.59 percent from the end of 2018. Loan growth was close to the set target. Most increases were seen in housing loan, working capital and commercial loan. Our consolidated loans were the fourth-largest among Thai commercial banks.
- Net interbank and money market items (assets) totaled Baht 385,940 million at the end of 2019, decreasing by Baht 76,047 million or 16.46 percent from the end of 2018, due mainly to KBank's liquidity management.

Investments in Securities



□ Liabilities and Equity

Our consolidated liabilities, at the end of 2019 amounted to Baht 2,840,174 million, which rose Baht 102,905 million or 3.76 percent from the end of 2018. The increase was mainly attributable to increased deposits, and insurance contract liabilities. Significant changes in our consolidated liabilities included:

- Deposits at the end of 2019 equaled Baht 2,072,049 million, increasing Baht 77,048 million or 3.86 percent from the end of 2018, mainly as a result of increase in fixed-term and savings deposits. KBank's deposits ranked the fourth-largest among Thai commercial banks.

- Interbank and money market items (liabilities) at the end of 2019 equaled Baht 81,628 million, decreasing Baht 46,375 million or 36.23 percent from the end of 2018, due largely to KBank's liquidity management.
- Insurance contract liabilities at the end of 2019 were Baht 446,095 million, an increase of Baht 35,347 million or 8.61 percent from the end of 2018, in line with the growth in life insurance business.

At the end of 2019, total equity attributable to equity holders of KBank amounted to Baht 406,358 million, rising by Baht 30,060 million or 7.99 percent from the end of 2018, largely driven by net operating profit for 2019.

□ Relationship between Sources and Uses of Funds

As of December 31, 2019, the funding structure as shown in the consolidated financial statement comprised Baht 2,840,174 million in liabilities and Baht 453,715 million in total equity, resulting in a debt-to-equity ratio of 6.26. The main source of funds on the liabilities side was deposits, which equaled Baht 2,072,049 million, or 62.91 percent of the total source of funds, as of December 31, 2019. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which each accounted for 2.48 percent of the total.

KBank's and subsidiaries' major use of funds was loans less deferred revenue, which as of December 31, 2019, amounted to Baht 2,001,956 million, resulting in loan-to-deposit ratio and loan-to-deposit plus bills of exchange ratio of 96.62 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, and investments in securities.

KBank and Subsidiaries' Major Sources and Uses of Funds

(Unit: Million Baht)

Period	Deposits				Loans			
	Dec. 31, 2019	Percent	Dec. 31, 2018	Percent	Dec. 31, 2019	Percent	Dec. 31, 2018	Percent
≤ 1 Year	2,047,529	98.82	1,972,597	98.88	933,893	46.65	927,108	48.44
> 1 - 5 Years	24,520	1.18	22,404	1.12	392,169	19.59	420,292	21.96
> 5 Years	-	-	-	-	675,894	33.76	566,672	29.60
Total	2,072,049	100.00	1,995,001	100.00	2,001,956	100.00	1,914,072	100.00

As of December 31, 2019, deposits with maturities within 1 year were larger than loans with remaining maturities within 1 year. This is considered normal for commercial banks in Thailand, as they normally fund their lending or investments in long-term assets from short-term liabilities. However, since most deposits are renewed upon maturity, it is considered likely that they will remain with KBank longer than their stated contractual term, thereby helping to support funding for KBank's lending.

