



KASIKORNTHAI

# Management Discussion and Analysis (MD&A)

For the Quarter Ending June 30, 2019

ธนาคารกสิกรไทย  
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

**Executive Summary**  
**Management Discussion and Analysis**  
**For the Quarter Ending June 30, 2019**

The Thai economy faced increased headwinds in the second quarter of 2019. Exports, tourism and private investment – among major economic activities – were hampered by the worse-than-expected global economic slowdown. Meanwhile, consumers’ purchasing power weakened amid high household debt, whereas public investment and the government’s budget disbursement were affected by a delay in the formation of a new government. Nevertheless, economic stability remained sound, which helped support investors’ confidence. This is despite the fact that this factor, coupled with the stable policy rate, resulted in increased volatility in money and capital markets as well as foreign exchange rates.

KBank hence prioritized effective risk management in order to cope with economic uncertainties both at home and abroad. We adopted a prudent credit policy, accounting for customer potential and business opportunities in each individual sector and area across all industries. In parallel, we focused on the development of technological solutions with the aim of becoming “Customers’ Life Platform of Choice” in order to maintain existing clients with good track records while also broadening opportunities to acquire new patrons via digital channels.

KASIKORNBANK has established its 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.

Being aligned with our business strategies, KBank and subsidiaries thus reported that net profit for the second quarter of 2019 totaled Baht 9,929 million, decreasing Baht 115 million or 1.15 percent from the previous quarter. KBank still recorded increased income. As evidenced, both net interest income and non-interest income rose in line with income from investments, an increase in net premiums earned - net, and revenue from capital market products. Nonetheless, given one extraordinary item – an increase in retirement reserves from the change in defined benefit plan according to KBank’s employment policy which is not related to labor law, together with rising marketing expenses, our cost-to-income ratio stood at 45.02 percent, up from 42.70 percent in the first quarter of this year. Even though the figure was still within the set target, it caused a drop in our net profit compared to the preceding quarter.

In the second quarter of 2019, our credit cost stood at 1.57 percent, less than the figures of 1.58 percent in the previous quarter and 1.74 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 18.55 percent, with a Tier 1 capital ratio of 16.19 percent, remaining sufficient to cushion against risk, and greater than the Bank of Thailand's requirements of 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 while also gaining wide acceptance and recognition at home and abroad, as reflected in the numerous awards we received in this quarter.

## Contents

	Page
<b>Executive Summary</b>	<b>A</b>
<b>1. Overview of Operating Environment</b>	<b>1</b>
1.1 Global and Thai Economy in the Second Quarter of 2019	1
1.2 Banking Industry and Competition	2
1.3 Significant Regulations and Rules related to Business Operations	2
<b>2. Risk Management and Risk Factors</b>	<b>7</b>
2.1 Credit Risk Management	7
2.2 Market Risk Management	7
2.3 Liquidity Risk Management	8
2.4 Digital Risk	8
<b>3. Business Directions and Operations of Core Businesses</b>	<b>10</b>
3.1 Sustainable Development and Corporate Governance	10
3.2 Business Directions of KASIKORNBANK and the Wholly-owned Subsidiaries of KASIKORNBANK	11
3.3 Customer Segments and Services	11
3.4 Service Channels	16
3.5 Awards and Commendation	19
<b>4. Operating Performance and Financial Position Analysis</b>	<b>20</b>
4.1 Operating Performance	20
4.2 Financial Position Analysis	26
4.3 Loans and Deposits	28
4.4 Treasury Operations	32
4.5 Operating Performances of K Companies and Muang Thai Life Assurance PCL	33
4.6 Capital Requirements	34
4.7 Credit Ratings	36
<b>5. Operations of Support Groups</b>	<b>38</b>
5.1 Human Resource Management	38
5.2 IT Management	40

# 1. Overview of Operating Environment

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

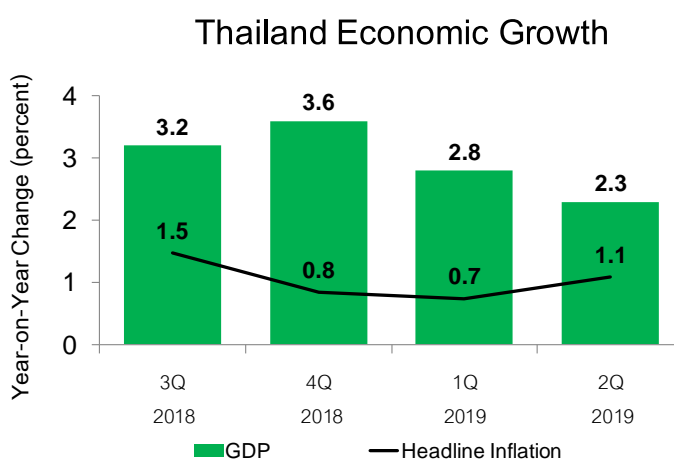
The global economy remained in the doldrums during the second quarter of 2019. The inconclusive US-China trade negotiations, which showed no sign of ending, exacerbated the lackluster global trade and investment environment. Worse, Brexit risks became heightened in the wake of political change in the United Kingdom. The World Economic Outlook of the International Monetary Fund cut its 2019 global economic growth projection to 3.2 percent from the previous forecast of 3.3 percent due mainly to an anticipated slowdown in developing countries and emerging economies, in particular, China, India and ASEAN.

The Federal Reserve and several other central banks in Asia gradually adopted a more accommodative stance in response to the weakening global economy amid looming risks. The US central bank cut its policy rate to 2.00-2.25 percent in late July, and other Asian monetary policymakers followed suit in a bid to sustain their economic growth while also signaling their readiness for more easing if needed during the remainder of this year.

In Thailand, most major economic indicators for the second quarter of 2019 were on the wane. Exports and tourism, in particular, were adversely affected by economic weakness of Thailand's trade partners and tumbling global trade volume, coupled with the stronger Baht which had relentlessly risen at a more pronounced rate than its trade partners' and competitors' currencies. Moreover, private consumption, albeit expanding,

began to exhibit decelerating growth following a recent ramp-up in spending on durable goods. Likewise, private investment remained weak pending more apparent signs of economic recovery during the latter half of this year. In the second quarter, the Thai economy saw slower growth of 2.3 percent, compared to the 2.8 percent in the first quarter.

Broadly speaking, the Thai economy may grow within a range of 2.9-3.3 percent in 2019, down from the growth of 4.1 percent in 2018. Development of Thai economic sectors during the rest of this year merits close watch after the Monetary Policy Committee (MPC) resolved to lower the Thai policy rate to 1.50 percent from 1.75 percent – its first such move in four years – in its meeting held on August 7, 2019.



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

## 1.2 Banking Industry and Competition

Commercial banks' overall performance in the second 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 as well as a decrease in provisioning expenses. Compared to the previous quarter, the banking performance fared better, supported by increased dividend income due to seasonal factors. Nonetheless, net interest margin (NIM) declined in the second quarter of 2019 as certain banks had realized income from auction of mortgaged guarantee assets in the first quarter. Meanwhile, net fees and service income, in spite of an over-year decline, began to show signs of improvement. Compared to the prior quarter, the figures edged higher in line with increased brokerage fees from securities business, bancassurance fees and management fees. NPLs to total loans edged up slightly from the prior quarter. Therefore, commercial banks' asset quality still needs close watching.

As of the end of the second quarter of 2019, net loans at 14 domestically-registered commercial banks grew 3.88 percent over-year, decelerating from the growth of 4.98 percent and 5.17 percent at the end of the first quarter of 2019 and year-end 2018, respectively. Meanwhile, deposits grew at a slower rate of 3.03 percent over-year, compared to 3.37 percent at the end of first quarter of 2019 and 3.96 percent at the end of last year.

For the outlook of commercial banks during the remainder of 2019, they may have to prioritize asset quality management while also maintaining prudent credit underwriting policies, along with cost efficiency and expansion of customer base and income by providing financial transactions via multiple platforms in a highly competitive environment. At the same time, the core business of loans is likely to see limited growth pending clearer signs of economic recovery. Home loan and auto hire-purchase loan, in particular, may grow at a slower pace in the second half of this year given the soaring demand seen during the previous two quarters. Close attention should be paid to changes in lending criteria or guidelines, especially those related to retail loans from the Bank of Thailand, which may curb the expansion of loans extended to certain groups of customers. Moreover, banks should be prepared for other regulatory changes including the Basel III capital requirements and the International Financial Reporting Standards (IFRS9), which will come into effect in 2020.

