



# Management Discussion and Analysis (MD&A)

For the Quarter Ending March 31, 2019

ธนาคารกสิกรไทย  
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

**Executive Summary**  
**Management Discussion and Analysis**  
**For the Quarter Ending March 31, 2019**

In the first quarter of 2019, the Thai economy continued to sustain its growth. Overall, however, it was plagued by weak exports and tourism amid the global economic slowdown. Aside from these challenges, businesses had to contend with more complex competition, regulatory changes, and technological advancements which affected consumer behavior.

KASIKORNBANK has established business direction primarily by considering the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. Prioritizing the development of technological solutions with the aim of becoming “Customers’ Life Platform of Choice”, we have upgraded our capability in data compilation and analytics, allowing us to understand and anticipate each individual customer’s needs under the “Segment of One” while also creating innovative products and comprehensive services in keeping with changing customer expectations regarding financial services, with ever-greater consideration of consumer protection and customer privacy.

Being aligned with our business strategies, KBank and subsidiaries thus reported that net profit for the first quarter of 2019 totaled Baht 10,044 million, decreasing Baht 722 million or 6.70 percent from the same period of last year. The decrease came from non-interest income which fell Baht 2,871 million, or 19.00 percent, due to cancellation of funds transfer fees via digital channels and a decrease in net premiums earned - net. Meanwhile, net interest income rose Baht 1,556 million or 6.57 percent, due largely to interest income from loans and investments. Net interest margin (NIM) was thus equal to 3.32 percent, decreasing over-quarter, but still within the set target of 3.30-3.50 percent. Moreover, other operating expenses rose Baht 21 million or 0.13 percent over-year, due mainly to employee expenses and repair and maintenance of premises and equipment expenses, whereas marketing expenses fell. As a result, our cost-to-income ratio stood at 42.70 percent, which was still within the set target.

In this quarter, our credit cost stood at 1.58 percent, lower than 1.81 percent in the previous quarter and 1.72 percent in the same period of last year. At the same time, our capital position was robust. As evidenced, capital adequacy ratio (CAR) of KASIKORNBANK FINANCIAL CONGLOMERATE (the Conglomerate) according to the Basel III Accord was 18.12 percent, with a Tier 1 capital ratio of 15.73 percent, remaining sufficient to cushion against risk, and greater than the Bank of Thailand’s requirement, being 11.50 percent and 9.00 percent, respectively.

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

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# 1. Overview of Operating Environment

## 1.1 Global and Thai Economy in the First Quarter of 2019

The global economy exhibited signs of slower growth in the first quarter of 2019 amid concerns over uncertainty surrounding the protracted US-China trade negotiations and Brexit risks. The World Economic Outlook of the International Monetary Fund revised downward its global economic growth projection for 2019, to 3.3 percent from the previous forecast of 3.5 percent, due to anticipated weakness in developed economies throughout the first half of 2019. The global slowdown will not only dampen the international trade and investment atmosphere, but has also prompted the Federal Reserve and other major central banks to signal that no more rate hikes will be seen over the remainder of this year.

In Thailand, most major economic indicators were on the decline. Exports, in particular, shrank in line with signs of global economic weakness and anxiety surrounding the trade spat between the US and its major trade partners.

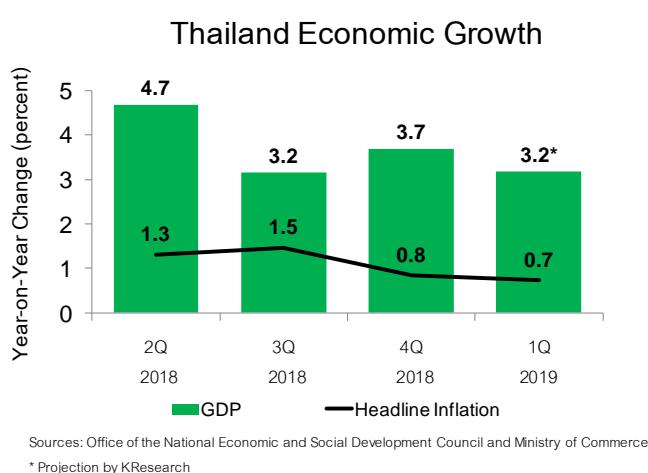
Moreover, private investment decelerated after showing high growth in the fourth quarter of 2018. Even though private consumption continued to expand, growth was concentrated in only certain

product categories. Likewise, household purchasing power saw limited recovery. Under these circumstances, the Thai economy in this quarter may grow at a slower pace of 3.2 percent over-year, which is also less than the 3.7 percent growth seen in the final quarter of last year.

Broadly speaking, the Thai economy may grow within a range of 3.2-3.9 percent in 2019, down from the growth of 4.1 percent in 2018. Improvement in domestic economic activity may become more apparent during the latter half of this year, especially if the new government is in place within the middle of this year and the US-China trade dispute eases. Regarding the Thai policy rate, it is expected to stay at 1.75 percent throughout 2019 to accommodate the recovery path of domestic activity.

## 1.2 Banking Industry and Competition

Commercial banks' overall performance in the first quarter of 2019 recorded an increase in net profit over-quarter and over-year. Compared to the same period of last year, the better performance was attributed to net profit from investment and an increase in net interest income in line with loan growth, which was consistent with rising net interest margin (NIM). Excluding net profit from investment and income from auction of mortgaged guarantee assets at certain banks, however, banks' performance was still under



pressure from the ongoing decline in net fees and service income resulting from the cancellation of funds transfer fees via digital channels and a decrease in net premiums earned - net. Furthermore, certain banks were burdened with increased expenses as they were required to set aside reserves for employee welfare benefits in compliance with the amendment to the new Labor Protection Act. Meanwhile, NPLs to total loans edged up slightly from the prior quarter. Therefore, commercial banks' asset quality still merits close watch.

As of the end of the first quarter of 2019, net loans at 14 domestically-registered commercial banks grew 4.98 percent over-year, decelerating from the growth of 5.17 percent at the end of 2018. Meanwhile, deposits grew at a slower rate of 3.37 percent, compared to 3.96 percent at the end of 2018.

For the outlook of commercial banks during the remainder of 2019, loans – a core business – are likely to maintain their growth. However, overall loan growth will depend mainly on economic recovery, which may become more apparent during the second half of 2019. Meanwhile, close attention should be paid to home loan business after the Bank of Thailand's new measures for mortgage loan supervision came into force at the beginning of the second quarter of 2019. Moreover, commercial banks will have to focus on cost and asset quality management for enhanced efficiency while also bracing for heightened competition, especially through expansion of customer base and income by providing financial transactions via multiple platforms to offset reduced income after the cancellation of funds transfer fees via digital channels. In addition, they have to maintain prudent credit underwriting policy and be prepared for regulatory changes regarding the Basel III capital requirements and the International Financial Reporting Standards (IFRS9) which will come into effect in 2020.

### 1.3 Regulatory Changes

Significant regulations and rules in the first quarter of 2019 that may have affected KBank's and K Companies' business operations included:

- **Revenue Code Amendment Act (No. 48) B.E. 2562 (2019)**

This law, effective March 21, 2019, stipulates that financial institutions, specialized financial institutions and e-money service providers under the law pertaining to payment systems are required to report information about individuals who have conducted the following transactions:

- 3,000 or more deposit/transfer transactions in all accounts within a year; or
- 400 deposit/transfer transactions in all accounts, with a combined amount of Baht 2 million or more, within a year.

A report on transactions of the previous year, in accordance with the reporting method stipulated in the Ministerial Regulation, must be submitted to the Revenue Department within March of each year. The first report must be filed by March 31, 2020. The Revenue Department Director-General has the authority to order violators or non-compliant parties to comply with the law within the established timeframe. If they fail

to do so, they will be subject to administrative penalties of not exceeding Baht 100,000 and fines of up to Baht 10,000 a day until they comply with the law.

- **The Bank of Thailand's Policy Guidelines Re: Loan Transactions, Investment in Securities and Sales of Assets by Financial Institutions (Government's Single-Account Scheme)**

The Bank of Thailand replaced the policy guidelines on loan transactions dated August 3, 2008, with its Policy Guidelines Re: Loan Transactions, Investment in Securities and Sales of Assets by Financial Institutions (new issue), coming into effect January 1, 2019. Under the new regulations, banks are required to put in place policies, processes, operational procedures and criteria for loan transactions and credit risk management which are in compliance with the government's single-account scheme, taking into consideration loan applicants' financial standing and risk levels based on their financial statements submitted to the Revenue Department for income tax filing as a significant factor for establishing loan limits and interest rates which are in line with customers' acceptable risk appetite. Banks are also allowed to use other qualitative and quantitative factors which reflect customers' potential and ability to expand their business as criteria for consideration of their debt servicing ability, provided that clear and reliable documentary evidence is submitted.

- **Act Exempting Tax Penalties, Surcharges and Criminal Liability to Support Tax-related Operations in accordance with Revenue Code, B.E. 2562 (2019)**

This Act, which came into force March 26, 2019, stipulates that companies or juristic partnerships which are SME entities with annual income of not exceeding Baht 500 million that have not filed a tax return or have filed an invalid tax return before this law takes effect are entitled to exemption of tax penalties, surcharges and criminal liability under the Revenue Code if they take the following actions:

1. Register with the Revenue Department and make valid tax payment starting from 2016, by June 30, 2019.
2. File tax return together with tax cover form and form for payment of stamp duties in cash for all types of taxes and duties online (e-Filing) for 12 successive months (paper-based tax filing is not allowed). The filing must be made from July 1, 2019, to June 30, 2020.

- **Land and Building Tax Act, B.E. 2562 (2019)**

This legislation supersedes the regressive House and Land Tax Act, B.E. 2475 (1932), and the Local Development Tax Act, B.E. 2508 (1965), which were deemed unsuited to the present circumstances, leading to social inequality. The new law came into force on March 13, 2019. However, tax collection under the Act will commence on January 1, 2020.