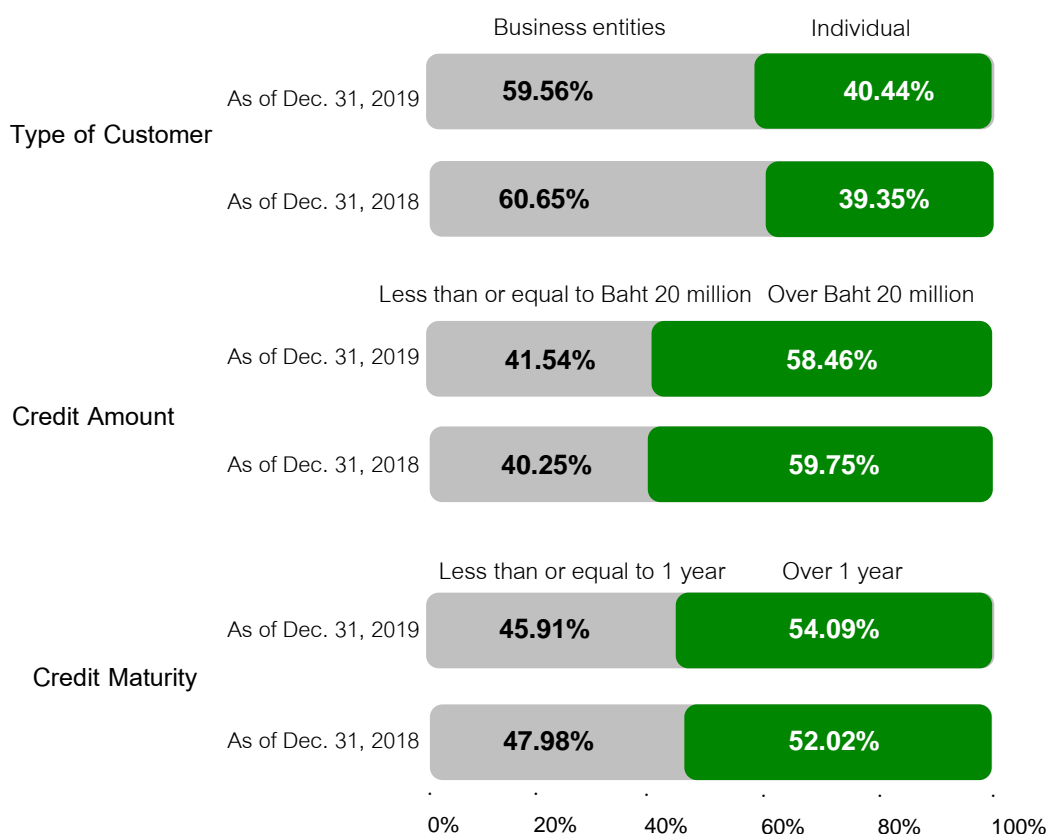
4.3 Loans and Deposits

Loans

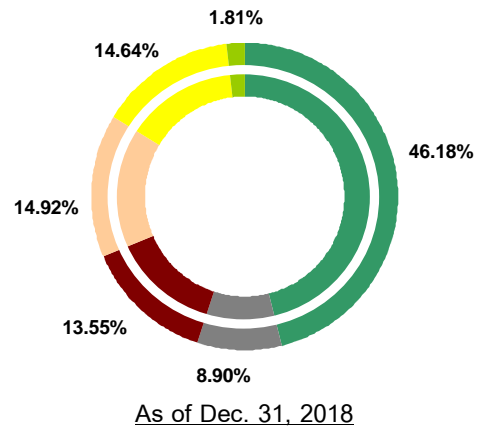
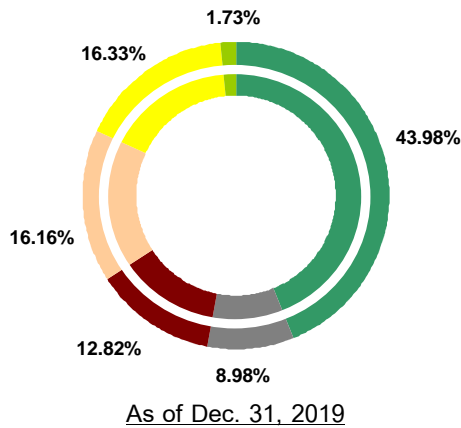
As of December 31, 2019, KBank's consolidated outstanding loans stood at Baht 2,001,956 million, increasing by Baht 87,884 million, or 4.59 percent, compared to Baht 1,914,072 million at the end of 2018.

As of December 31, 2019, 59.56 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,138,244 million, or 58.46 percent of the total; 41.54 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 45.91 percent of our total loans.

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



KBank's Consolidated Lending Portfolio



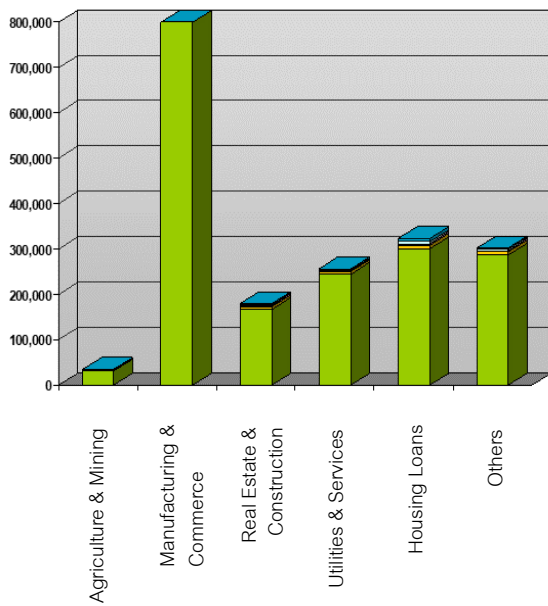
- Agriculture & Mining
- Manufacturing & Commerce
- Real Estate & Construction
- Utilities & Services
- Housing Loans
- Others