## 1.3 Significant Regulations and Rules related to Business Operations

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

Rules and Regulations	Key Points
<p>1. Revision of practical guidelines for entering regulatory sandbox, from Circular No. BOT ForThorNgor. Wor 311/2562 dated March 11, 2019, effective March 15, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• The Bank of Thailand has revised its practical guidelines for entering the regulatory sandbox by allowing financial service providers to experiment with their products and services in a sandbox of their own, with standards comparable to those of the regulatory sandbox, in order to support the development of innovations and shorten the time until market launch. The move will help increase efficiency in business operations and financial services, while also boosting financial service accessibility among service users, at reduced cost.</li> </ul>
<p>2. Notification of the Director-General of the Revenue Department on Income Tax (No. 346) regarding exemption of interest income tax for savings deposit, which was published in the Government Gazette on May 3, 2019, effective April 4, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Conditions of eligibility for exemption of tax on interest income of savings account and return on deposit in accordance with Islamic Shariah principles in amounts of up to Baht 20,000 from all accounts during a tax year have been established in line with commercial banks' practical guidelines.</li> </ul>
<p>3. Escrow Agents Act (No. 2) B.E. 2562 (2019), published in the Government Gazette on April 14, 2019 and effective April 15, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Revision has been made for escrow agent transactions to ensure increased flexibility; the Escrow Regulation Committee has been given more powers and obligations in supervising and supporting escrow agency businesses, while the method for deposit certification/deposit notification has been amended to accommodate electronic channels.</li> </ul>
<p>4. Two Electronic Transaction Acts:</p> <p>4.1 Electronic Transaction Act (No. 3) B.E. 2562 (2019), published in the Government Gazette on April 14, 2019 and effective April 15, 2019 onward.</p> <p>4.2 Electronic Transaction Act (No. 4) B.E. 2562 (2019), published in the Government Gazette on May 22, 2019 and effective May 23, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• No. 3 – Revision has been made to remove restrictions and obstacles to law enforcement, to be in line with international standards; while the mechanism for supervising the service industry related to electronic transactions has been streamlined for enhanced clarity and in alignment with digital development for the economy and society.</li> <li>• No. 4 – Revision has been made to remove restrictions and minimize service users' burden for proof of identity and identity verification. (Previously, service users had to be present in order to submit identity verification documents to service providers.) The new law provides them more options in conducting proof of identity and identity verification via digital system based on established guidelines. A mechanism for supervising relevant service providers has also been established to create trustworthiness and increased security.</li> </ul>

Rules and Regulations	Key Points
<p>5. Securities and Exchange Act (No. 6) B.E. 2562 (2019), published in the Government Gazette on April 16, 2019 and effective April 17, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• This legislation has increased the authority and responsibilities of capital market supervisory agencies while also adding efficient tools to ensure market stability through the following actions: (1) a Capital Market Development Fund has been established; (2) the Stock Exchange of Thailand is required to disclose information related to the arrangement of reserves in a manner that is accessible to the public; and (3) mutual fund supervision will primarily take into account unitholders' benefits, with formulation of policies for the prevention of conflict of interest.</li> </ul>
<p>6. Labor Protection Act (No. 7) B.E. 2562 (2019), published in the Government Gazette on April 5, 2019 and effective May 6, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Rights and duties of employers and employees have been revised to improve the level of protection for employees to be in accordance with international standards. In essence: (1) Prior consent must be given by employees in case of change in an employer; (2) Employees are entitled to leave for necessary business for no less than three working days per year; (3) A pregnant female employee is entitled to maternity leave of not more than 98 days for each pregnancy; (4) Severance pay is increased for employees who have worked for 20 years; (5) Wages, overtime pay, holiday pay and holiday overtime pay shall be fixed by the employee at the same rate, regardless of whether employee is male or female.</li> </ul>
<p>7. The Bank of Thailand's Policy Guidelines Re: Appraisal of Collateral and Foreclosed Properties obtained from debt payment, loan guarantee or purchase from public auction by financial institutions, from BOT Circular ForNorSor (23) Wor.575-2562 dated May 8, 2019, effective May 15, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Criteria for collateral appraisal have been revised to ensure greater flexibility based on the principle of reliability to reflect its true value in order to ensure increased efficiency in collateral appraisal and management of risks from the holding of such collateral. Loan to value has been established with appropriate provisioning required to avoid unnecessary obligations that may otherwise be incurred.</li> <li>• Banks are encouraged to use technologies and a reliable database for optimum benefits in reviewing and assessing collateral value of performing loans wherein credit risk has not significantly increased. Permission has been granted to commission overseas appraisers to conduct collateral appraisal abroad, whereas the scope of appraisal standards has been expanded to include money market transactions.</li> </ul>



Rules and Regulations	Key Points
<p>8. The Cybersecurity Act, B.E. 2562 (2019), published in the Government Gazette on May 27, 2019 and effective May 28, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Both public and private agencies which have duties or provide services that fit the criteria of Critical Information Infrastructure Organizations (CII Organizations), including the financial and banking sector, are required to have in place measures to protect against, cope with and minimize cyber threats in a timely manner to avoid their potential impact on the nation's security.</li> </ul>
<p>9. Personal Data Protection Act B.E. 2562 (2019), published in the Government Gazette on May 27, 2019 and effective May 28, 2019 onward, except for the operative provisions related to personal data protection, which will take effect within one year of the law's effective date</p>	<ul style="list-style-type: none"> <li>• The Act aims to enhance personal data protection efficiency, with the implementation of rectification measures for data subject whose fundamental rights have been violated. The collection, usage or disclosure of personal data without consent from the data subject is prohibited, unless otherwise permitted by this law or other regulations.</li> <li>• These operative provisions will come into force after a grace period of one year from the publication date, i.e., May 28, 2020, to allow for the establishment of agencies responsible for enforcement of the law.</li> </ul>
<p>10. Revenue Code Amendment Act (No. 52) B.E. 2562 (2019), published in the Government Gazette on May 22, 2019 and effective August 20, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• This amendment aims to promote tax equality in connection with investment in fixed-income funds, whether it is direct investment or indirect investment via mutual funds. The "Company or Juristic Partnership" has been redefined to include mutual funds which are subject to corporate income tax.</li> </ul>
<p>11. Consumer Protection Act (No. 4) B.E. 2562 (2019), published in the Government Gazette on May 27, 2019 and effective August 25, 2019 onward.</p>	<ul style="list-style-type: none"> <li>• Additional power was granted to the Committee on Advertisement in that it is now authorized to act on behalf of business operators to ensure that problems regarding advertisements can be solved promptly, and to issue an order to temporarily suspend advertisements, in cases that are deemed urgent or necessary.</li> <li>• Provisions regarding consumer protection were added help ensure safety for any "harmful service" that has caused or could cause harm to persons' life, physical or mental health, or property damage.</li> </ul>

Rules and Regulations	Key Points
<p>12. Right-based Assets Act, B.E. 2562 (2019), published in the Government Gazette on April 30, 2019, effective October 27, 2019 onward.</p>	<ul style="list-style-type: none"> <li>● Restriction on utilization of real estate has been removed by adding right-based asset as a new asset class which involves the right to use properties that can be transferred and placed as a guarantee for debt payment, used as a business security or for mortgage purpose. This new legislation will promote and support investment in property and be conducive to the country's economic growth as a whole.</li> </ul>
<p>13. Life Insurance Act (No. 4) B.E. 2562 (2019) and Non-Life Insurance Act (No. 4) B.E. 2562 (2019), published in the Government Gazette on May 25, 2019 and effective November 21, 2019 onward.</p>	<ul style="list-style-type: none"> <li>● Provisions for supervising services of insurance agents and brokers have been amended and added, including the use of electronic methods in insurance business. Other amendments include increased penalties for fraud offences, authorization granted to the Office of the Insurance Commission to establish criteria and performance of duty of agents and brokers for broader scope and greater flexibility, as well as greater power of registrar for suspension of agent and broker license or other corrective action (in addition to license revocation).</li> </ul>

KBank has studied these regulations and established our operational policies in accordance with these regulatory changes. We have prepared internal processes and developed employees' skills to ensure that our services are appropriately provided to customers in line with international standards. These new regulations and rules will be instrumental in elevating KBank's operational procedures, which will be conducive to the nation's economic and financial system, as a whole.