One significant change under the Act is that local administrative organizations are now authorized to collect the land and building tax from natural or juristic persons who own land or buildings, or possess or

make use of land or buildings which are the government's property, as of January 1 of the relevant tax year, while tax payment will come due by April of each year. Tax collection will be based on the property's appraised value. The actual tax rates will be subject to a royal decree to be announced later, whereas the maximum tax rates under this legislation are in accordance with the use of land and buildings as shown in the table below.

Use of land	Tax rate
<ul style="list-style-type: none"> <li>● For agricultural purpose</li> </ul>	Not exceeding 0.15 percent of tax base
<ul style="list-style-type: none"> <li>● For residential purpose</li> </ul>	Not exceeding 0.3 percent of tax base
<ul style="list-style-type: none"> <li>● For commercial purpose/undeveloped land</li> </ul>	Not exceeding 1.2 percent of tax base (For undeveloped land, rate will be raised by 0.30 percent every three years, but will not exceed 3 percent)

● **Regulations, Methods and Conditions for Operating Personal Loan Business under Supervision**

The Bank of Thailand (BOT) issued Notification of the BOT No. SorNorSor. 1/2562 (2019), Re: Regulations, Methods and Conditions for Personal Loan Business under Supervision, effective February 1, 2019, which contains salient points as follows:

- Extend scope for supervision of personal loan business to include car title loan, to allow grassroots-level consumers improved access to loan at a reasonable cost and ensure fair conditions for them.
- Revise criteria to allow lenders to conduct information-based lending wherein other reliable factors can be used for loan consideration and approval.
- Revise requirements for establishing credit limit of personal loan under supervision in segments other than car title loan.

KBank has improved policies, processes, and operational systems to accommodate and comply with relevant regulations, as well as will closely monitoring on new regulatory changes.

## 2. Risk Management and Risk Factors

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### 2.1 Credit Risk Management

During the first quarter of 2019, the Thai economy recorded slower growth, over-year. The weakness came mainly from a contraction of exports and a slowdown in private investment. Even though private spending continued to expand, growth was concentrated in only certain product categories. Meanwhile, hefty household debt put a cap on private spending, which may lead to rising risk in the future. Moreover, heightened risk from the global economy, including Thailand – coupled with digital disruption – negatively impacted certain business operators' income and operating costs.

Under these circumstances, KBank put in place more stringent customer approval criteria for commercial lending policies vis-à-vis small and micro businesses. Focus has been on formulating area-based lending strategies given the uneven economic recovery. We continued to prioritize risk assessment through prudent screening and close monitoring of borrowers, and remained vigilant on risks. Meanwhile, we mainly targeted borrowers with good track records, as well as existing low-risk customers.

### 2.2 Market Risk Management

Economic and political uncertainties both at home and abroad resulted in volatility of both foreign exchange and return on investment. In the first quarter of 2019, the Baht strengthened due to eroding confidence in the US Dollar amid reduced expectations of a Federal Reserve policy rate increase and positive factors domestically, in particular, seasonality and Thailand's ongoing current account surplus. Nonetheless, the Baht subsequently softened given lower-than-expected Thai exports which were hit by an apparent global economic slowdown, post-election political uncertainty, as well as an absence of positive seasonal factors.

Meanwhile, Thai bond yields moved within a narrow range due to heightened risks in several countries amid the aforementioned economic slowdown. Therefore, most investors sought refuge in global bonds, especially Thai bonds, which are regarded as a safe haven because of Thailand's economic stability – as evidenced by a low inflation rate and external debt, as well as a higher current account surplus than other countries in the region. However, amid changing perspectives among certain groups of foreign investors prompted by their concern about the domestic political situation both before and after the general election, those investors reduced their holdings of Thai bonds, thus prompting Thai bond yields to rise sharply. Meanwhile, US bond yields fluctuated in a narrow range due to investors' optimistic views about developments in the US-China trade negotiations. Nonetheless, the protracted Brexit risk, and the Federal Reserve's unanimous decision to hold the policy rate at 2.25-2.50 percent while signaling that it will maintain its policy rate throughout this year and end its balance sheet reduction in September 2019, prompted US bond yields to drop steadily from late March.



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

## **2.3 Liquidity Risk Management**

Liquidity in the Thai banking system in the first quarter of 2019 eased from the end of last year due to a decrease in overall loans, especially corporate and SME business loans, despite brighter growth seen in retail business loan, derived mainly from home and auto hire purchase loans – among the core loan products. Meanwhile, deposits rose even as loans fell, supported by an increase in deposits from the government sector in both current and savings accounts, and special deposit products under long-term programs introduced by certain banks. Liquidity in the Thai banking system is expected to remain ample throughout the first half of 2019 due to tepid loan demand amid heightened risks at home and abroad.

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

## 3. Business Directions and Operations of Core Businesses

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### 3.1 Sustainable Development and Corporate Governance

KBank, as a major driver of economic growth, has operated our business as a Bank of Sustainability, maintaining a balance in economic, social and environmental dimensions. We have given particular attention to nine of the 17 United Nations Sustainable Development Goals (SDGs) that are of particular relevance to our material aspects while also granting support for the others, with the aim of generating sustainable value for all of our stakeholders.

In the first quarter of 2019, KBank communicated our sustainable development practices to stakeholders, as well as joining a seminar in Thailand Corporate Sustainability Symposium arranged by C ASEAN, and Green Bonds Introduction: Green Bonds for Green Buildings and other promising sectors arranged by the International Finance Corporation (IFC).

In addition, KBank 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. A number of activities were undertaken with a focus on efficient performance of duties. They included:

- Communicating our no-gift policy to executives and employees of KBank, other companies under KASIKORNBANK FINANCIAL CONGLOMERATE, as well as our counterparties and customers
- Reviewing knowledge and understanding on the Code of Conduct among our employees and arranging for their annual acknowledgement and compliance along with communicating to other companies under the Code of Conduct of KASIKORNBANK FINANCIAL CONGLOMERATE, to ensure common understanding and practices
- Organizing training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via the KBank e-Learning system
- Holding a lecture on Governance, Risk Management and Compliance (GRC) for executives and employees of KASIKORNBANK (CHINA) CO., LTD.
- Holding the 2019 General Meeting of Shareholders in accordance with the Statement of Corporate Governance Principles, with a major focus on rights and equitable treatment of shareholders through the granting of rights to shareholders to send their questions related to the meeting agenda, in advance of the meeting.

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

KASIKORNBANK has established business direction primarily by considering the balance of three dimensions – economy, society and environment – under good corporate governance, appropriate risk management and effective cost management. At the same time, we have focused on collaboration and synergy with other companies within KASIKORNBANK FINANCIAL CONGLOMERATE, Muang Thai Life Assurance Public Company Limited and our business partners, for service quality improvements in order to deliver an excellent customer experience, along with the development of technological solutions, all with the aim of becoming “Customers’ Life Platform of Choice”.

In the first quarter of 2019, KBank prioritized upgrades of our capability in data compilation and analytics. This will allow us to understand and anticipate each individual customer’s needs under the “Segment of One” while also creating innovative products and comprehensive services for an excellent experience among all customer groups. In keeping with changing customer expectations, we tailored financial services that provide greater customer convenience, speed and reliability with ever-greater consideration of consumer protection and customer privacy.

To secure our status as a leading financial institution which can cope with potential economic uncertainties in a timely and efficient manner, KBank emphasizes big data analytics for predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, effective capital management and a risk-aware culture Bank-wide. Meanwhile, we have put in place relevant procedures in preparation for the implementation of policy guidelines and measures by the Bank of Thailand and other regulatory agencies to ensure that KBank will be able to efficiently comply with regulatory standards.

## **3.3 Customer Segments and Services**

During the first quarter of 2019, KBank continued to adhere to our “Customer Centricity” strategy, being attentive to the uncertainties of the domestic and global economy, sustaining our customers’ business and financial standing, as well as supporting their growth and opportunities. Along with that, we developed our business in various dimensions – customers, product domains and service channels – so that customers’ financial service needs are efficiently met by our solutions. 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 either conventional methods and/or capital markets, as well as the offering of risk management products suited to each customer's needs. We have also developed transaction banking products and services to accommodate their business management in all aspects. In the first quarter of 2019, we prioritized development of services via digital channels in sync with customers' changing needs. Major initiatives included upgrade of K-Cash Connect Plus features to facilitate customers in their transactions with greater efficiency; development of digital platform and digital payment channels to maximize value for our customers' businesses while minimizing business management costs, especially for our clients engaged in B2C business who sell goods directly to their customers; as well as providing advice to and sharing technological expertise with our customers. Meanwhile, we have developed data analytics by linking data of KBank platforms to innovate products and services that can better serve customers' business operations.

### ■ Large Corporate Business

KBank prioritized customer accessibility and service through offering advice for enhanced business effectiveness and efficiency, as well as products that meet their needs and market circumstances. Focus was on personnel development to ensure that our employees have gained knowledge and understanding about our customers' businesses, financial products and services, while also keeping abreast of the latest information, especially new business formats, in the fast-paced digital era.

In the first quarter of 2019, KBank provided support to e-payment service via all channels to provide greater customer convenience in conducting transactions, especially for those related to dining, travelling and shopping, while also slashing cash management costs, in order to strengthen their businesses. KBank also focused on the offering of products to our customers engaged in import-export business, in order to help minimize their risk from the Baht's volatility.

### ■ Medium Business

We prioritized our support to Medium Business through total solutions. Focus was on personnel development to train our staffers to become customer advisors; in-depth data analysis was also conducted to examine the business and personal needs of our customers at given times. Based on existing customer data, we have expanded the customer base within value chains, especially among businesses with brighter growth prospects, namely construction materials, energy, automobiles and parts, and consumer goods.