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

As of Dec. 31, 2019

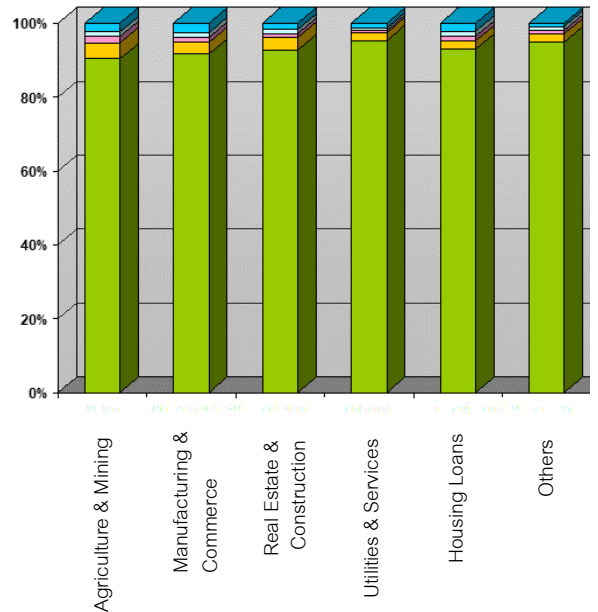
Consolidated Loans Classified by Type of Business and Loan Classification

Unit: Million Baht



- Normal
- Special Mention
- Sub-standard
- Doubtful
- Doubtful of Loss

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



Within KBank’s consolidated lending portfolio, 92.92 percent were classified as “Normal” loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 43.98 percent; of that 91.61 percent were classified as “Normal” loans.

Loans Classified by Business

(Unit: Million Baht)

	Dec. 31, 2019		Dec. 31, 2018	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,363,221	555,451	1,344,381	487,632

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

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

As of the end of 2019, our corporate business loans (Corporate and SME customers) had increased by Baht 18,840 million, or 1.40 percent, from the end of 2018. The increase was derived mainly from Corporate customers, especially those in the automotive, transportation, consumer goods, packaging and printing, and agro-processing industries that sought loans to accommodate their business expansion and for use as working capital. Meanwhile, our SME business loans rose slightly over-year amid an economic slowdown. Industries which still saw growth in outstanding loans were those related to hardware, services, hotels and real estate.

Our retail loans grew Baht 67,819 million, or 13.91 percent, over-year. The growth was quite satisfactory thanks to a well-considered credit policy so as to efficiently control hefty household debt and maintain our loan quality as well as our market leadership in loan products. In 2019, KBank adopted a risk management principle that accounted for affordability risk in addition to credit risk, in line with our policy of making KBank a Bank of Sustainability. The new approach is expected to ensure a balance in our retail lending for a high-quality and appropriate loan portfolio while also supporting consumers’ improved access to essential funding sources on a continual basis.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Dec. 31, 2019	Dec. 31, 2018	Increase (Decrease)	Percent
Total Deposits	100.00	2,072,049	1,995,001	77,048	3.86
Current accounts	5.72	118,550	116,957	1,593	1.36
Savings accounts	70.77	1,466,473	1,436,615	29,858	2.08
Fixed-term deposit accounts	23.51	487,026	441,429	45,597	10.33

At the end of 2019, total deposits of both Corporate Business and Retail Business had increased Baht 77,048 million, or 3.86 percent, compared to the end of 2018. This was in line with our policy for management of deposits, which must be kept at levels appropriate for loan demand and competition, accounting for the balance of deposits from each customer segment. We prioritized maintaining customer relationships along with the launch of alternative products to meet the needs of all customer groups. Notable initiatives included special fixed-term deposit products offering competitive interest rates over a suitable period of time, mutual fund products offering new investment opportunities, especially those focusing on megatrend-themed investment or adoption of a risk-based allocation strategy, as well as a myriad of life insurance products. In addition, we have adopted technology for our financial services, in particular the introduction of K-eSavings Account, in response to customers' lifestyles in the digital era. With a focus on the new-generation customers – those teenagers and newly employed aged 15-25, KBank debuted the KBank x BLACKPINK campaign that offers a BLACKPINK-themed savings passbook to applicants for a KBank x BLACKPINK Debit Card.

4.4 Treasury Operations

□ Treasury Operations

During 2019, average overnight interbank lending rates stood at 1.58 percent p.a. Those rates were influenced by the two policy rate cuts per the resolutions from the Monetary Policy Committee (MPC) meetings held on August 7, 2019 and November 6, 2019 wherein the key policy rate was cut from 1.75 percent to 1.50 percent p.a., and from 1.50 percent to 1.25 percent, respectively.