## 2. Risk Management and Risk Factors

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### 2.1 Credit Risk Management

The Thai economy recorded less-than-expected growth in line with a global slowdown. The weakness was mainly seen in major Thai economic sectors, especially exports, tourism and private investment. Domestically, hefty household debt put a cap on private consumption while continuity of the government's investment projects was deferred pending the formation of a new government. Furthermore, digital disruption continued to negatively impact 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 to match the different natures of businesses in each area. 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 or existing low-risk customers, while giving greater weight to digital lending.

### 2.2 Market Risk Management

Overall, movements in foreign exchange saw the Thai Baht strengthen in the second quarter of 2019 – touching Baht 30.73/USD, the strongest level in six years. The stronger Thai Baht was seen after the Federal Reserve's May 1, 2019 meeting resolved to keep its policy rate intact against the backdrop of the softening US Dollar, which was pressured by rising trade tensions between the US and China and the potential spread of protectionist measures to include Mexico, Japan and India. Meanwhile, several major US economic indicators were on the decline, especially the inflation rate which was still lower than the target. Moreover, the UK appeared quite likely to leave the European Union (Brexit) without any formal agreements in place following the resignation of UK Prime Minister Theresa May.

Amid heightened economic risks and anxiety towards a looming global economic slowdown, financial markets around the globe turned cautious as investors resorted to increasing their holdings of safe-haven assets, prompting Thai and US bond yields to drop across all maturities. The Federal Reserve was thus expected to cut its key policy rate sometime this year. Meanwhile, other central banks in Asia, led by India and the Philippines, started to make policy rate reductions. However, the Bank of Thailand is poised to maintain its key policy rate throughout 2019. Given the Thai economy's strong fundamentals, risk-averse investors thus put greater weight on Thai assets, as evidenced by ongoing capital inflows to Thailand, which caused the Thai Baht to strengthen rapidly.

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

Overall liquidity in the Thai banking system in this quarter slightly tightened from earlier this year due to higher growth of net loan than that of deposits. Broadly speaking, loans increased as seen from the rise in business, working capital and retail loans, particularly auto hire purchase and consumer loans. Meanwhile, an increase in deposits was seen at the beginning of the quarter due to an increase in current, savings and fixed-term deposit accounts. However, deposits later dropped as a large number of fixed-term deposit accounts reached maturity, and there was a cash outflow from current and savings accounts at three or four banks. Looking at the remainder of this year, overall loan growth is expected to slow due to a Thai economic recovery that is forecast to remain weak. This could impact the potential of certain groups of borrowers, especially SMEs and retail customers who have long-term debt obligations.

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 continue to adopt proper fund-raising strategies.

## 2.4 Digital Risk Management

KBank aims to maintain our growth and our market leadership in digital banking services in Thailand. To this end, 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.

For overall digital risk management in this quarter, KBank expedited the implementation of the digital risk control system development plan in conformity with the current cyber threat environment and past performance, to achieve the target of sound risk management. We prioritize risk control including efficient risk identification, as well as prevention against, detection of, and response to potential risks, and the establishment of a cyber hygiene culture across our four key areas of business processes and work systems, i.e., governance, policies, processes and technology, and people and culture. Key developments included:

- Governance: Performance and level of digital and cyber risk are reported to relevant supervisory committees on a regular basis.
- Policies: A sandbox policy to support the application of technology-based innovations to financial services has been formulated to be consistent with the Bank of Thailand's revised practical guidelines on regulatory sandbox which allows financial service providers to experiment with their products and services in a sandbox of their own if their innovations cannot be developed to the level of an infrastructure or as a central standard, or are not required by laws or regulations to be tested in an environment used to ensure regulatory compliance, or the regulatory sandbox. These guidelines aim to ensure greater flexibility in support of innovation development and shorten the time until market launch.
- Processes and technology: The Cyber Security Operation Center (CSOC) program has been implemented to bolster our cyber incident detection and response capabilities, ensuring proactive and timely actions against cyber threats.
- People and culture: KBank continues to emphasize the cultivation of a cyber risk-aware culture via communication through various formats. Notable endeavors included a phishing drill in order to effectively cope with fraudulent practices targeting customers' personal information via internet and email.

## 3. Business Directions and Operations of Core Businesses

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### 3.1 Sustainable Development and Corporate Governance

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

In the second quarter of 2019, 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 suppliers 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 has established guidelines for human rights management, due diligence practice, assessment of risks and human rights-related impacts, preventive and remedial measures in the event of human rights violations, as well as monitoring and reporting of implementation results, while also providing channels for receiving human rights-related complaints and handling mechanisms. Additionally, KBank has arranged a series of trainings and communications on a regular basis to enhance employees' knowledge, understanding and awareness of human rights principles, to prevent human rights violations.

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. KBank thus undertook a number of activities with a focus on efficient performance of duties among employees at all levels. They included:

- Holding orientation sessions on good corporate governance and government regulations for new directors, along with providing communications for them on these issues
- Holding a lecture on Governance, Risk Management and Compliance (GRC) for executives
- Organizing training and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via the KBank e-Learning system
- Encouraging employees to attend market conduct training courses
- Communicating to employees for prevention of insider trading

We also provided recommendations on compliance with the Statement of Corporate Governance Principles and best practices to K Companies, as well as inviting external organizations to undertake KBank corporate governance assessment.

## 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 second quarter of 2019, KBank continued to prioritize 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 second 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 prioritized development of financial innovations. In this quarter, we connected our electronic letter of guarantee service (K CONNECT-LG) with blockchain to increase service efficiency for our large corporate clients who are beneficiaries. The service allows applicants to conduct the entire process, from issuing to placing the letter of guarantee. The applicants are also able to check the status all the time, thus eliminating the document forgery problem and cutting related costs of travel and document management. In its initial stage, three beneficiaries started this innovative service to their customers.

Along with this, KBank provided our customers advisory services through recommendations of a wide variety of products for enhanced efficiency in funding source management, including loan management, fund mobilization via debt and capital markets, and risk management suited to each individual customer. In this quarter, KBank provided support to customers in food and beverages, real estate and leasing industries in their issuance of debentures for business opportunity expansion.

## ■ Large Corporate Business

KBank always focuses on personnel development to ensure that our employees have gained knowledge and understanding of the overall industry picture vis-à-vis customers' businesses, especially the significant changes in products and services provided by KBank in response to the fast-paced digital era. This endeavor is intended to extend our service capabilities beyond the banking realm. In this quarter, we placed greater importance on system management beyond just financial service provision, especially with universities and hospitals. Of note, KBank signed a memorandum of cooperation with two universities to support co-learning spaces and applications design tailored to each university that may also serve as a prototype in the move towards a cashless society.

## ■ Medium Business

We prioritized our support to Medium Business through total solutions. The One Team project was thus initiated to equip our customer advisors with knowledge and know-how on products and services and to strengthen collaboration between sales teams and branch officers. Focus was also on in-depth data analysis in order to gain insights about customers' business and personal needs at any given time.

In this quarter, KBank implemented our credit policy in support of government measures. One notable initiative was the loan program offered to business operators registering with the Social Security Office, as part of our effort to promote employment growth. Eligible companies were granted working capital at special interest rates to allow them to increase or maintain their workforce. In continual support of the government's SME single-account scheme, meanwhile, KBank offered a 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. Moreover, we



introduced a product offering a 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 online business opportunities. In this quarter, we worked with TGIF Market to help shop owners sell their products via K+ Market platform in addition to the sales channels they presently use, while also helping them manage their stores via K PLUS Shop and accepting payment for goods and services with greater convenience via QR code and electronic data capture (EDC). At the same time, KBank still emphasized the sharing of business knowledge and experience among SMEs via diverse activities. To this end, 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 via KBank Online Shop Space (KOS Space).

For card accepting merchant business, KBank developed the K PLUS Shop application on a continual basis in alignment with the Bank of Thailand's policy guidelines regarding the Thai QR Payment standard, which requires merchants to generate a standardized QR code payment platform for payment acceptance, along with features that facilitate them in checking payment data from the QR code on buyers' e-slips. One notable initiative was the "Shop and Pay via QR and Get Cash Back!" promotional campaign to promote QR spending via K PLUS with cash back offered per the established conditions. Moreover, payment systems of card accepting merchant business have been enhanced to accommodate new features of K-Express Cash, allowing customers to make full or installment payment via EDC. Teaming with our business partners to expand payment channels, we pioneered the use of EDC machine for Easy Pass top-up via credit and debit card as well as QR code at established service points. Furthermore, we debuted the e-Tax Invoice to facilitate merchants in their tax filing with reduced operating costs.