In this quarter, KBank implemented our credit policy in support of government measures. Notably, we launched a special-interest loan product requiring SME entrepreneurs to use the financial statements submitted to the Revenue Department for income tax filing – rather than bank account statements – as a

support document when applying for loan. This measure is meant to encourage our SME clients to comply with the SME single-account scheme, and this product has received good response from our customers. Meanwhile, we introduced a product offering special credit line to SME customers for tax payment to government agencies via K-Cash Connect Plus and K-Corporate Payment Card (Tax Smart Card).

#### ■ **Small and Micro Business**

KBank has supported our customers by providing them funding, bolstering their competitive capabilities and promoting business opportunities. To help our customers stay afloat during the economic slowdown, we introduced assistance measures for cash-strapped customers, namely moratorium in principal, debt rescheduling, and temporary interest rate reduction, including new loan support to those in need of increased investment or working capital for enhanced business efficiency. Furthermore, online traders were allowed to apply for unsecured business loan via KBank's digital platforms, while credit assessment is based on customer behavior and their transactions via various channels, for improved customer screening vis-à-vis their debt servicing ability while maintaining overall portfolio quality.

In addition, KBank Online Shop Space (KOS Space) was set up as a venue for sharing business knowledge and experience among SMEs via activities. Our customers are offered one-on-one financial advisory service by KBank specialists, while our well-versed partners from various businesses provide support and consultation beneficial to customers' business operations.

For card accepting merchant business, KBank developed the K PLUS Shop application on a continual basis in alignment with the government's National e-Payment Master Plan. Notable endeavors included an added function for payment acceptance via QR code and more features for merchants, namely buyers' purchase history shown in a sales summary report, UX/UI improvement, notifications for payment acceptance transactions via QR code of Alipay and WeChat Pay e-Wallets, as well as a function for preventing merchants with suspicious behaviors from reapplying for K PLUS SHOP. Moreover, we emphasized nationwide service expansion. Along with this, PR campaigns were conducted to promote QR spending via K PLUS with cash back offered per the established conditions. Of note were the launch of QR payment for a BTS Skytrain single-journey ticket, and privileges offered for QR payment at participating UNIQLO outlets.

#### ■ **High Net Worth Individual**

Determined to perform at the standard of an international comprehensive wealth management service, KBank aims to help our High Net Worth Individual clients attain their definition of perfect wealth and augment their prestige. With ongoing collaboration with Lombard Odier, we have focused on development of our personnel, especially private bankers and their support teams, through practical training to enhance their expertise throughout each process, especially with international products.

We also teamed with our business partners to arrange for sessions where specialists were invited to equip our customers with relevant knowledge in topics of their interest. Notable events included the seminar entitled, "Get Started: Digital Transformation for Your Business", in which executives with long

experience in leading digital technology companies both in Thailand and abroad offered their knowledge and advice on the application of technologies for business development. In addition, KBank arranged a field trip to Israel for our customers to gain first-hand experience in the application of technology to industrial development. For customers who plan to send their children to study abroad, we arranged for experts to give them advice, and took them to visit the most prestigious secondary schools in Britain. Aside from this, seminars were held for our clients to provide them updated knowledge regarding the development of investment in mutual funds, namely K Strategic Global Multi-Asset Fund (K-SGM) and K Global Risk-Enhanced Allocation Fund (K-GREAT).

#### ■ **Affluent**

KBank continued to focus on becoming our Customers' Main Bank in this segment, in order to increase 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 the first quarter of 2019, aside from special fixed-term deposits, KBank launched life insurance products that are responsive to customers' needs. Notable products were Life Insurance: Endowment 215, which offers an attractive return of 3.01 percent; and Life Insurance: Whole Life 85/5, for those seeking to leave an estate for their heirs with an option to purchase a health insurance rider. KBank also teamed with KASIKORN ASSET MANAGEMENT Co., Ltd. to offer large and institutional investors alternative mutual funds to outperform in volatile market conditions through '4D' strategies which focus on 'Diversification' of asset classes, 'Defensive' investment for generating constant income even in times of market volatility, appropriate 'Duration' of asset holding, and 'Disciplined' investment. Notable funds included K Complex Return 3YC (KCR3YC-AI), K Complex Return 3YD (KCR3YD-AI), and K Thai Fixed Income 3 Years A Fund – Not for Retail Investors (KTF3YA-AI).

Meanwhile, we elevated THE WISDOM brand to provide greater benefits and maintain our leadership status, through the delivery of an extraordinary experience with ongoing exclusive activities held to enhance customers' wealth in alignment with their business and personal needs. Of note were "The Symbol of Your Journey: Memories of The Hidden Place", which featured an exclusive trip to Thai architectural and historical sites, and "The Symbol of Your Pleasure: BLACK VALENTINE: An Immersive Music Experience" – a mini-concert to celebrate Valentine's Day.

#### ■ **Middle Income**

KBank emphasized the development of advisory services for new-generation customers in order to establish THE PREMIER as their top-of-mind brand when it comes to financial and investment advice, in order to promote greater use of KBank products while maintaining our status of Customers' Main Bank. Through our studies and data analytics of KBank Payroll customer behavior, especially their financial status and lifestyles, we introduced services and campaigns via digital channels appropriate for the target group

in order to promote saving and investment discipline, and help them more effectively manage their daily spending. Notable initiatives in this quarter were: (1) the opening of K-eSavings Account via K PLUS; (2) the launch of mutual funds that can cope with a volatile market, namely K Thai Fixed Income 25 Months B Fund (KTF25MB) focusing on debentures, and K Guaranteed 5 Years B Fund (KGT5YB), which guarantees investment for investors; and (3) the debut of life insurance with health rider designed for KBank Payroll customers to provide them more options for purchase of insurance at low premiums in addition to their welfare benefits.

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 the following three major loan products. In detail:

(1) K-Home Loan: To improve our customers' access to loans, we extended repayment period for K-Home Loan for Multi Purpose to 30 years in order to cut their monthly installment payment, along with more relaxed conditions and fewer documents required. Meanwhile, we shifted our focus to home loan refinance and K-Home for Cash to cope with the slowdown in housing loan after the implementation of new loan-to-value (LTV) measures by the Bank of Thailand, as part of our effort to enlarge our high-yield loan portfolio. Along with this, we continued to conduct co-promotion activities with property developers who received pre-finance assistance from KBank in order to launch special loan campaigns for homebuyers of participating projects.

(2) K-Credit Card: Focus was on customer base expansion, a promotion campaign for new customers with 10-percent minimum payment, as well as marketing activities via KBank's digital channels to promote spending across all categories as well as in foreign currencies. For enhanced convenience, customers are able to redeem their KBank Reward Points via K PLUS.

(3) K-Personal Loan: KBank introduced end-to-end digital lending solutions to both existing and potential new personal loan customers. We are preparing to provide this service to other retail loan products based on efficient risk management through the use of alternative data obtained from within and outside of KBank. Another notable promotion was a K-Express Cash campaign offering zero-percent interest to new customers using KBank Payroll service, and regular-income employees.

#### ■ Mass

We prioritized the strategy of attracting customers with the potential to become Middle Income clients to use KBank as their main bank. Aside from broadening the new customer base, we are determined to seek new opportunities to work with our partners so as to develop new easy-to-use products and services to match customers' financial and lifestyle needs. In this quarter, we conducted marketing activities and PR campaigns to promote the KBank brand and fortify potential long-term relationships with staff of leading companies and universities. Initiatives of note were the offering of numerous benefits for K-Deposit, K-Debit Card, K-Home Loan, K-Personal Loan and K-Auto Finance (Refinance) via the K-Payroll

Benefits program, the development of educational applications, arrangement of training for university students, and the “cashless society” programs in our partner universities.

Moreover, KBank initiated additional benefits, especially discounts from our partners who sell sports equipment, for K-Debit Cardholders whereas those benefits had previously offered only to K-My Debit Card and K-Max Debit Card only. We also continued to promote the use of debit cards for university students and K-Provincial Debit Cards – designed for local people. Along with this, we continuously encouraged our customers to use electronic services and conduct transactions via electronic channels, especially the K PLUS application. Notable endeavors were the launch of a no-fee campaign to prompt customers to replace their magnetic-stripe ATM and debit cards with chip-embedded cards, as well as the “Go Cashless Get Cash Back” campaign to promote greater card spending in response to government measures to create user confidence via enhanced security in card spending.

### 3.4 Service Channels

KBank maintained our commitment to developing efficiency in all our core service channels, in order to raise our capacity to reach our customers and deliver them excellent service.

(1) **Branch Network:** Key initiatives for branch network management in the first quarter of 2019 included:

- **Domestic branch network:** Building upon our strength as the leading digital banking provider, we set our sights on becoming the Customers’ Channel of Choice. Focus has thus been on expanding our services for more comprehensive coverage. To this end, KBank appointed two more business partners, i.e., Inthanin Coffee and SPAR stores, to be our banking agents in offering KBank Service at 17 participating outlets. Initially, deposit-taking service will be available, with a special promotion of a 10 Baht fee per transaction. Meanwhile, Big Card members using KBank Service at service points of 14 Big C outlets instantly get 500 Big Card points.

To elevate customer service experience in sync with their needs, we have streamlined processes in providing branch services and via remodeled branch formats. Most recently, we opened two more locations of K PARK, which serves as a lifestyle community providing a variety of services. Moreover, Hybrid Branch – a new KBank branch format – has been introduced to deliver a novel experience for customers, allowing paperless transactions via electronic machines at two locations, where customers may also make other transactions at counters with our officers. Along with this, we continued to consolidate branches to reduce redundancy, especially those with relatively low traffic.

Meanwhile, we took into account the appropriate management of foreign exchange booths, especially in viable areas, in particular those located in airports and at major tourist attractions. To remain competitive, we revised foreign exchange buying and selling rates. In addition, marketing activities were organized to promote the use of K-Credit Card for the purchase of foreign currencies, with a four-month installment plan with no fee or interest charged. Other notable promotions included redemption of KBank



Reward Points for a discount, or use of other credit cards to buy foreign currencies per the established conditions.