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 2019, we continued to see increased returns on investments by focusing on investment in short-term bonds that offered higher returns than the policy rate, while reducing our holding of long-term bonds due to the significant decline in long-term interest rates. 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	2019	2018	Change	
				Increase (Decrease)	Percent
Interest income¹⁾					
Interbank and money market items ²⁾	52.65	5,602	6,426	(824)	(12.82)
Investments	47.35	5,038	2,953	2,085	70.61
Total	100.00	10,640	9,379	1,261	13.44

Notes: ¹⁾ Managerial figures

²⁾ Including loans

During 2019, total interest income stood at Baht 10,640 million, increasing Baht 1,261 million or 13.44 percent from the previous year, due mainly to adjustment of investment proportion despite falling interest rates in the market in line with the policy rate reduction of the Monetary Policy Committee during the second half of the year.

□ Liquid Asset Ratio

KBank maintains average fortnightly current deposits at not lower than 1.00 percent of total deposits and certain types of borrowings in accordance with the Bank of Thailand's regulations. As of December 31, 2019, our deposits at the Bank of Thailand and cash at cash center averaged Baht 27,548 million.

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

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

(Unit: Million Baht)

	Performance Measurement	2019	2018	2017
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management	1,431,243	1,379,736	1,302,686
	Market Share (Percent)	18.50	19.23	18.72
KASIKORN SECURITIES PCL (KSecurities)	Trading Volume	683,036	739,327	811,883
	Market Share (Percent)	3.04	2.98	3.71
KASIKORN LEASING CO., LTD. (KLeasing)	Loans	114,769	108,081	97,055
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Loans	22,876	20,377	17,633
Muang Thai Life Assurance PCL (MTL)	Net Premiums Earned	83,840	94,467	102,681
	Market Share (Percent)	13.72	15.06	17.06

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

During 2019, K Companies and Muang Thai Life Assurance PCL (MTL) attained satisfactory qualitative and quantitative operating performance, attributable to the close cooperation between KBank and K Companies, as well as MTL.

KAsset has maintained the number-one position in mutual funds, with a market share of 20.11 percent. Total market share of assets under management (AUM) was 18.50 percent. The excellent performance benefited from its synergy with KBank for product development to match consumers' needs. Notable efforts were the launches of new funds, including K Global Private Equity 19A Fund Not for Retail Investors (K-GPE19A-UI), the first private equity fund in Thailand; K Global High Impact Thematic Equity Fund (K-HIT), a global equity fund featuring a diversified portfolio of "megatrend" stocks to provide investors greater opportunity of return over the long-term; and K Fixed-Dated Asian Bond 2022A Fund (KAB22A), an option for investors interested in a portfolio of Asian fixed income instruments with auto-redemption policy and relatively decent expected returns in a low-yield environment. The company also continually developed K-My Funds – an electronic service channel via mobile application that provides customers greater convenience when doing transactions, while also allowing us to more effectively communicate with them, especially in giving advice on investment in funds designed to suit different risk appetites, plus a distinctive feature that clearly displays return on investment, as well as the My Message function, which provides increased efficiency in investment with information updates suited to each individual investor, so that they never miss an investment opportunity. Moreover, KAsset successfully launched an online mutual fund account opening service in August 2019, a first for Thailand.

Operating under business principles shared with KBank, KSecurities emphasizes development of excellent products and services, especially in research, which has been made more timely, in-depth and precise, with broad coverage of all industries, securities trading services and investment banking, to be more responsive to investor needs and lifestyles. Along with this, investment technologies plus varied functions have been introduced to correspond with investor behavior in the digital era. Recently, an online securities account opening system was developed to facilitate new investors in their transactions with a reduced documentation process. As a result, the number of new customers through the online channel increased significantly. For investment advisory, the quality of equity wealth managers was one of the company's focal points. The company continued delivering various training programs to enhance equity wealth managers' potential and allocated customers for each equity wealth manager based on their investment behavior and preferences. Furthermore, an investment tool for equity wealth managers was developed to monitor customers' portfolios. Through these endeavors, KSecurities held a market share of 3.04 percent.

KLeasing's outstanding loans posted over-year growth of 6.19 percent, in line with the country's domestic auto sales growth. KLeasing enjoyed solid new loan growth, which was derived mainly from Auto Loan (Dealer Floorplan). Asset quality remained healthy with an NPL ratio of 1.26 percent, lower than the banking industry average. Moreover, KLeasing has continued to improve service quality and introduce

new product campaigns to meet customers' needs while providing an excellent service experience to both retail and corporate customers for an enhanced service experience.