#### ■ **High Net Worth Individual**

KBank prioritizes development of investment innovations to ensure consistent returns for our customers in a highly volatile market environment. Based on the principle of diversification, we have developed novel formats of investment, especially through investment in alternative assets, so as to better meet customer needs. Initiatives of note in this quarter were the launch of K Positive Change Equity Fund (K-CHANGE) which invests in global stocks of companies operating businesses that have a positive impact on society; and K Global Private Equity 19A Fund Not for Retail Investors (K-GPE19A-UI) which focuses on private equities, thus ensuring investors of consistent returns regardless of capital market movements.

To support our customers in effectively gaining knowledge at the international level, KBank teamed with Lombard Odier and other business partners to organize a seminar, "Rethink Perspectives: Economy and Strategies for Investment amid Global Trade Crisis", provided in Thai, English and Chinese – to allow our Thai and foreign customers to gain economic and investment insights from experts of the Bank of

Thailand and Lombard Odier. The event was broadcast live via our social media platforms, including LINE application of KBank Private Banking. Moreover, KBank plans to hold small-scale seminars in other provinces nationwide to allow our clients residing there to gain access to world-class knowledge.

#### ■ **Affluent**

KBank prioritized expansion of new customers with potential who reside in strategic provinces across the country, through the introduction of products and services based on big data analytics, in order to increase this customer group's share of wallet devoted to KBank.

In this quarter, KBank focused on the launch of alternative investment products to comprehensively meet customer needs. Notable products were a special 11-month fixed-term deposit with monthly payment of interest at the rate of 1.6 percent p.a., and Life Insurance: Endowment 215 which was offered in continuation from the previous quarter. KBank also teamed with KASIKORN ASSET MANAGEMENT Co., Ltd. to introduce '4D' strategies (Diversification, Defensive, Duration and Discipline) in order to cope with market volatility through diversification of asset classes, focusing on defensive investment for generating constant income with appropriate duration of asset holding and disciplined investment. To this end, we offered fixed-income funds and mixed funds to institutional and large investors. Notable funds included K Enhanced Credit 1 Fund Not for Retail Investors (KEC1-U1), K Global Private Equity 19A Fund Not for Retail Investors (K-GPE19A-UI), K Thai Fixed Income 4 Years A Fund Not for Retail Investors (KTF4YA-AI), and K Fixed-Dated High Yield 2023A Fund Not for Retail Investors (KHY23A-UI). We also introduced a new equity fund for retail investors, the K Positive Change Equity Fund (K-CHANGE). Moreover, a special campaign was arranged to promote investment in long-term equity funds (LTFs) and retirement mutual funds (RMF) via smartphone application.

To elevate THE WISDOM brand and maintain our leadership status, we delivered an impressive experience with exclusive privileges and activities held to enhance customers' wealth in alignment with their business and personal needs, under the theme, "The Symbol of Your Pleasure". One highlight was a special dinner created by renowned chefs and Michelin-starred restaurants, with numerous additional privileges designed for the customers in attendance.

#### ■ **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 focused on the launch of products that meet all of our new-generation customers' needs, whether those are savings products, loan solutions or financial investment advice. In this quarter, KBank developed technologies to facilitate the opening of K-eSavings Account via K PLUS and to save time in the opening of a deposit account at a KBank branch by allowing customers waiting in line to fill out relevant information via tablet. We also offered a new travel insurance product with low premiums for domestic trips in addition to international travel, as well as personal accident insurance via K PLUS, while continually providing life insurance with health rider

designed for KBank Payroll customers to provide them more options for the purchase of insurance at low premiums, in order to supplement 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 three major loan products, i.e., K-Home Loan, K-Credit Card and K-Express Card. For K-Home Loan, we focused on K-Home for Cash to enlarge our high-yield loan portfolio, the launch of campaigns offering special interest rates plus other benefits for customers seeking to buy a new home and to refinance their mortgage in order to cope with the slowdown in housing loan after the implementation of new loan-to-value (LTV) measures by the Bank of Thailand. Meanwhile, the website of K Home Smiles Club which offers integrated home services was redesigned to accommodate the use via both personal computer and smart phone.

For K-Credit Card, aside from customer base expansion and the launch of a promotional campaign for new customers with 10-percent minimum payment, KBank introduced an end-to-end digital lending solution, initially for our KBank Payroll customers, with notification of approval result given within a few minutes. Along with this, marketing activities were conducted via digital channels to promote spending both at home as well as in foreign currencies, and to facilitate customers in redeeming their KBank Reward Points via K+ Market - a new channel provided by KBank.

Regarding K-Personal Loan, KBank continued to focus on digital lending to both existing and potential new customers based on efficient risk management through the use of alternative data obtained from within and outside of KBank. Given this effort, KBank was able to expand our customer base to low-income regular employees. In parallel, we launched the K-Express Cash campaign offering zero-percent interest to new customers using the KBank Payroll service, and regular-income employees.

#### ■ Mass

KBank prioritized the expansion of new customer base by using the strategy of attracting customers with the potential to become Middle Income clients and to use KBank as their main bank. We are determined to work with our partners so as to increase opportunities in developing new products and services to match customers' financial and lifestyle needs.

We were able to acquire new customers at leading companies and universities, including Naresuan University and Sripatum University, by taking part in the development of applications that facilitate online transactions and the rollout of university infrastructure management solutions. Meanwhile, KBank conducted data analytics to screen potential customers of K-Personal Loan and K-Express Cash while also continually offering numerous benefits for loan, deposit and investment products via the K-Payroll Benefits program

Along with this, we encouraged our customers to conduct transactions via electronic channels, especially the K PLUS application which has recently developed new features, such as round-the-clock overseas funds transfer to meet the needs of customers seeking to transfer funds to their children studying

abroad. Notable endeavors were the launch of a year-round no-fee campaign to prompt customers to replace their magnetic-stripe ATM and debit cards with contactless chip-embedded cards, as well as various benefits offered to promote greater spending via debit card in response to government measures in the drive towards a cashless society.

### 3.4 Service Channels

KBank maintained our commitment to developing efficiency in all our core service channels for enhanced cost effectiveness, 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 second quarter of 2019 included:

- **Domestic branch network:** In order to maintain our leadership status over the long-term, KBank has continually enhanced our service capabilities via branches and other service channels in sync with 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 thus ensure a novel brand perception. We also enhanced service efficiency with the application of technology and big data, and through linkage of all service channels including digital channels, physical and electronic branches as well as services outside of branches.

In this quarter, KBank opened the Central Festival Phuket Branch and Baan Kampu@Asok Branch, two additional Hybrid Branches, thus bringing the total number of KBank branches in this new format to five, each of which delivers a new experience of paperless banking services via electronic machines. Under this initiative, basic banking counters are used for providing other services instead. Meanwhile, KBank Service appointed the 7-Eleven convenience store chain as our banking agent to accept deposits for KBank accounts. Currently the service is available at all 7-Eleven outlets, in addition to Big C Supercenter and FamilyMart. At the same time, 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, particularly those located in airports and at major tourist attractions, in order to maintain our market share. To remain competitive, we revised foreign exchange buying and selling rates. In addition, joint promotional campaigns were organized to promote the use of K-Credit Card and other banks' credit cards.

- **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 initiative 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, 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 development of the 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.
- 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	Number of Locations		International	Number of Locations	
	Jun. 2019	Mar. 2019		Jun. 2019	Mar. 2019
Branch Network <sup>1)</sup>	882	927	Branches of Locally Incorporated Institution	6	6
Foreign Exchange Booth	138	138	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2
THE WISDOM	101	102	KASIKORNBANK (CHINA) CO., LTD.	4	4
SME Business Center <sup>2)</sup>	147	146	Branches	3	3
International Trade Service Center	58	58	Representative Offices	7	8
Cheque Direct Service	20	20			

Note: <sup>1)</sup> Excluding 8 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, along with appropriate machine management for broader service coverage in viable areas. Along with this, we encourage customers to conduct transactions at self-service machines which offer prompts in multiple languages for the greater convenience of our foreign clients.