- **International branch network:** Adhering to our strategy of expanding business operations in other AEC+3 countries, we aim to become “The Regional Digital Bank” through our three-pronged initiatives as follows:

- 1) **Conventional Track:** We remained committed to expanding our business network and upgrading 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 People’s Republic of China, Lao People's Democratic Republic and the 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.
- 2) **Transactional & Digital Banking Track:** KBank prioritized development of regional electronic payment systems to be in alignment with changing customer behavior. Given our knowledge and experience in Thailand, we have built a database of customers’ financial transactions in local markets, which can be further applied in our loan services and investment.
- 3) **Industry Solution & Ecosystem Track:** We aim to broaden our customer base in the digital age, with our focus on users of online media and digital platforms. To start with, we serve as a digital platform provider for non-financial services, reinforcing our potential to become the Regional Life Platform of Choice.

#### Branches and Financial Service Network

Domestic Service Network	Number of Locations		Number of Locations	Number of Locations	
	Mar. 2019	Dec. 2018		Mar. 2019	Dec. 2018
Branch Network <sup>1)</sup>	927	958	Branches of Locally Incorporated Institution	6	6
Foreign Exchange Booth	138	137	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2
THE WISDOM	102	102	KASIKORNBANK (CHINA) CO., LTD.	4	4
SME Business Center <sup>2)</sup>	118	121	Branches	3	3
International Trade Service Center	58	58	Representative Offices	8	8
Cheque Direct Service	20	20			

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

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

#### (2) **Electronic Network** comprises:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus to accommodate secure, round-the-clock financial transactions, and to encourage customers to conduct transactions at self-service machines. For the greater convenience of our foreign clients, various languages are available at ATM machines. At the same time, we prioritized appropriate machine management for broader service coverage in viable areas to accommodate increasing customer demand.

#### Electronic Banking Services

Electronic Banking Services	Number of Units	
	Mar. 2019	Dec. 2018
Self-Service Channel (K-ATM and K-CDM)	11,867	11,985
K-ATM (Automated Teller Machines)	9,137	9,369
K-CDM (Cash Deposit Machines)	2,730	2,616
K-PUM (Passbook Update Machines)	1,082	1,075

- **Digital Banking Services:** We have prioritized the development of our digital service channels with the aim of becoming the most-preferred platform that can meet customers' needs in every aspect of their lives – anytime, anywhere. Major initiatives included:

- 1) **K PLUS:** Accommodating customers' lifestyles, we have continually developed the Loyalty Card Platform with a new feature that allows customers to add KBank's business partners' member cards to K PLUS. A virtual loyalty card provides enhanced convenience for point accumulation and checking without the need to carry a card; in addition, a point redemption feature is being developed. There are presently five member cards, i.e., The 1 Card, Boots Advantage Card, PTT Blue Card, AIS Point Card and AirAsia BIG Loyalty Card, available via the Loyalty Card Platform,
- 2) **K-Cyber:** We focused on maintaining the integrity of the K-Cyber system. Data security is ensured through implementation of ISO 27001:2013, the highest global standard, giving our customers more confidence when conducting financial transactions via all digital banking channels.
- 3) **K-Payment Gateway:** In collaboration with the Department of Consular Affairs, Ministry of Foreign Affairs, we have developed an e-Payment system for visa application to provide enhanced convenience for foreign nationals who wish to visit Thailand. After applying for an e-Visa via [www.thaievisa.go.th](http://www.thaievisa.go.th), customers can make online fee payment anytime, anywhere, via their mobile device or computer, with a world-class security system. In the initial stage, the service will be available at the Royal Thai Embassy in Beijing before its extension to other Chinese cities.

- **K-Contact Center:** We aim to always deliver an excellent service experience to our customers in alignment with their needs in the digital era. Notable initiatives included:

- 1) **Non-Voice Channel & Self Service:** The Chat Bot program has been developed to promptly provide accurate data related to KBank products, for greater service efficiency with enhanced security through an identity authentication system.
- 2) The Smart Agent Portal serves as a database for K-Contact representatives to search for information related to KBank products with improved accuracy, allowing them to assist customers in a timely manner.

- 3) 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 to our customers to minimize negative impacts and maintain the positive public image of the banking industry.

### 3.5 Awards and Commendation

Through these efforts, KBank and K Companies have achieved good business performance, earning the recognition of various organizations at home and abroad, proven by many awards granted during the first quarter of 2019, notably:

#### Awards to KBank and K Companies

##### Awards to KBank

- Asset Management Award, from Euromoney magazine
- Best Private Bank - Thailand Domestic, from Asian Private Banker magazine
- Best Trade Finance Providers, from Global Finance magazine
- Two awards: Best Bond House and Top Underwriting Bank from the Thai Bond Market Association (ThaiBMA)
- Best IPO, Thailand: Gulf Energy Development Public Company Limited from The Asset magazine
- Best Repo Primary Dealer from the Bank of Thailand
- Bronze Class in the banking industry category for the second consecutive year from RobecoSAM, a world-renowned investment specialist
- A score of B which is within the management band from 2018 Carbon Disclosure Project (CDP) for the second successive year
- Three awards: Best Retail Bank in Thailand, for the 10th consecutive year, Best Digital Brand Initiative, Application or Programme and Best Frictionless Customer Relationship Management, from The Asian Banker journal
- 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 (RBI) journal
- Three awards: Winner: Excellence in Next-Gen Customer Experience, Highly Acclaimed: Best Product or Service Innovation and Highly Acclaimed: Best Customer Insight & Feedback Initiative, from The DIGITAL BANKER journal
- Thailand's Most Admired Brand & Why We Buy, in the category of most trusted brand for "K-Credit Card" for the 5th consecutive year, based on a survey conducted by BrandAge magazine.

##### Awards to K Companies

- Most Prominent Fund House in Corporate Bond Market for the second consecutive year, from the Thai Bond Market Association (ThaiBMA)
- Recognized as the asset management company champion, being assigned five-star rating in the overall rating category for 11 funds, covering all types of asset classes, i.e., fixed-income funds, Thai and foreign equity funds and mixed funds, from Morningstar

## 4. Operating Performance and Financial Position Analysis

### 4.1 Operating Performance

KBank's consolidated net profit for the first quarter of 2019 totaled Baht 10,044 million, decreasing Baht 722 million or 6.70 percent from the same period of last year. Net interest income rose Baht 1,556 million or 6.57 percent, due largely to interest income from loans and interest income from investments. Net interest margin (NIM) was thus equal to 3.32 percent. Meanwhile, non-interest income fell Baht 2,871 million, or 19.00 percent due mainly to cancellation of funds transfer fees via digital channels and a decrease in net premiums earned - net. Moreover, other operating expenses rose Baht 21 million, or 0.13 percent over-year due mainly to employee expenses and repair and maintenance of premises and equipment expenses, whereas marketing expenses fell. As a result, our cost to income ratio stood at 42.70 percent.

#### Operating Performance for the First Quarter of 2019

(Unit: Million Baht)

	Q1-2019	Q4-2018	Change		Q1-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	25,252	25,471	(219)	(0.86)	23,696	1,556	6.57
Non-Interest Income	12,241	12,545	(304)	(2.43)	15,112	(2,871)	(19.00)
Total Operating Income - net	37,493	38,016	(523)	(1.38)	38,808	(1,315)	(3.39)
Total Other Operating Expenses	16,010	19,479	(3,469)	(17.81)	15,989	21	0.13
Impairment Loss on Loans and Debt							
Securities	7,580	8,508	(928)	(10.91)	7,819	(239)	(3.05)
Net Profit (attributable to equity							
holders of KBank)	10,044	7,033	3,011	42.82	10,766	(722)	(6.70)
Basic Earnings per Share (Baht)	4.20	2.94	1.26	42.82	4.50	(0.30)	(6.70)

When compared to the previous quarter, our operating profit before provision expense and income tax totaled Baht 21,483 million, an increase of Baht 2,946 million or 15.89 percent, due mainly to a decrease of Baht 3,469 million or 17.81 percent in other operating expenses due to seasonality as a result of falling marketing expenses. Meanwhile, net interest income dropped Baht 219 million or 0.86 percent and non-interest income also decreased Baht 304 million or 2.43 percent owing to a decrease in net premiums earned – net, while revenue from money market and capital market products rose. Moreover, our impairment loss on loans and debt securities decreased Baht 928 million or 10.91 percent, resulting in our net profit to total Baht 10,044 million, an increase of Baht 3,011 million, or 42.82 percent over-quarter.

Major financial ratios that reflected operating performance of KBank and our subsidiaries in the first quarter of 2019 compared to the previous quarter and the same period of last year included:

(Unit: Percent)

Financial Ratio	Q1-2019	Q4-2018	Change	Q1-2018	Change
Return on Assets (ROA) <sup>1)</sup>	1.27	0.91	0.36	1.46	(0.19)
Return on Equity (ROE) <sup>1)</sup>	10.46	7.53	2.93	12.14	(1.68)
Net Interest Margin (NIM) <sup>1)</sup>	3.32	3.41	(0.09)	3.37	(0.05)
Non-Interest Income to Average Assets <sup>1)</sup>	1.55	1.62	(0.07)	2.05	(0.50)
Non-Interest Income Ratio	32.65	33.00	(0.35)	38.94	(6.29)
Cost to Income Ratio	42.70	51.24	(8.54)	41.20	1.50

<sup>1)</sup> Annualized

(Unit: Percent)

Financial Ratio	Mar. 31, 2019	Dec. 31, 2018	Change	Mar. 31, 2018	Change
Net NPLs to Total Loans	2.01	1.89	0.12	1.84	0.17
Gross NPLs to Total Loans	3.44	3.34	0.10	3.30	0.14
Coverage Ratio	158.78	160.60	(1.82)	149.72	9.06
Loans <sup>2)</sup> to Deposits Ratio	96.77	95.94	0.83	94.93	1.84
Capital Adequacy Ratio <sup>3)</sup>	18.12	18.32	(0.20)	17.70	0.42
Tier 1 Capital Ratio <sup>3)</sup>	15.73	15.90	(0.17)	15.41	0.32

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

## □ Net Interest Income

KBank's consolidated net interest income for the first quarter of 2019 was Baht 25,252 million, decreasing Baht 219 million, or 0.86 percent over-quarter due mainly to interest income from loans and interest income from investments dropped due to a decrease in number of days. Meanwhile, interest income from interbank and money market items increased in line with higher interest rates of private repurchase transactions. Our NIM therefore equaled 3.32 percent, lower than the previous quarter, but remained within the set target of 3.30-3.50 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 1,556 million, or 6.57 percent, due largely to higher interest income from loans and interest income from investments. However, our NIM in this quarter was lower than the same period of 2018.