KF&E, which specializes in equipment leasing, reported over-year loan growth of 12.26 percent from the end of 2018, with high growth in the construction industry. The company focused on forging alliances with customers who are machinery dealers and those in new industries, including robotics and digital technologies and software. It has also been working closely with KBank RMs to achieve service excellence with the highest customer satisfaction level.

MTL retained its leading position in the life insurance business, with the number-three market share in total premiums at 13.72 percent. The company remained at the forefront in bancassurance with the number-one market share in total premium, thanks to close cooperation with KBank in developing insurance plans that are in line with customers' demands.

4.6 Capital Requirements

Placing great emphasis on capital regarded as valuable resource for business operation, KBank's and the Conglomerate's capital management frameworks are consistent with Basel III requirements. KBank's Capital Management Sub-committee is responsible for planning and overseeing capital adequacy, while the Risk Oversight Committee supervises capital management of the Conglomerate for enhanced efficiency. KBank has assessed our capital adequacy based on economic outlook, our business plans and regulatory changes while also regularly undertaking stress tests to ensure that we have adequate capital for operations under normal and crisis situations.

□ Overview of Capital Requirements

After the global financial crisis, the Basel Committee on Banking Supervision (BCBS) undertook a great effort to revise capital supervision framework (Basel III) to reinforce the stability of the global banking system. The framework is intended to increase financial institutions' ability to absorb losses that may be incurred. Financial institutions are required to have enhanced capital quality and quantity. The Bank of Thailand has adopted the reforms in Thailand. The capital requirements are summarized as follows:

Capital Requirements comprise two parts:

1. Minimum Capital Requirement: Total capital ratio must be maintained at not less than 8.50 percent, comprising Common Equity Tier-1 ratio (CET1 ratio) and Tier-1 ratio at not less than 4.50 percent and 6.00 percent of total risk weighted asset, respectively.
2. Capital Buffer: The Bank of Thailand requires that conservation buffer be maintained, with CET1 ratio of more than 2.50 percent of total risk weighted asset in addition to minimum capital ratio. Domestic Systematically Important Banks (DSIBs) are required to maintain the additional CET1 of 1.00 percent of total risk weighted assets. The ratio has been gradually phased-in 0.50 percent since January 1, 2019 and increased to 1.00 percent from

January 1, 2020 onwards. KBank's and the Conglomerate's capital levels are above regulatory requirements..

As of the end of 2019, KASIKORNBANK FINANCIAL CONGLOMERATE, under the Basel III capital requirements, had capital funds of Baht 433,753 million, consisting of Baht 357,975 million in Tier-1 capital and Baht 75,778 million in Tier-2 capital. The capital adequacy ratio was 19.62 percent, which is above the Bank of Thailand's minimum requirement and buffer requirement of 11.50 percent. Details are shown in the following table.

Capital Adequacy Ratio¹⁾

- KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Buffer Requirement ³⁾	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Minimum Requirement & Buffer Requirement ³⁾	Dec. 31, 2018
Tier-1 Capital Ratio	9.00	16.19	16.76	16.19	15.73	7.875	15.90
<i>Common Equity Tier-1 Ratio</i>	7.50	16.19	16.76	16.19	15.73	6.375	15.90
Tier-2 Capital Ratio	-	3.43	2.34	2.36	2.39	-	2.42
Capital Adequacy Ratio	11.50	19.62	19.10	18.55	18.12	10.375	18.32

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Buffer Requirement ³⁾	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Minimum Requirement & Buffer Requirement ³⁾	Dec. 31, 2018
Tier-1 Capital Ratio	9.00	14.94	15.46	14.89	14.57	7.825	14.75
<i>Common Equity Tier-1 Ratio</i>	7.50	14.94	15.46	14.89	14.57	6.375	14.75
Tier-2 Capital Ratio	-	3.58	2.45	2.46	2.47	-	2.51
Capital Adequacy Ratio	11.50	18.52	17.91	17.35	17.04	10.375	17.26

Notes: 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 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, and other subsidiaries within the permitted scope from the BOT's to be a financial conglomerate.

³⁾ Bank of Thailand required the Bank to maintain two capital buffers as follows:

- Conservation buffer: Bank of Thailand required the bank to maintain an additional Common Equity Tier 1 on a phase-in basis at more than 0.625 percent per annum starting from 1 January 2016 until more than 2.50 percent in 2019.
- Domestic Systematically Important Banks Buffer (D-SIBs Buffer): Bank of Thailand required the D-SIBs to maintain an additional Common Equity Tier 1 at 1.00 percent per annum on a phase-in basis at 0.50 percent from 1 January 2019 and increase to be 1.00 percent from 1 January 2020 onwards.