#### Electronic Banking Services

Electronic Banking Services	Number of Units	
	Jun. 2019	Mar. 2019
Self-Service Channel (K-ATM and K-CDM)	11,643	11,867
K-ATM (Automated Teller Machines)	8,840	9,137
K-CDM (Cash Deposit Machines)	2,803	2,730
K-PUM (Passbook Update Machines)	1,005	1,082

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

- 1) **K PLUS:** We have continually developed features for financial transactions on K PLUS. In this quarter, K PLUS added a new feature for overseas funds transfer which allows recipients to get a full transfer amount, plus no fee charged during the first two months after the service launch. For the Loyalty Card Platform feature, customers can now add an M GEN card of Major Group to K PLUS, bringing the total number of member cards offered by our partners on K PLUS to six. To highlight our status as a lifestyle banking provider, we have added a feature that allows customers to personalize the theme or background of K PLUS.
- 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:** This service channel has been developed to accommodate Dynamic Currency Conversion (DCC), return of full or partial payment amounts, and a redesign of the payment screen for merchants. In collaboration with the Department of Consular Affairs, Ministry of Foreign Affairs, we have expanded the e-Payment system for visa application to the Royal Thai Embassy in London, United Kingdom and the Royal Thai Embassy in Paris, French Republic to provide enhanced convenience for foreign nationals who wish to visit Thailand in applying for an e-Visa and making online fee payment.

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

- 1) Improvement of complaint handling process on social media through the "Social Listening" program: Information has been collected and a framework has been set up to address negative information that may adversely affect KBank's image, in order to ensure real-time problem-solving with increased efficiency.
- 2) Development of content for providing services via KBank Live: The chatbot program has been improved and is presented in a user-friendly infographic format to provide relevant and easy-

to-understand content, with catchy designs and menu options of available KBank products and services that meet customers' needs.

### 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 second quarter of 2019, notably:

#### Awards to KBank and K Companies

##### Awards to KBank

- Named one of the top 100 listed companies that are most outstanding in Environmental, Social and Governance (ESG100) performance for 2019 (for the fourth consecutive year), by the Thaipat Institute
- Two awards from Alpha Southeast Asia magazine: **Best Cash Management Bank in Thailand** and **Best Bond House in Thailand**
- Two awards from The Asset magazine: **Best Service Provider: Cash Management, Thailand** and **Best Service Provider: E-Solutions Partner, Thailand**
- **Domestic Cash Management Bank of the Year 2019** from Asian Banking & Finance magazine
- Two awards from FinanceAsia magazine: **Best DCM House in Thailand** (for three consecutive years) and **Best Private Bank in Thailand**
- Four awards from The Asian Banker journal: **Best E-Commerce Proposition**; **Best Data Analytics Initiative, Application or Programme**; **Best Wealth Management Services in Thailand: Private Banking Digitalisation**; and **Best cash Management Bank, Thailand**
- Four awards from Marketeer magazine: **No. 1 Brand Thailand Awards 2018-2019** in the category of **Credit Card** (for six consecutive years), **Debit Card/ATM Card** (for five consecutive years), **Bank Saving Account** (for four consecutive years) and **Bank for SME** (for four consecutive years)
- Two awards from The Digital Banker magazine: **Best Private Bank in ASEAN** and **Best Private Bank in Thailand**
- Two awards from Professional Wealth Management magazine under Financial Times group: **Best Private Bank for Digital Culture in Asia** and **Best Private Bank for Digitally Empowering Relationship Managers in Asia**
- **HR Asia Best Companies to Work for in Asia™ 2019 (Thailand Edition)** from Business Media International
- Two awards from Asset Benchmark Research: **The Region's Best Local Currency Bond Individuals in Research, #1 in Thailand** and **The Region's Best Local Currency Bond Individuals in Sales, Highly Commended in Thailand**

##### Awards to K Companies

- **No.1 Brand Thailand Award 2018-2019** in the category of **Mutual Fund** (for the sixth consecutive year) from Marketeer magazine,
- Four awards from Asia Asset Management magazine: **Best Pension Fund Manager (Thailand)** (for the fourth consecutive year); **Best Fund House (Thailand)** (for the second consecutive year); **Fund Launch of the Year (Thailand)** (for the second consecutive year); and **Best Investor Education (Thailand)**

## 4. Operating Performance and Financial Position Analysis

### 4.1 Operating Performance

KBank's consolidated net profit for the second quarter of 2019 totaled Baht 9,929 million, slightly decreasing Baht 115 million or 1.15 percent over-quarter. Net interest income rose Baht 518 million or 2.05 percent, which was derived mainly from interest income from investments. Net interest margin (NIM) was thus equal to 3.34 percent. Moreover, non-interest income increased Baht 1,392 million, or 11.38 percent, which was due to an increase in net premiums earned – net, and revenue from capital market products as well as net fees and service income. Other operating expenses also rose Baht 1,731 million, or 10.81 percent over-quarter due partly to an increase in marketing expenses and retirement reserve from the change in defined benefit plan according to KBank's employment policy which is not related to labor law. As a result, our cost to income ratio rose slightly from the previous quarter to 45.02 percent, which remained within the set target.

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

(Unit: Million Baht)

	Q2-2019	Q1-2019	Change		Q2-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Net Interest Income	25,770	25,252	518	2.05	24,367	1,403	5.76
Non-Interest Income	13,633	12,241	1,392	11.38	16,237	(2,604)	(16.03)
Total Operating Income - net	39,403	37,493	1,910	5.10	40,604	(1,201)	(2.96)
Total Other Operating Expenses	17,741	16,010	1,731	10.81	16,675	1,066	6.39
Impairment Loss on Loans and Debt							
Securities	7,547	7,580	(33)	(0.43)	7,995	(448)	(5.60)
Net Profit (attributable to equity							
holders of KBank)	9,929	10,044	(115)	(1.15)	10,917	(988)	(9.05)
Basic Earnings per Share (Baht)	4.15	4.20	(0.05)	(1.15)	4.56	(0.41)	(9.05)

When compared to the same quarter of the previous year, a decrease of Baht 988 million in our consolidated net profit, or 9.05 percent, came from a decrease of Baht 2,604 million or 16.03 percent in non-interest income, which was due mainly to a decrease in net premiums earned - net and revenue from capital market products. Moreover, under the economic slowdown that affected in KBank's earnings, the Bank made an effort to control other operating expenses. As a result, other operating expenses increased by Baht 1,066 million, or 6.39 percent, despite an increase in retirement reserve. Meanwhile, net interest income increased Baht 1,403 million or 5.76 percent, derived mainly from interest income from loans and investments.



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

(Unit: Percent)

Financial Ratio	Q2-2019	Q1-2019	Change	Q2-2018	Change
Return on Assets (ROA) <sup>1)</sup>	1.24	1.27	(0.03)	1.45	(0.21)
Return on Equity (ROE) <sup>1)</sup>	10.08	10.46	(0.38)	12.10	(2.02)
Net Interest Margin (NIM) <sup>1)</sup>	3.34	3.32	0.02	3.39	(0.05)
Cost to Income Ratio	45.02	42.70	2.32	41.07	3.95

<sup>1)</sup> Annualized

(Unit: Percent)

Financial Ratio	Jun. 30, 2019	Mar. 31, 2019	Change	Jun. 30, 2018	Change
Net NPLs to Total Loans	2.15	2.01	0.14	1.93	0.22
Gross NPLs to Total Loans	3.40	3.44	(0.04)	3.29	0.11
Coverage Ratio	157.95	158.78	(0.83)	150.08	7.87
Loans <sup>2)</sup> to Deposits Ratio	96.42	96.77	(0.35)	96.63	(0.21)
Capital Adequacy Ratio <sup>3)</sup>	18.55	18.12	0.43	18.05	0.50
Tier 1 Capital Ratio <sup>3)</sup>	16.19	15.73	0.46	15.57	0.62

<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 second quarter of 2019 was Baht 25,770 million, increasing Baht 518 million, or 2.05 percent over-quarter due mainly to increased interest income from investments in line with rising average investment, and increased interest income from loans. Our NIM for the second quarter of 2019, therefore, equaled 3.34 percent, increasing from the previous quarter, and remained within the set target range of 3.30-3.50 percent.

Compared to the same quarter of the previous year, net interest income rose Baht 1,403 million, or 5.76 percent, due largely to an increase in interest income from investments and loans. However, our NIM in this quarter was lower than the same period of 2018.