(Unit: Million Baht)

	Q1-2019	Q4-2018	Change		Q1-2018		Change	
			Million Baht	Percent	Million Baht	Percent		
<b>Interest Income</b>								
<b>Interbank and Money Market Items</b>	1,951	1,667	284	17.03	2,026	(75)	(3.69)	
Deposits	347	258	89	34.68	236	111	46.99	
Loans without Repurchase Agreements	173	179	(6)	(3.86)	156	17	10.74	
Repurchase Agreements	1,431	1,230	201	16.39	1,634	(203)	(12.39)	
<b>Investments</b>	4,842	4,972	(130)	(2.62)	3,991	851	21.33	
Trading Investments	86	55	31	56.72	60	26	43.99	
Available-for-Sale Investments	873	939	(66)	(7.05)	402	471	117.13	
Held-to-Maturity Investments	3,883	3,978	(95)	(2.39)	3,529	354	10.04	
<b>Loans</b>	23,755	23,967	(212)	(0.88)	22,576	1,179	5.23	
<b>Finance leases</b>	1,415	1,371	44	3.21	1,301	114	8.72	
<b>Others</b>	3	3	-	(0.13)	3	-	(0.13)	
<b>Total Interest Income</b>	31,966	31,980	(14)	(0.04)	29,897	2,069	6.92	
<b>Total Interest Expenses</b>	6,714	6,509	205	3.15	6,201	513	8.28	
<b>Total Interest Income – net</b>	25,252	25,471	(219)	(0.86)	23,696	1,556	6.57	
Yield on Earning Assets (percent)	4.21	4.28		(0.07)	4.26		(0.05)	
Cost of Fund (percent)	1.22	1.20		0.02	1.20		0.02	
<b>Net Interest Margin (NIM) (percent)</b>	3.32	3.41		(0.09)	3.37		(0.05)	

#### □ Non-Interest Income

For the first quarter of 2019, KBank's consolidated non-interest income totaled Baht 12,241 million, decreasing Baht 304 million, or 2.43 percent over-quarter. The decrease was attributed to lower net premiums earned – net, in line with insurance business slowdown whereas revenue from money market and capital market products increased. In the first quarter of 2019 and the fourth quarter of 2018, non-interest income ratio of KBank and our subsidiaries accounted for 32.65 percent and 33.00 percent, respectively.

When compared to the same quarter of last year, consolidated non-interest income for the first quarter of 2019 decreased Baht 2,871 million, or 19.00 percent, as a result of a decrease of 17.33 percent in net fees and service income, due mainly to cancellation of funds transfer fees via digital channels and lower fee income from asset management and net premiums earned – net, in line with insurance business slowdown.

(Unit: Million Baht)

	Q1-2019	Q4-2018	Change		Q1-2018	Change	
			Million Baht	Percent		Million Baht	Percent
<b>Non-Interest Income</b>							
Fees and Service Income	12,149	12,510	(361)	(2.89)	13,470	(1,321)	(9.80)
Fees and Service Expenses	3,419	3,524	(105)	(2.98)	2,911	508	17.48
<b>Fees and Service Income - net</b>	<b>8,730</b>	<b>8,986</b>	<b>(256)</b>	<b>(2.85)</b>	<b>10,559</b>	<b>(1,829)</b>	<b>(17.33)</b>
Gain on Trading and Foreign Exchange							
Transactions	2,231	1,932	299	15.53	2,155	76	3.54
Gain on Investments	262	179	83	46.16	394	(132)	(33.47)
Share of Profit (Loss) from Investments using Equity Method	16	11	5	41.10	(2)	18	748.44
Dividend Income	629	287	342	119.47	499	130	25.95
Net Premiums Earned	20,076	23,646	(3,570)	(15.10)	24,730	(4,654)	(18.82)
Other Operating Income	337	392	(55)	(13.98)	411	(74)	(17.98)
Less Underwriting Expenses	20,040	22,888	(2,848)	(12.44)	23,634	(3,594)	(15.20)
<b>Total Non-Interest Income</b>	<b>12,241</b>	<b>12,545</b>	<b>(304)</b>	<b>(2.43)</b>	<b>15,112</b>	<b>(2,871)</b>	<b>(19.00)</b>
<b>Non-Interest Income to Average Assets (percent)</b>	<b>1.55</b>	<b>1.62</b>		<b>(0.07)</b>	<b>2.05</b>		<b>(0.50)</b>
<b>Non-Interest Income Ratio (percent)</b>	<b>32.65</b>	<b>33.00</b>		<b>(0.35)</b>	<b>38.94</b>		<b>(6.29)</b>
Net Fee Income to Net Total Operating Income Ratio							
(percent)	23.28	23.64		(0.36)	27.21		(3.93)

#### □ Other Operating Expenses

KBank's consolidated other operating expenses for the first quarter of 2019 was Baht 16,010 million, falling Baht 3,469 million, or 17.81 percent over-quarter. The decrease could be attributed mainly to seasonality as a result of lower marketing expenses. Our cost to income ratio was equal to 42.70 percent, down from 51.24 percent in the previous quarter. The figure remained within the set target.

When compared to the same period of the previous year, other operating expenses increased by Baht 21 million, or 0.13 percent due mainly to employee expenses and repair and maintenance of premises and equipment expenses, whereas marketing expenses dropped. Therefore, our cost to income ratio of the first quarter of 2019 was higher than the 41.20 percent in the same quarter of last year.

(Unit: Million Baht)

	Q1-2019	Q4-2018	Change		Q1-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	8,047	8,203	(156)	(1.90)	7,768	279	3.60
Directors' Remuneration	18	18	-	1.71	17	1	5.42
Premises and Equipment Expenses	3,070	3,526	(456)	(12.93)	2,849	221	7.75
Taxes and Duties	1,248	1,219	29	2.41	1,208	40	3.31
Others	3,627	6,513	(2,886)	(44.31)	4,147	(520)	(12.54)
<b>Total Other Operating Expenses</b>	<b>16,010</b>	<b>19,479</b>	<b>(3,469)</b>	<b>(17.81)</b>	<b>15,989</b>	<b>21</b>	<b>0.13</b>
<b>Cost to Income Ratio (percent)</b>	<b>42.70</b>	<b>51.24</b>		<b>(8.54)</b>	<b>41.20</b>		<b>1.50</b>

## □ Impairment Loss on Loans and Debt Securities

During the first quarter of 2019, KBank and our subsidiaries had Baht 7,580 million of impairment loss on loans and debt securities, a decrease of Baht 928 million or 10.91 percent, over-quarter. The figure also decreased from the same period of last year. Thus, our credit cost in the first quarter of 2019 stood at 1.58 percent, lower than 1.81 percent in the previous quarter and lower than 1.72 percent in the same period of last year.

### Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q1-2019	Q4-2018	Change		Q1-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	7,580	8,508	(928)	(10.91)	7,819	(239)	(3.05)
Credit Cost (percent)	1.58	1.81		(0.23)	1.72		(0.14)

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

As of March 31, 2019, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 122,068 million. This amount was equivalent to 306.18 percent of the level required by the Bank of Thailand.

## — Non-Performing Loans and Debt Restructuring

### *Non-Performing Loans*

As of March 31, 2019, KBank's consolidated NPLs stood at Baht 76,880 million, 3.44 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 74,882 million, 3.40 percent of the total outstanding credit, including that of financial institutions. The NPLs data is shown in the table below:

### Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Mar. 31, 2019	Dec. 31, 2018
Consolidated NPLs	76,880	74,400
Percent of total outstanding credit, including that of financial institutions	3.44	3.34
Bank-only NPLs	74,882	72,346
Percent of total outstanding credit, including that of financial institutions	3.40	3.31



### *Net Non-Performing Loans*

As of March 31, 2019, KBank's consolidated net NPLs stood at Baht 44,386 million – 2.01 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 43,816 million – 2.02 percent of the total outstanding credit, including that of financial institutions. The net NPLs data is shown in the table below:

#### Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Mar. 31, 2019	Dec. 31, 2018
Consolidated net NPLs	44,386	41,431
Percent of total outstanding credit, including that of financial institutions	2.01	1.89
Bank-only net NPLs	43,816	40,769
Percent of total outstanding credit, including that of financial institutions	2.02	1.89