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

During 2019, we continued to implement Value-Based Management (VBM), which is a management practice comprising two main components, Corporate Value Creation and Corporate Governance. The VBM has been applied to business undertaking with the aim of achieving the highest value creation in accordance with our business strategies and goals. In achieving this objective, the Risk-Adjusted Return on Capital (RAROC) and Economic Profit (EP) – showing net profit after adjusting for both the risk charge and cost of capital – have been adopted as key measurements.

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

4.7 Credit Ratings

At the end of 2019, the Bank’s credit rating given by Standard & Poor’s, and Fitch Ratings remained unchanged from the end of 2018. During the year, there was revision of the outlook for Thailand and KBank as follows.

- **Fitch Ratings**
 - In July 2019, Fitch Ratings changed the outlook for Thailand to positive from stable.
 - In September 2019, Fitch Ratings assigned BBB rating to KBank’s USD subordinated note.
- **Moody’s Investors Service**
 - In July 2019, Moody’s Investors Service changed the outlook for Thailand to positive from stable. Moody’s also changed the outlook on nine Thai banks, including KBank, to positive

from stable, and upgraded the Baseline Credit Assessments (BCA) and adjusted BCA of KBank, BBL and SCB to baa1 from baa2, and the long-term counterparty risk ratings of these banks to A3 from Baa1, as these banks maintained good financial fundamentals, despite the still challenging credit cycle in Thailand.

- In September 2019, Moody's Investors Service assigned Baa3 rating to KBank's USD subordinated note.

- **Standard & Poor's**

- In December 2019, Standard & Poor's changed the outlook for Thailand to positive from stable.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings

Credit Ratings Agency	Dec. 31, 2019	Dec. 31, 2018
Moody's Investors Service¹⁾		
<u>Foreign Currency</u>		
Outlook	Positive	Stable
Long-term - Senior Unsecured Notes	Baa1	Baa1
- Deposit	Baa1	Baa1
- Counterparty Risk	A3	Baa1
- Subordinated Debt	Baa3	n.a.
Short-term - Debt/Deposit	P-2	P-2
- Counterparty Risk	P-2	P-2
Baseline Credit Assessment	Baa1	Baa2
<u>Domestic Currency</u>		
Outlook	Positive	Stable
Long-term - Deposit	Baa1	Baa1
- Counterparty Risk	A3	Baa1
Short-term - Debt/Deposit	P-2	P-2
- Counterparty Risk	P-2	P-2
Standard & Poor's¹⁾		
<u>Global Scale Ratings</u>		
Outlook	Stable	Stable
Long-term Counterparty Credit Rating	BBB+	BBB+
Long-term Certificate of Deposit	BBB+	BBB+
Short-term Counterparty Credit Rating	A-2	A-2
Short-term Certificate of Deposit	A-2	A-2
Senior Unsecured Notes (Foreign Currency)	BBB+	BBB+

Fitch Ratings¹⁾International Credit Ratings (Foreign Currency)

Outlook	Stable	Stable
Long-term Issuer Default Rating	BBB+	BBB+
Short-term Issuer Default Rating	F2	F2
Senior Unsecured Notes	BBB+	BBB+
Viability	bbb+	bbb+
Subordinated Debt (Basel III-compliant Tier 2 securities)	BBB	n.a.
Support	2	2
Support Rating Floor	BBB-	BBB-

National Credit Ratings

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

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

5. Operations of Support Groups

5.1 Human Resource Management

KBank has focused on providing support to our human resource management operations in major areas. Four key initiatives were as follows:

- **Employer Branding**

We recognize the importance of communications to showcase KBank's work and culture, which meet the needs of the target groups in the digital era, in order to attract them to join our workforce. To achieve this, distinguishing activities were conducted as follows:

- (1) K Capstone Year 2: The project aims to support students from universities both in Thailand and abroad to broaden their horizons in our internship program, wherein they were assigned to propose a new project-based perspective for startup businesses in order to cope with digital disruption. Students were equipped with knowledge of 21st century skills, namely product creation by startups, and agile-based collaborative work that focuses on initiatives, design thinking and pitching techniques.
- (2) Gamification via KASIKORN CAREER on the LINE application: A game-based initiative was designed to strengthen bonds with staff members and persons interested to work with KBank. A "finding yourself" test was introduced in addition to the career matching game, allowing job applicants to find the right career based on their respective personalities and interests, which also helps us to find the personnel who are best suited to the available jobs.
- (3) K Talent Engagement and Networking: The activity served as a forum for executives of KBank and KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG) to exchange perspectives with tech talents, business talents and Thai university students in the United States.
- (4) Believe Day: The activity aimed to encourage our employees to act as KBank ambassadors to communicate business ideas for the KBank x BLACKPINK debit card under the campaign "Empower Your Belief", wherein employees wore black and pink attire to take part in promotional activities of the product.