(Unit: Million Baht)

	Q2-2019	Q1-2019	Change		Q2-2018	Change	
			Million Baht	Percent	Million Baht	Million Baht	Percent
<b>Interest Income</b>							
<b>Interbank and Money Market Items</b>	1,744	1,951	(207)	(10.62)	1,975	(231)	(11.68)
Deposits	343	347	(4)	(1.13)	162	181	112.09
Loans without Repurchase Agreements	115	173	(58)	(33.24)	153	(38)	(24.57)
Repurchase Agreements	1,286	1,431	(145)	(10.19)	1,660	(374)	(22.57)
<b>Investments</b>	5,406	4,842	564	11.64	4,352	1,054	24.21
Trading Investments	111	86	25	28.86	67	44	65.08
Available-for-Sale Investments	1,241	873	368	42.21	570	671	117.71
Held-to-Maturity Investments	4,054	3,883	171	4.40	3,715	339	9.12
<b>Loans</b>	24,016	23,755	261	1.10	23,137	879	3.80
<b>Hire purchase and finance leases</b>	1,453	1,415	38	2.69	1,287	166	12.85
<b>Others</b>	3	3	-	-	4	(1)	(6.72)
<b>Total Interest Income</b>	<b>32,622</b>	<b>31,966</b>	<b>656</b>	<b>2.05</b>	<b>30,755</b>	<b>1,867</b>	<b>6.07</b>
<b>Total Interest Expenses</b>	<b>6,852</b>	<b>6,714</b>	<b>138</b>	<b>2.05</b>	<b>6,388</b>	<b>464</b>	<b>7.27</b>
<b>Total Interest Income – net</b>	<b>25,770</b>	<b>25,252</b>	<b>518</b>	<b>2.05</b>	<b>24,367</b>	<b>1,403</b>	<b>5.76</b>
Yield on Earning Assets (percent)	4.23	4.21		0.02	4.28		(0.05)
Cost of Fund (percent)	1.24	1.22		0.02	1.21		0.03
<b>Net Interest Margin (NIM) (percent)</b>	<b>3.34</b>	<b>3.32</b>		<b>0.02</b>	<b>3.39</b>		<b>(0.05)</b>

#### □ Non-Interest Income

For the second quarter of 2019, KBank's consolidated non-interest income totaled Baht 13,633 million, increasing Baht 1,392 million, or 11.38 percent over-quarter. The increase was due mainly to an increase in net premiums earned - net, and rising revenue from capital market products. In the second and first quarter of 2019, non-interest income ratio of KBank and our subsidiaries accounted for 34.60 percent and 32.65 percent, respectively.

When compared to the same quarter of last year, consolidated non-interest income for the second quarter of 2019 decreased Baht 2,604 million, or 16.03 percent, due mainly to a decrease in net premiums earned - net in line with insurance business slowdown and decreased revenue from capital market products.

(Unit: Million Baht)

	Q2-2019	Q1-2019	Change		Q2-2018	Change	
			Million Baht	Percent		Million Baht	Percent
<b>Non-Interest Income</b>							
Fees and Service Income	12,432	12,149	283	2.33	12,490	(58)	(0.47)
Fees and Service Expenses	3,286	3,419	(133)	(3.91)	3,271	15	0.46
<b>Fees and Service Income - net</b>	<b>9,146</b>	<b>8,730</b>	<b>416</b>	<b>4.77</b>	<b>9,219</b>	<b>(73)</b>	<b>(0.80)</b>
Gain on Trading and Foreign Exchange							
Transactions	2,173	2,231	(58)	(2.63)	2,675	(502)	(18.76)
Gain on Investments	463	262	201	76.85	1,355	(892)	(65.80)
Share of Profit (Loss) from Investments using Equity Method	46	16	30	188.20	26	20	79.64
Dividend Income	895	629	266	42.25	831	64	7.63
Net Premiums Earned	20,370	20,076	294	1.46	24,445	(4,075)	(16.67)
Other Operating Income	348	337	11	3.34	369	(21)	(5.50)
Less Underwriting Expenses	19,808	20,040	(232)	(1.16)	22,683	(2,875)	(12.68)
<b>Total Non-Interest Income</b>	<b>13,633</b>	<b>12,241</b>	<b>1,392</b>	<b>11.38</b>	<b>16,237</b>	<b>(2,604)</b>	<b>(16.03)</b>
Non-Interest Income to Average Assets (percent)	1.70	1.55		0.15	2.16		(0.46)
Non-Interest Income Ratio (percent)	34.60	32.65		1.95	39.99		(5.39)
Net Fee Income to Net Total Operating Income Ratio							
(percent)	23.21	23.28		(0.07)	22.71		0.50

#### □ Other Operating Expenses

KBank's consolidated other operating expenses for the second quarter of 2019 was Baht 17,741 million, rising Baht 1,731 million, or 10.81 percent over-quarter. The increase could be attributed to rising marketing expenses and retirement reserve from the change in defined benefit plan according to KBank's employment policy which is not relating to labor law. Our cost to income ratio was equal to 45.02 percent, up from 42.70 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 1,066 million, or 6.39 percent due mainly to an increase in retirement reserve. Therefore, our cost to income ratio of the second quarter of 2019 was higher than the 41.07 percent in the same quarter of last year.

(Unit: Million Baht)

	Q2-2019	Q1-2019	Change		Q2-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Employee Expenses	8,543	8,047	496	6.16	7,677	866	11.28
Directors' Remuneration	91	18	73	410.70	85	6	7.43
Premises and Equipment Expenses	3,025	3,070	(45)	(1.49)	3,155	(130)	(4.14)
Taxes and Duties	1,268	1,248	20	1.57	1,231	37	2.99
Others	4,814	3,627	1,187	32.74	4,527	287	6.35
<b>Total Other Operating Expenses</b>	<b>17,741</b>	<b>16,010</b>	<b>1,731</b>	<b>10.81</b>	<b>16,675</b>	<b>1,066</b>	<b>6.39</b>
<b>Cost to Income Ratio (percent)</b>	<b>45.02</b>	<b>42.70</b>		<b>2.32</b>	<b>41.07</b>		<b>3.95</b>

#### □ Impairment Loss on Loans and Debt Securities

During the second quarter of 2019, KBank and our subsidiaries had Baht 7,547 million of impairment loss on loans and debt securities, a decrease of Baht 33 million or 0.43 percent, over-quarter. The figure also decreased from the same period of last year. Thus, our credit cost in the second quarter of 2019 stood at 1.57 percent, lower than 1.58 percent in the previous quarter and lower than 1.74 percent in the same period of last year.

#### Impairment Loss on Loans and Debt Securities

(Unit: Million Baht)

	Q2-2019	Q1-2019	Change		Q2-2018	Change	
			Million Baht	Percent		Million Baht	Percent
Impairment Loss on Loans and Debt Securities	7,547	7,580	(33)	(0.43)	7,995	(448)	(5.60)
Credit Cost (percent)	1.57	1.58		(0.01)	1.74		(0.17)

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

As of June 30, 2019, KBank's consolidated allowance for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 120,625 million. This amount was equivalent to 330.75 percent of the level required by the Bank of Thailand.

#### — Non-Performing Loans and Debt Restructuring

##### *Non-Performing Loans*

As of June 30, 2019, KBank's consolidated NPLs stood at Baht 76,370 million, or 3.40 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 74,329 million, accounting for 3.36 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below

## Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2019	Mar. 31, 2019
Consolidated NPLs	76,370	76,880
Percent of total outstanding credit, including that of financial institutions	3.40	3.44
Bank-only NPLs	74,329	74,882
Percent of total outstanding credit, including that of financial institutions	3.36	3.40

### *Net Non-Performing Loans*

As of June 30, 2019, KBank's consolidated net NPLs stood at Baht 47,664 million – 2.15 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 47,121 million – 2.16 percent of the total outstanding credit, including that of financial institutions. The NPL data is shown in the table below:

## Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Jun. 30, 2019	Mar. 31, 2019
Consolidated net NPLs	47,664	44,386
Percent of total outstanding credit, including that of financial institutions	2.15	2.01
Bank-only net NPLs	47,121	43,816
Percent of total outstanding credit, including that of financial institutions	2.16	2.02

### *Debt Restructuring*

As of June 30, 2019, KBank's consolidated restructured debts which incurred losses, totaled Baht 67,923 million, decreasing by Baht 1,043 million, or 1.51 percent when compared to the first quarter of 2019.