### *Debt Restructuring*

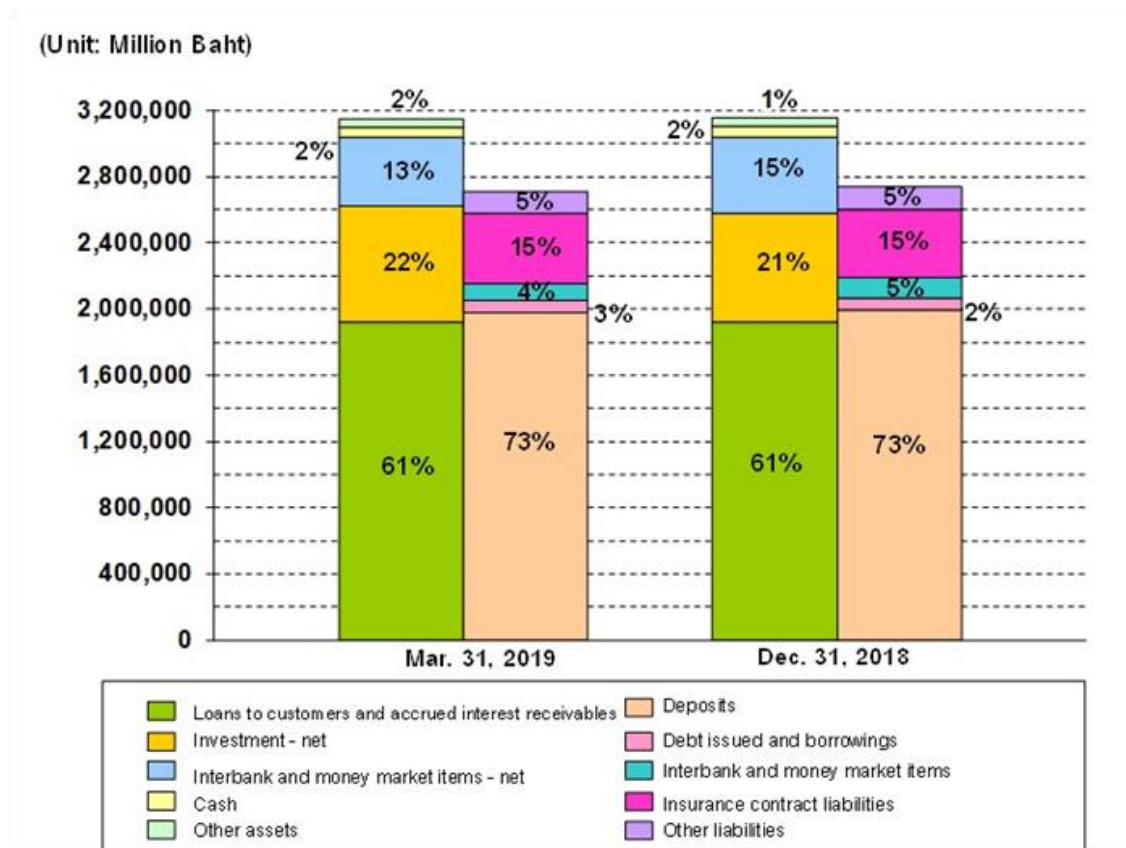
As of March 31, 2019, KBank's consolidated restructured debts which incurred losses, totaled Baht 68,966 million, decreasing by Baht 639 million, or 0.92 percent when compared to the fourth quarter of 2018.

### *Properties Foreclosed*

As of March 31, 2019, our consolidated properties foreclosed had a net value of Baht 23,128 million, thus being 0.73 percent of total assets,

## 4.2 Financial Position Analysis

### Assets and Liabilities Structure



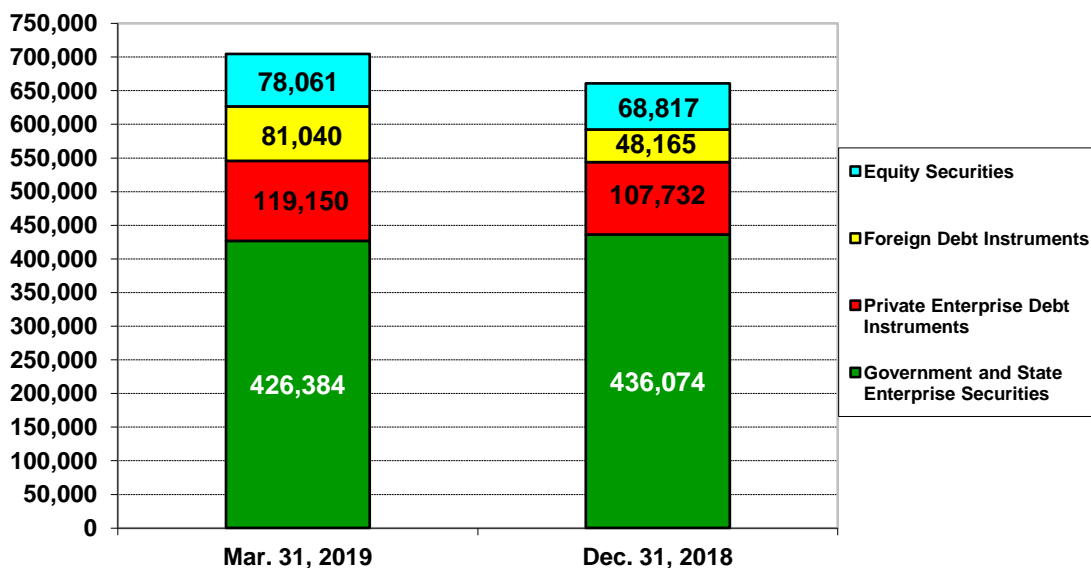
#### □ Assets

At the end of the first quarter of 2019, KBank's consolidated assets totaled Baht 3,150,641 million, decreasing Baht 4,450 million or 0.14 percent from the end of 2018. The decline was due mainly to a decrease in net interbank and money market items (assets) whereas net investment and loans to customers increased. Key details are as follows:

- Net interbank and money market items (assets) as of the end of the first quarter of 2019 totaled Baht 414,549 million, decreasing Baht 47,438 million or 10.27 percent from the end of 2018, due mainly to KBank's liquidity management.
- Net investment at the end of the first quarter of 2019 totaled Baht 705,439 million, increasing by Baht 43,784 million or 6.62 percent from the end of 2018, due mainly to increased investment in foreign bonds.
- Loans to customers (less deferred revenue) at the end of this quarter amounted to Baht 1,914,835 million, increasing Baht 763 million or 0.04 percent from the end of 2018.

## Investments in Securities

(Unit: Million Baht)



### □ Liabilities and Equity

Our consolidated liabilities, at the end of the first quarter of 2019, amounted to Baht 2,714,117 million, decreasing Baht 23,152 million or 0.85 percent, from the end of 2018. The decrease was mainly attributable to a decline in interbank and money market items and deposits whereas insurance contract liabilities rose. Significant changes in our consolidated liabilities included:

- Interbank and money market items as of the end of the first quarter of 2019 totaled Baht 106,981 million, decreasing Baht 21,022 million or 16.42 percent from the end of 2018, due mainly to KBank's liquidity management.
- Deposits at the end of the first quarter of 2019 equaled Baht 1,978,837 million, decreasing Baht 16,164 million or 0.81 percent from the end of 2018, mainly as a result of a decrease in savings deposit.
- Insurance contract liabilities at the end of the first quarter of 2019 totaled Baht 421,493 million, up Baht 10,745 million or 2.62 percent from the end of 2018, in line with a rising volume of life insurance business transactions.

At the end of this quarter, total equity attributable to equity holders of KBank amounted to Baht 391,898 million, increasing Baht 15,600 million or 4.15 percent from the end of 2018, driven largely by net operating profit for the first quarter of 2019, totaling Baht 10,044 million.

#### □ Relationship between Sources and Uses of Funds

As of March 31, 2019, the funding structure as shown in the consolidated financial statement comprised Baht 2,714,117 million in liabilities and Baht 436,524 million in total equity, resulting in a debt-to-equity ratio of 6.22. The main source of funds on the liabilities side was deposits, which equaled Baht 1,978,837 million, or 62.81 percent of the total, as of March 31, 2019. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 3.40 percent and 2.22 percent of the total, respectively.

As of March 31, 2019, KBank and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,914,835 million, resulting in loan-to-deposit ratio of 96.77 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, and investments in securities.