- **Developing employee skills and abilities in alignment with the changing business world**

KBank has focused on promoting and developing employees' skills in order to cope with business needs in the digital era via the following activities and projects.

(1) Development of digital and data competency

- ONE TWO...TEN Further the Future: To prepare our employees for rapid technological change, KBank held this learning activity – delivered by invited experts – to share their knowledge about digital skills in five areas, i.e., information and data literacy, communication and collaboration, responsibility and cyber security, digital content and its integration as well as technical problem solving.
- Skills Loading Online Learning Challenge 2019: This campaign aimed to encourage all employees within a department to attend online learning courses for boosting their skills in the digital age.
- Data Sciences Pathway: This learning course was jointly developed by KBank and CHULA MOOC Achieve online course provider in order to increase data analytic skills and promote the use of computer programs for data analytics among participating employees who can further apply the knowledge to their work.

(2) Development of Digital Workplace

- Online Community: Our employees are encouraged to use working tools as a communication channel within the organization through the setting up of an online community based on topics of their interest, namely statistical data, trading of products and sharing of tourism experience. The initiative is intended to improve employee engagement while also strengthening relations among staff members themselves.
- Co-Working Space: We initiated a new common working area at KBank Digital Academy on the 4th floor of Rat Burana Building, and The Office Space in Samyan Mitrtown which is fully equipped with modern amenities to accommodate work and other activities in a relaxing atmosphere to promote workplace creativity.

(3) Development of work to promote innovation and enhance efficiency

- Possibility Award program: Employees were encouraged to showcase their creative ideas that can be further applied to KBank business operations. Distinctive initiatives from four projects which won first prize will be further developed for real-world use. They included development of services on K PLUS and other mobile banking applications that can meet the needs of our new customers.
- Waste Management: We launched a campaign, “7 Wastes in Office Work”, to communicate to our staff members how to stop wasteful practices and to promote their awareness in learning how to improve their way of work for enhanced efficiency.

- **Employee Development**

KBank acknowledges the importance of employee development. Therefore, numerous activities and programs were arranged for both executives and staff members as follows.

(1) Activities and programs for executives

- A seminar was exclusively held for KBank executives under the theme, “A Step Ahead Forever: For Tomorrow...The Best of Your Life”, to establish our business direction during the next one to three years. K-Coaching Academy: This program intends to equip personnel from the level of team leaders to executives with global-standard coaching skills so that they can offer consultation to employees and maximize their potential, thus strengthening cordial relationships between managers and their teams.

(2) Talent Development Program

- Leadership and management skill: We organized multiple activities, namely “Leader on Screen” - a movie viewing activity held for employees to enable them to learn through the film content, “Leader on Tour” wherein executives took part in company visits and “Leader on Stage” and “Coffee Talk” in which experts from within and outside KBank were invited to share their experience with participating employees.
- Work/life balance: We arranged a learning activity, “Leader in Balance”, to promote mental development and emotional intelligence in order to maintain a healthy work/life balance by focusing on mindfulness, with practical guidelines provided by experts in this field.

(3) Activities and programs for employees

- “Seniors Want to Coach – Juniors Want to Talk” Season 3 was held as part of this program to allow all employees to talk with and to be coached by department heads and other executives of higher rank up to Senior Executive Vice President. Furthermore, we launched campaigns via various activities and media to promote a good coaching environment within the organization.
- K-Style DIY: “Food Fit Firm”: Nutritionists were invited to share their knowledge and experience to our employees to enhance their awareness of good food and good health.
- K-Spirit 2019 Green Culture: This year, the activity for strengthening relationships among employees was held under the theme “Thai Culture X Go Green” to conserve Thai culture and the environment. The GO GREEN TOGETHER activity is now being held, as part of our effort to encourage staff members to do good deeds that are beneficial to the economy, society and environment so that they earn points which will then be converted to donations for various foundations nationwide.

- **Employee relations and benefits**

The fourth Employees' Committee meeting for 2019 was held to allow consultations and problem-solving discussions between KBank executives 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. 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.