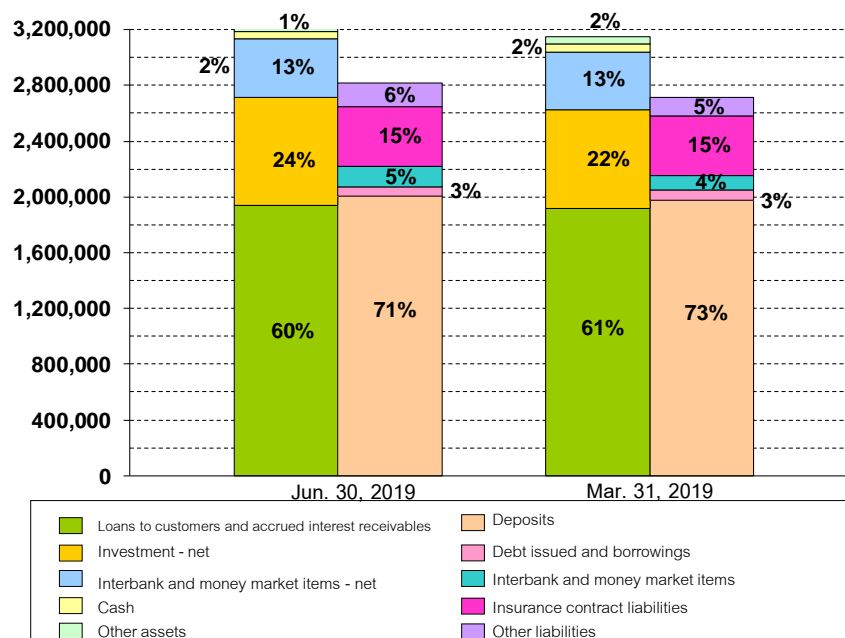
### *Foreclosed Properties*

As of June 30, 2019, our consolidated properties foreclosed had a net value of Baht 23,806 million, thus being 0.73 percent of total assets.

## 4.2 Financial Position Analysis

### Assets and Liabilities Structure

(Unit: Million Baht)



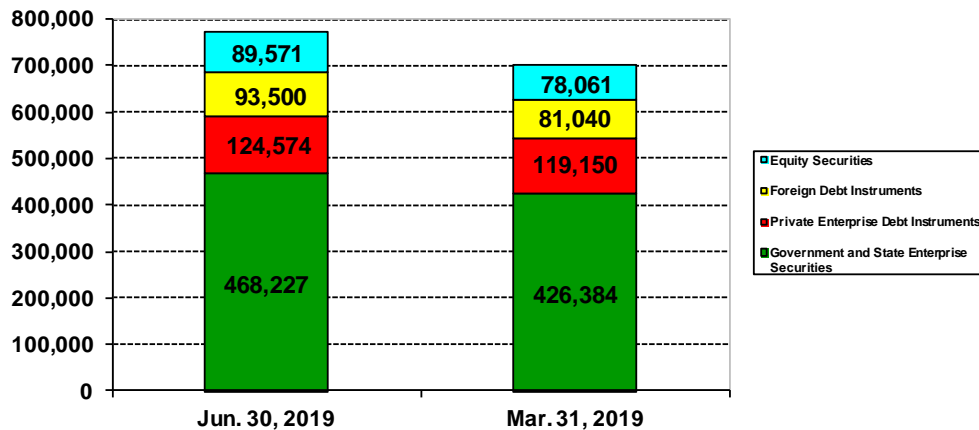
#### □ Assets

At the end of the second quarter of 2019, KBank's consolidated assets totaled Baht 3,256,924 million, increasing Baht 105,653 million or 3.35 percent from the end of the first quarter. The increase was due mainly to a rise in net investment and loans to customers. Key details are as follows:

- Net investment at the end of the second quarter of 2019 totaled Baht 776,628 million, increasing by Baht 71,189 million or 10.09 percent from the previous quarter, due mainly to greater investment in government bonds
- Loans to customers (less deferred revenue) at the end of this quarter amounted to Baht 1,933,232 million, increasing Baht 18,397 million or 0.96 percent from the end of the preceding quarter due mainly to commercial and home loans.

## Investments in Securities

(Unit: Million Baht)



### □ Liabilities and Equity

Our consolidated liabilities, at the end of the second quarter of 2019, amounted to Baht 2,813,769 million, increasing Baht 99,652 million or 3.67 percent, from the end of the first quarter. The increase was mainly attributable to a rise in net interbank and money market items (liabilities), deposits and insurance contract liabilities. Significant changes in our consolidated liabilities included:

- Deposits at the end of the second quarter of 2019 equaled Baht 2,004,953 million, increasing Baht 26,116 million or 1.32 percent from the end of the preceding quarter, mainly as a result of an increase in savings deposit.
- Net interbank and money market items (liabilities) as of the end of the second quarter of 2019 totaled Baht 146,988 million, increasing Baht 40,007 million or 37.40 percent from the end of the previous quarter, due mainly to KBank's liquidity management.
- Insurance contract liabilities at the end of the second quarter of 2019 totaled Baht 429,679 million, up Baht 8,186 million or 1.94 percent from the end of the previous quarter, 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 395,841 million, increasing Baht 3,943 million or 1.01 percent from the end of the previous quarter, driven largely by net operating profit for the second quarter of 2019, totaling Baht 9,929 million. KBank approved payment of dividend Baht 8,376 million derived from net profit of 2018 that was made in April 2019.

## □ Relationship between Sources and Uses of Funds

As of June 30, 2019, the funding structure as shown in the consolidated financial statement comprised Baht 2,813,769 million in liabilities and Baht 442,525 million in total equity, resulting in a debt-to-equity ratio of 6.36. The main source of funds on the liabilities side was deposits, which equaled Baht 2,004,953 million, or 61.57 percent of the total, as of June 30, 2019. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 4.51 percent and 2.11 percent of the total, respectively.

As of June 30, 2019, KBank's and subsidiaries' major use of funds was loans less deferred revenue, amounted to Baht 1,933,232 million, resulting in loan-to-deposit ratio of 96.42 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			
	Jun. 30, 2019	Percent	Dec. 31, 2018	Percent	Jun. 30, 2019	Percent	Dec. 31, 2018	Percent
≤ 1 Year	1,984,482	98.98	1,972,597	98.88	824,171	42.63	842,675	44.03
> 1 - 5 Years	20,471	1.02	22,404	1.12	481,306	24.90	493,864	25.80
> 5 Years	-	-	-	-	627,755	32.47	577,533	30.17
<b>Total</b>	<b>2,004,953</b>	<b>100.00</b>	<b>1,995,001</b>	<b>100.00</b>	<b>1,933,232</b>	<b>100.00</b>	<b>1,914,072</b>	<b>100.00</b>

As of June 30, 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

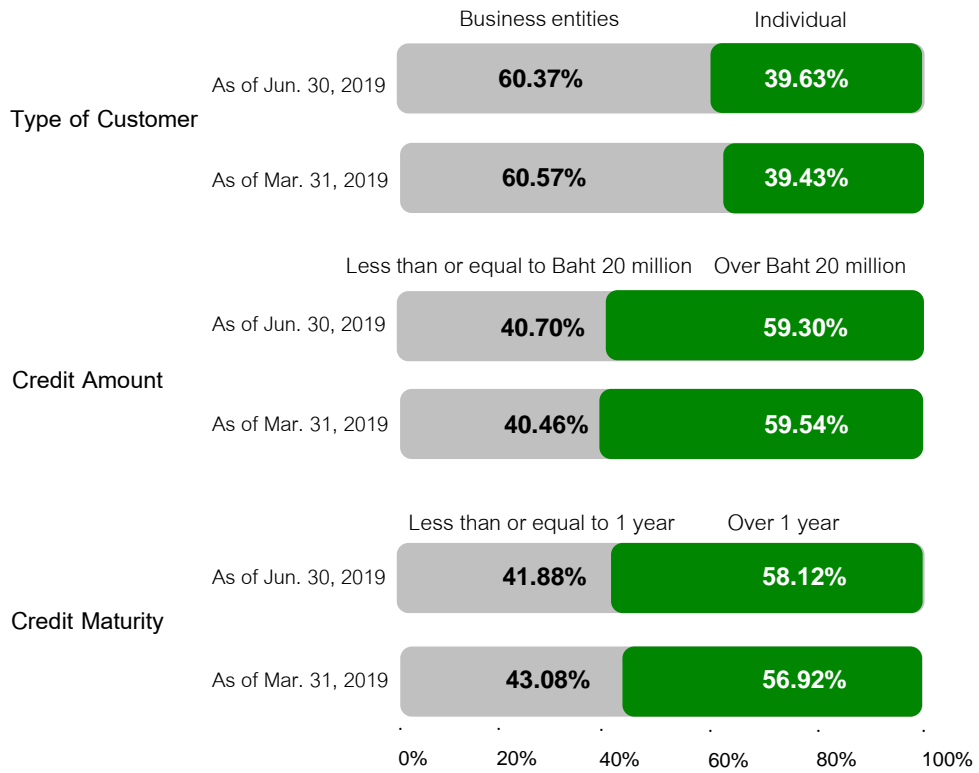
### □ Loans

As of June 30, 2019, KBank's consolidated outstanding loans stood at Baht 1,933,232 million, increasing by Baht 18,397 million, or 0.96 percent, compared to Baht 1,914,835 million as of March 31, 2019.