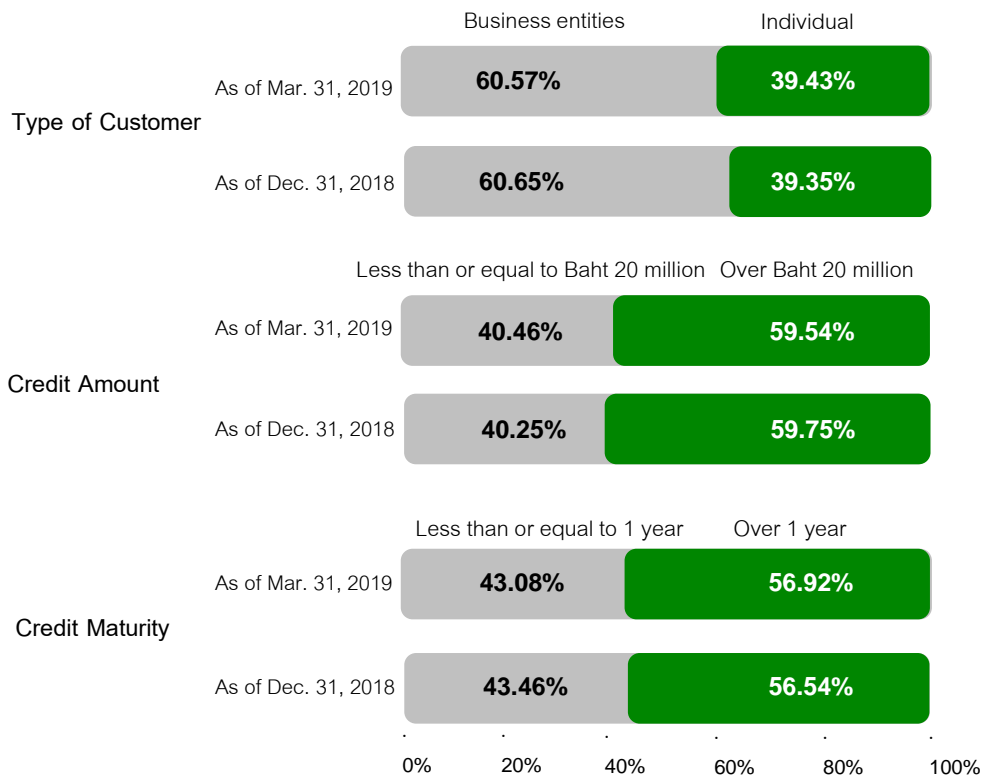
### 4.3 Loans and Deposits

#### □ Loans

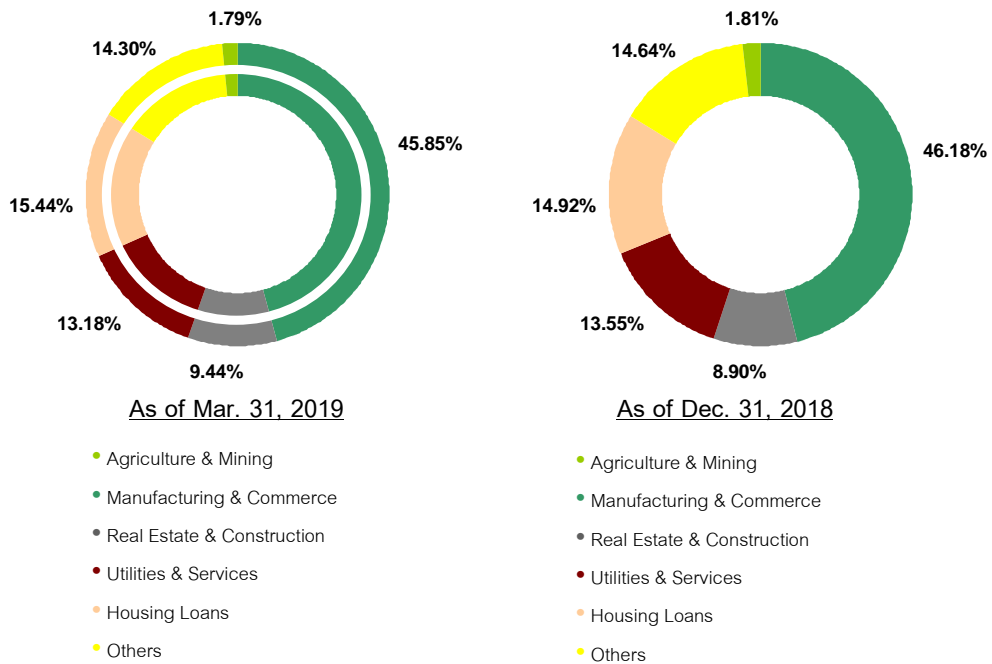
As of March 31, 2019, KBank's consolidated outstanding loans stood at Baht 1,914,835 million, increasing by Baht 763 million, or 0.04 percent, compared to Baht 1,914,072 million as of December 31, 2018.

As of March 31, 2019, 60.57 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan accounts exceeding Baht 20 million totaled Baht 1,112,258 million, or 59.54 percent of the total. As for maturities, credit with maturities of over one year accounted for 56.92 percent of our total loans.

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



### KBank's Consolidated Lending Portfolio

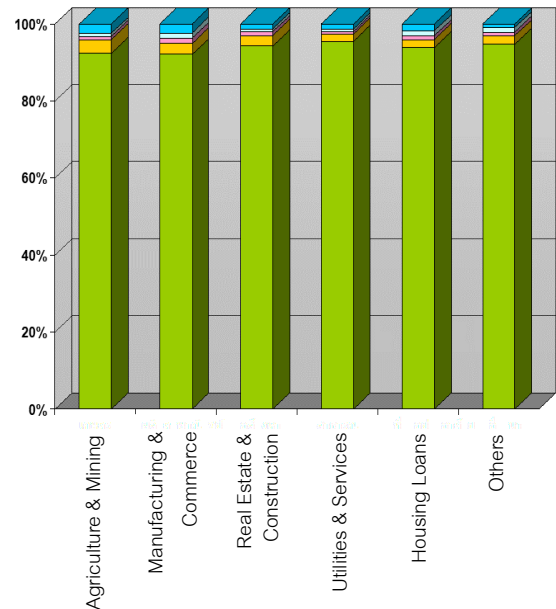
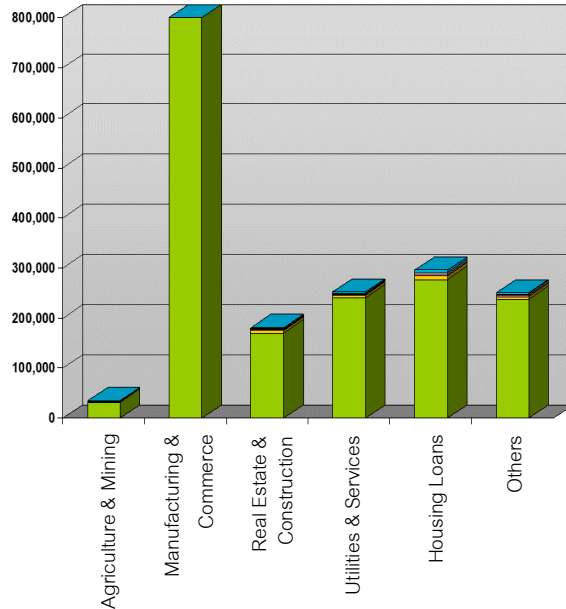


As of Mar. 31, 2019

Consolidated Loans Classified  
by Type of Business and Loans Classification

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

Unit: Million Baht



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

Within KBank's consolidated lending portfolio, 93.41 percent were classified as "Normal" loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 45.84 percent; of that 92.07 percent were classified as "Normal" loans.

Loans Classified by Business

(Unit: Million Baht)

	Mar. 31, 2019		Dec. 31, 2018	
	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>
Loans	1,339,895	495,133	1,344,381	487,632

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

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

As of March 31, 2019, our Corporate Business loans (Corporate and SME customers) were stable. Higher demand for loans was seen from our corporate customers, especially those in the real estate and consumer goods sectors, who benefited from public sector construction and the government's policy to promote domestic consumption, to accommodate business expansion and to bolster liquidity or for use as working capital. Likewise, our SME business loans were stable in line with the economy, which posted moderate growth. Industries which saw higher outstanding loans were those related to consumer goods, petroleum and petrochemical products, and agro-industry.

For retail loans, KBank focused on loan quality along with retaining our market leadership in major loan products. We thus maintained a cautious growth policy in alignment with the market and economic conditions. In the first quarter of 2019, our retail loans slightly increased from the end of 2018, owing mainly to credit card loan repayment for tax-saving funds purchased during the last year-end. Meanwhile, home loans – our core product – enjoyed high growth thanks to soaring demand prior to the implementation of the new loan-to-value criteria in an effort to curb mortgage loans, effective April 1, 2019. Moreover, KBank continued promotional campaigns and marketing activities while also offering comprehensive loan products, namely Home Loan Refinance and K-Home for Cash, as well as adding digital channels for home loan application via K PLUS and KBank Live. At the same time, K-Personal Loan enjoyed higher growth thanks to enhanced customer convenience in loan application through digital channels. For new customer base expansion, we conducted data-driven analyses to acquire low-risk clients while also offering a special interest rate promotion on a continual basis.

## □ Deposits

### Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Mar. 31, 2019	Dec. 31, 2018	Million Baht	Percent
<b>Total Deposits</b>	<b>100.00</b>	<b>1,978,837</b>	<b>1,995,001</b>	<b>(16,164)</b>	<b>(0.81)</b>
Current accounts	5.77	114,142	116,957	(2,815)	(2.41)
Savings accounts	71.86	1,422,034	1,436,615	(14,581)	(1.01)
Fixed-term deposit accounts	22.37	442,661	441,429	1,232	0.28

During the first quarter of 2019, total deposits of Corporate Business and Retail Business decreased by Baht 16,164 million, or 0.81 percent from the end of 2018, which was mainly attributed to sufficient liquidity to accommodate loan growth. KBank remained committed to our policy for management of deposits, which must be kept at levels appropriate for business operation and competition, taking into account the balance of deposits from each customer segment while maintaining savings accounts as the highest proportion of total deposits. We also launched special fixed-term deposit products, mutual funds and life insurance products via all channels – all of them offering attractive returns with acceptable risk

appetite – as alternatives for the target groups, as part of our effort to promote savings and investment discipline among our customers for effective management of their daily spending.

## 4.4 Treasury Operations

### □ Treasury Operations

During the first quarter of 2019, average overnight interbank lending rates were at 1.72 percent p.a. Those rates were influenced by the resolutions from the MPC meetings held on February 6 and March 20, 2019, wherein the key policy rate was kept at 1.75 percent p.a.

KBank's liquidity position and investment portfolios were managed primarily to cope with future changes in business conditions and in line with the domestic economy, as well as money and capital markets both at home and abroad. In the first quarter of 2019, our liquidity position was appropriately managed, and we were able to maintain returns on investments by reducing our holding of short-term bonds, returns of which were lower than the policy rate. In addition, KBank invested in top-rated foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

### Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q1-2019	Q4-2018	Change	
				Million Baht	Percent
<b>Interest income<sup>1)</sup></b>					
Interbank and money market items <sup>2)</sup>	65.34	1,697	1,432	265	18.51
Investments	34.66	900	991	(91)	(9.18)
<b>Total</b>	<b>100.00</b>	<b>2,597</b>	<b>2,423</b>	<b>174</b>	<b>7.18</b>

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

<sup>2)</sup> Including loans

During the first quarter of 2019, total interest income stood at Baht 2,597 million, increasing Baht 174 million or 7.18 percent from the previous quarter, due to rising interest rate of repurchase agreement transactions.