5.2 IT Management

In 2019, 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:

- **KBank's mobile banking application (K PLUS):** Major initiatives in the fourth quarter of 2019 included:
 - (1) K PLUS features were enhanced for the sake of user convenience. Notable efforts included QR payment via Smart Code in Japan and VIA in Singapore at shops bearing the MyPromptQR logo with special foreign exchange rates offered, display of memo on the account movement page, download of e-Slip that can be undertaken retroactively from Transaction History, and display of favorite transactions on the first page. VIZ Card can now be added to K PLUS, allowing customers to check their point history. In addition, loan payment feature plus payment history record is now available on K PLUS. Meanwhile, K-Smart Pay service has also been added to K PLUS, wherein customers can choose to make installment payment via K-Credit Card or Xpress Cash card.
 - (2) K PLUS system has been developed to allow cardless withdrawal with a daily limit of Baht 200,000 at Big C Supercenters and 7-Eleven outlets in addition to KBank branches, K-ATMs and banking agents nationwide.
 - (3) K PLUS system has been enhanced to support our business partners including Muang Thai Life Assurance Public Company Limited. Customers can purchase a life insurance policy within only one minute on K PLUS, where an insurance card feature plus policy details are also added. Moreover, KBank has joined with Total Access Communication Public Company Limited (DTAC) to add a channel for buying a DTAC supplementary package via K PLUS with a special offer granted.

- **KBank mobile banking application for merchants (K PLUS SHOP):** The application was continually upgraded to better meet business needs.
- **Development of Application Programming Interface (API) Manager system:** KBank is developing a new, more advanced API infrastructure that has been implemented to ensure increased efficiency. Meanwhile, an open API has been adopted to allow other developers to develop the linkage with KBank services and products.
- **Development of machine learning technology:** We have focused on development of technology and text analytics for Thai language for enhanced efficiency in service provision and for the benefit of the nation in staying on top of technological change over the long-term. In collaboration with Chulalongkorn University and the National Electronic and Computer Technology Center (NECTEC), KBank has developed natural language processing technology (NLP) for the Thai NLP program which can deal with language used in the banking and financial sector.
- **Development of functions of blockchain for recording financial transaction data:** To better meet business needs, we are further developing the Hyperledger blockchain platform for letter of guarantee issuance on blockchain, which is being provided to more Multi-Corporate Business customers. KBank and eight other commercial banks have worked together to offer a letter of guarantee service within a common platform. KBank and four other large commercial banks jointly established BCI (Thailand) Co., Ltd. for management of blockchain infrastructure on which other functions have been developed to accommodate business needs.
- **Development of Electronic Know-Your-Customer (National Digital Identity: NDID):** KBank has employed facial recognition biometrics for account opening at branches nationwide. Currently, we are developing the K PLUS application to accommodate the National Digital Identity (NDID) system which will be rolled out in the future. The initiative has been built upon our cooperative effort with the Electronic Transactions Development Agency (Public Organization) and other commercial banks in developing formats for sharing data via a Digital Identity Platform as a common standard for electronic transactions.

6. KASIKORNBANK's Investments in Subsidiaries, Associated Companies and Joint Venture

□ Subsidiaries and Associated Companies

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

□ Investment Policy

Our investment policy can be summarized as:

● Strategic Investments

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

● Outsourcing Investments

KBank invests in companies that support our operations. These are companies providing services in place of KBank units that are not our core business and are relatively inflexible. Our executives are appointed as directors of these companies to oversee their management and operating policies, with one director having control over each such firm's operations. This helps ensure that their operations are in accordance with the objectives with standardized service quality, and maximized efficiency, thus being beneficial to KBank.

In 2019, KBank expanded its investment in the following two companies which are part of KASIKORNBANK FINANCIAL CONGLOMERATE:

- 1) KASIKORN GLOBAL PAYMENT COMPANY LIMITED which operates payment service business to serve our business partners at the global and regional levels.
- 2) AI GEN Company Limited (under shareholding of Muang Thai Group Holding Company Limited) which operates business to develop and create AI-based innovations for enhanced business efficiency and serves as the center for personnel development in terms of AI technology.

7. Shareholder Risk Management

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

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

Disclaimer

Certain statements shown in this report are forward-looking statements in respect of the financial position or the performance of KASIKORNBANK PUBLIC COMPANY LIMITED ("KBank"). KBank has prepared such forward-looking statements based on several assumptions, and has relied on financial and other information available from public sources as of the date such statements were made. Statements containing words such as "expect", "believe", "estimate", etc. and other similar expressions, are considered as forward-looking statements which involve uncertainties and are subject to changes at any time due to future events, including but not limited to, changes in global/national economic, political and regulatory environment. Accordingly, the readers or the recipients of information shall carefully review this report and make their own independent decision as well as thoroughly evaluate such fact or information which may have changed prior to making any investment 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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