## 4.5 Capital Requirements

As of the end of the first quarter of 2019, KBank, under the Basel III capital requirements, had capital funds of Baht 350,957 million, consisting of Baht 300,001 million in Tier-1 capital and Baht 50,956 million in Tier-2 capital. The capital adequacy ratio of KBank was 17.04 percent, above the BOT's minimum requirement and conservation buffer of 11.50 percent. Details of the capital adequacy ratio of KBank are shown in the following table:



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

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

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Mar. 31, 2019	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Tier-1 Capital Ratio	9.00	15.73	7.875	15.90	16.50	15.57	15.41
<i>Common Equity Tier-1 Ratio</i>	7.50	15.73	6.375	15.90	16.50	15.57	15.41
Tier-2 Capital Ratio	-	2.39	-	2.42	2.46	2.48	2.29
<b>Capital Adequacy Ratio</b>	<b>11.50</b>	<b>18.12</b>	<b>10.375</b>	<b>18.32</b>	<b>18.96</b>	<b>18.05</b>	<b>17.70</b>

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Mar. 31, 2019	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Tier-1 Capital Ratio	9.00	14.57	7.875	14.75	15.26	14.43	14.38
<i>Common Equity Tier-1 Ratio</i>	7.50	14.57	6.375	14.75	15.26	14.43	14.38
Tier-2 Capital Ratio	-	2.47	-	2.51	2.55	2.56	2.57
<b>Capital Adequacy Ratio</b>	<b>11.50</b>	<b>17.04</b>	<b>10.375</b>	<b>17.26</b>	<b>17.81</b>	<b>16.99</b>	<b>16.95</b>

Notes: <sup>1)</sup> Excluding net profit of each period, which under the Bank of Thailand's regulations, net profit in the first period is to be counted as capital after approval by the Board of Directors per KBank's regulations. Net profit in the second period is also counted as capital after approval of the General Meeting of Shareholders. However, whenever a net loss occurs, the capital must be immediately reduced at the end of period.

<sup>2)</sup> KASIKORNBANK FINANCIAL CONGLOMERATE means the company under the Notification of the Bank of Thailand Re: Consolidated Supervision, consisting of KASIKORNBANK, K Companies and subsidiaries operating in support of KBank, Phethai Asset Management Co., Ltd. and other subsidiaries within the permitted scope from the BOT's to be a financial conglomerate.

<sup>3)</sup> Bank of Thailand (BOT) required the Bank to maintain two capital buffers as follows:

(1) Conservation buffer: BOT required the bank to maintain an additional Common Equity Tier 1 on a phase-in basis at 0.625% per annum starting from 1 January 2016 until reaching 2.50% in 2019.

(2) Domestic Systematically Important Banks Buffer (D-SIBs Buffer): BOT required the D-SIBs to maintain an additional Common Equity Tier 1 at 1% per annum on a phase-in basis at 0.50% from 1 January 2019 and increase to be 1% from 1 January 2020 onwards.

## 4.6 Credit Ratings

At the end of March 2019, the Bank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of 2018.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Mar. 31, 2019
<b>Moody's Investors Service <sup>1)</sup></b>	
<u>Foreign Currency</u>	
Outlook	Stable
Long-term - Senior Unsecured Notes	Baa1
- Deposit	Baa1
- Counterparty Risk	Baa1
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
Baseline Credit Assessment	Baa2
<u>Domestic Currency</u>	
Outlook	Stable
Long-term - Deposit	Baa1
- Counterparty Risk	Baa1
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
<hr/>	
<b>Standard &amp; Poor's <sup>1)</sup></b>	
<u>Global Scale Ratings</u>	
Outlook	Stable
Long-term Counterparty Credit Rating	BBB+
Long-term Certificate of Deposit	BBB+
Short-term Counterparty Credit Rating	A-2
Short-term Certificate of Deposit	A-2
Senior Unsecured Notes (Foreign Currency)	BBB+
<hr/>	
<b>Fitch Ratings <sup>1)</sup></b>	
<u>International Credit Ratings (Foreign Currency)</u>	
Outlook	Stable
Long-term Issuer Default Rating	BBB+
Short-term Issuer Default Rating	F2
Senior Unsecured Notes	BBB+
Viability	bbb+
Support	2
Support Rating Floor	BBB-

**National Credit Ratings**

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

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

## 5. Operations of Support Groups

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### 5.1 Human Resource Management

KBank has focused on providing support to our human resource management operations in major areas, in alignment with business needs, namely internal restructuring to meet business needs, attracting capable persons to work with KBank, creating a positive employee experience and engagement, and labor relations management.

- **Internal restructuring to meet business needs:** The Distribution Network Division has been established to integrate service and sales tasks of retail and SME businesses to promote seamless collaboration under a one-team work format, with the aim of enhancing capabilities in creating innovative services for our customers. In this quarter, KBank launched Team Building for One Team activities to strengthen relationships among staff members so that they are aware of their individual differences, to ensure unity, creativity and collaboration in achieving our goal of being the “Customers’ Life Platform of Choice”.
- **Attracting capable persons to work with KBank:** KBank initiated projects and activities to draw high-potential personnel including university students and experienced workers to join our workforce. They were, i.e.,
  - (1) KCapstone: This program was held for the second consecutive year to support students from universities both in Thailand and abroad to broaden their horizons in start-up business, with a focus on learning new business formats in order to seize new opportunities that they had never before considered.
  - (2) KBank Young Scholarship 2019 and KBTG Young Tech Scholarship 2019: The program was opened for senior students to attend courses in Master of Business Administration (MBA) and technology studies in the world’s most prestigious universities, giving them the opportunity to work with KBank.
  - (3) Samaggi Careers Fair 2019 at Imperial College London: Working with Samaggi Samagom in the UK, KBank recruited personnel as part of our efforts to promote KBank’s image.
  - (4) KBank Career Day & K SME Career Day: The event provided an opportunity for candidates to apply for various job vacancies through examinations and interviews, with results known within the same day.
- **Creating a positive employee experience and engagement:** KBank organized numerous programs and activities to hone skills and abilities of our staff members for an enhanced work environment:

- (1) Digital Academy: To promote learning among employees via KDwise - an e-learning platform of KBank – we teamed with Chula Massive Open Online Courses (Chula MOOC) to arrange the Data Science Pathway program. We also offered additional learning options to staff members by linking to famous online learning platforms, namely edX, coursera.org, etc. that provide learners a wide variety of study courses.
  - (2) YES Talk: This program involves inspirational talks given by representative employees who share their experiences and inspiring stories from different perspectives. This TED Talk-style forum aims to ignite ideas and foster a positive attitude at work.
  - (3) K-Style DIY: This program invited successful persons from various fields to share with our participating employees their life perspectives and experiences, which could be further applied to our employees' work and life.
  - (4) K-Spirit: Under the theme, "The Planet of Possibilities", this program, held on January 19, 2019, featuring e-sports activities was organized to reinforce our K-Culture among employees of KBank and K Companies.
  - (5) "SATI" campaign: With the aim of promoting cyber risk awareness, we launched the "SATI" campaign to encourage our employees to be aware of all kinds of cyber scams.
  - (6) "AED Virtual Run 10,000,000 Km." campaign: KBank joined the "Run One Km. Each" activities to raise funds for the Thai Red Cross Society to purchase automated external defibrillators (AEDs) which were distributed to needy organizations nationwide. Our employees who joined the race contributed 179,000 km. to the program, which had set the goal of an 88,888 km. distance.
- **Employee relations and benefits:** The first 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, to ensure strict compliance among our staff members. These efforts were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks. We also established practical guidelines on various key issues in compliance with labour laws of AEC countries, so that our employees abroad can perform their work correctly.

## 5.2 IT Management

In the first quarter of 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. Our key initiatives can be summarized as follows:

- **Development of KBank's mobile banking application (K PLUS):**
  - (1) K PLUS screen theme has been made available in white cloud theme aside from the default theme, for users to choose from.
  - (2) K PLUS system has been developed to enable electricity bill payment for the Provincial Electricity Authority.
  - (3) K PLUS users can use QR to scan other banks' slips for verification, to ensure transaction accuracy and cut losses from fake slips.
  - (4) A function has been added to K PLUS to accommodate promotion codes from our partner merchants, allowing customers to buy products via K+ Market at special prices.
- **Development of KBank mobile banking application for merchants (K PLUS Shop):**
  - (1) K PLUS Shop system has been upgraded to allow immediate refund to K PLUS customers scanning QR at merchants whose account is linked with other banks.
  - (2) AirAsia member card can be added to K PLUS to allow customers to view their accumulated points and benefits.
- **K PLUS Beacon:** Thailand's first application that empowers the visually impaired to independently conduct online financial transactions via mobile phone was jointly developed by KBank and Beacon Interface Co., Ltd. The application is expected to be rolled out in the third quarter of 2019.
- **Development of Application Programming Interface (API) Manager system:** K PLUS Shop API has been expanded to link to more trade partners to enable QR payment on their applications. We have constructed a website for interested persons to study and test the system. Currently, API is being developed to accommodate credit card payment. The system structure has also been developed to allow outside software to access financial service data at KBank's server (Open API) for further connectivity to fintech business, with priority given to data suitability and security.
- **Development of machine learning technology:** We have adopted biometric technology for creating the Face Pay system as a payment channel for identity authentication. Optical Character Recognition (OCR) has also been developed for customer data verification in order to accommodate the offering of products and services suited to customer needs, with enhanced security.

- **Development of functions of blockchain for recording financial transaction data:** The Hyperledger blockchain platform was further developed for a 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, which is expected to be available in the second quarter of this year as the system is now being tested. Moreover, five commercial banks have established a company in which they hold equal shares, for management of blockchain identity (BCI).
- **Development of Electronic Know-Your-Customer (National Digital Identity):** We have employed facial recognition biometrics for account opening at branches nationwide in this quarter after KBank entered the Bank of Thailand's regulatory sandbox in the third quarter of 2018. KBank, the Electronic Transactions Development Agency (Public Organization) and other commercial banks have established a working group to design formats for sharing data among banks via a Digital Identity Platform as a common standard for electronic transactions.

**Disclaimer**

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



A large, solid green abstract shape that resembles a stylized leaf or a curved wedge. It starts with a sharp point at the top left and curves smoothly towards the bottom right, ending in a vertical edge on the right side.

[www.kasikornbank.com](http://www.kasikornbank.com)

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