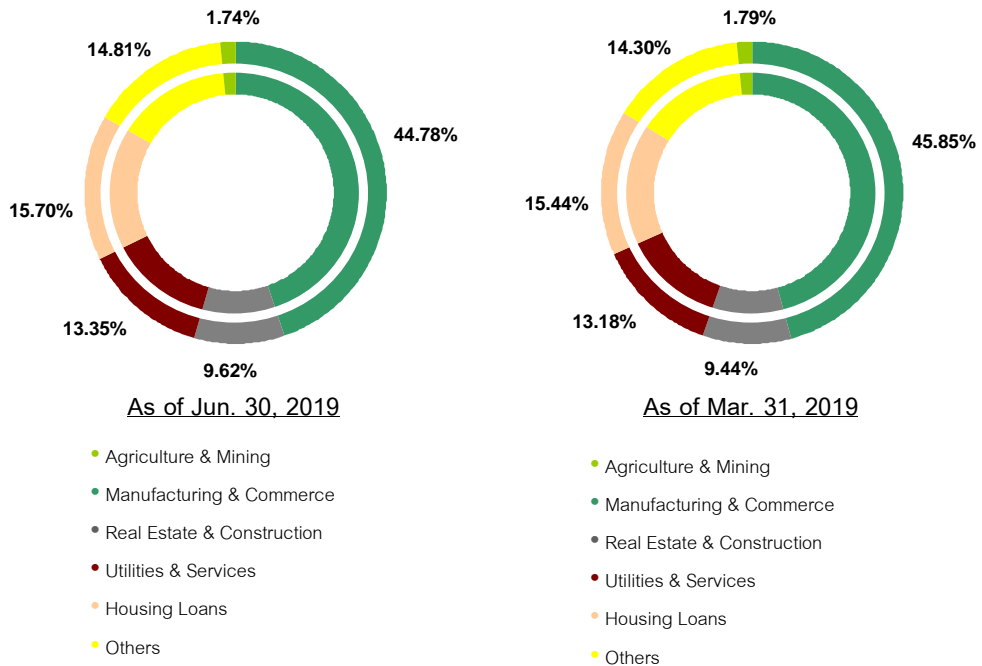
As of June 30, 2019, 60.37 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan account exceeding Baht 20 million totaled Baht 1,117,808 million, or 59.30 percent of the total; 40.70 percent were loans under Baht 20 million. As for maturities, credit with maturities of less than or equal to one year accounted for 41.88 percent of our total loans.



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

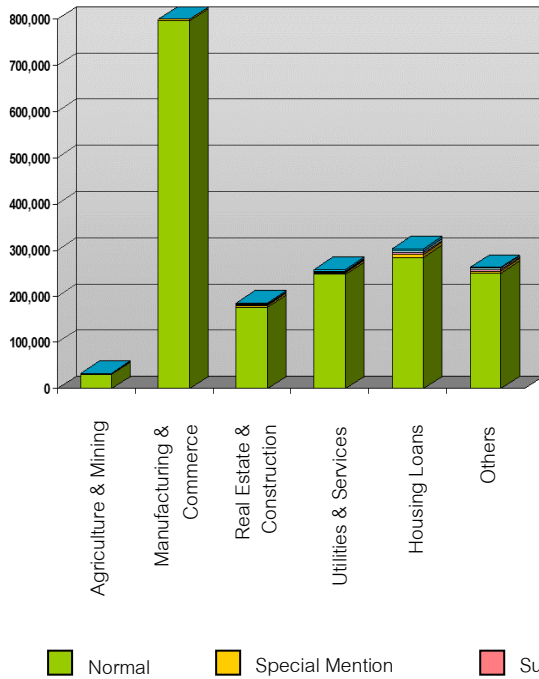


### KBank's Consolidated Lending Portfolio

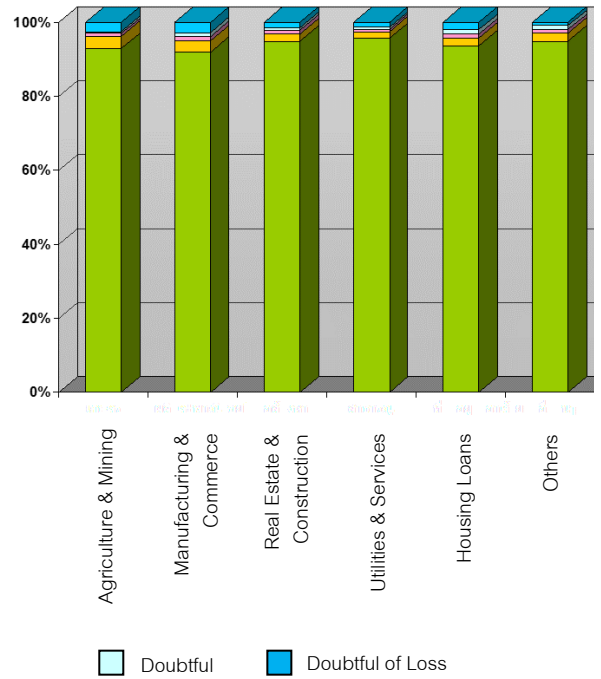


**Consolidated Loans Classified  
by Type of Business and Loan Classification**

Unit: Million Baht



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



Within KBank’s consolidated lending portfolio, 93.48 percent were classified as “Normal” loans. When sub-divided by type of business, Manufacturing & Commerce represented the highest share of total consolidated lending at 44.78 percent; of that 91.99 percent were classified as “Normal” loans.

**Loans Classified by Business**

(Unit: Million Baht)

	Jun. 30, 2019		Mar. 31, 2019	
	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>	Corporate Business <sup>1)</sup>	Retail Business <sup>2)</sup>
Loans	1,347,687	509,074	1,339,895	495,133

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.

At the end of the second quarter of 2019, our Corporate Business loans (Corporate and SME customers) saw slight growth. Higher demand for loans was seen from our corporate customers, especially

those in the real estate and communication sectors, which benefited from public sector construction and the government's policy to promote domestic consumption, to accommodate business expansion and for use as working capital. Meanwhile, our SME business loans were stable in line with the economy, which posted modest growth. Industries which still saw growth in outstanding loans were those related to consumer goods, petroleum and petrochemical products, while agro-industry recorded a slight contraction in loans.

For retail loans, KBank maintained a cautious growth policy in alignment with the market and economic conditions. We focused on loan quality along with retaining our market leadership in major loan products. In this quarter, our retail loans experienced healthy growth in all products. Notably, home loans continued to exhibit higher growth over-quarter thanks to ongoing marketing activities and the launch of comprehensive loan products to meet the needs of all customer groups, namely Home Loan Refinance and K-Home for Cash, to offset the slowdown in home loan after the Bank of Thailand's implementation of more stringent loan-to-value measures. Moreover, credit card loan increased after the active loan repayment period seen in the first quarter. Likewise, K-Personal Loan enjoyed satisfactory growth thanks to the continual launch of special interest rate promotions for both K-Personal Loan and K-Express Cash, enhanced customer convenience in loan application through K PLUS and LINE@ KBank Live, as well as data-driven analyses to acquire low-risk clients, all part of our effort to attract new customers.

## □ Deposits

### Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Jun. 30, 2019	Mar. 31, 2019	Million Baht	Percent
<b>Total Deposits</b>	100.00	2,004,953	1,978,837	26,116	1.32
Current accounts	5.66	113,412	114,142	(730)	(0.64)
Savings accounts	72.16	1,446,830	1,422,034	24,796	1.74
Fixed-term deposit accounts	22.18	444,711	442,661	2,050	0.46

At the end of the second quarter of 2019, total deposits of Corporate Business and Retail Business had increased by Baht 26,116 million, or 1.32 percent, from the end of the first quarter. KBank maintained sufficient liquidity to accommodate loan growth. Along with this, we 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 also maintaining savings accounts as the highest proportion of total deposits. Aside from the launch of special fixed-term deposit products, we focused on continual promotion of e-savings accounts via K PLUS and enhanced convenience and speed for customers seeking to open a deposit account at a branch by entering relevant information via tablet while waiting in line. KBank also introduced mutual funds and life insurance products via all channels – all offering attractive returns with acceptable risk appetite – as alternatives for the target

groups, 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 second quarter of 2019, average overnight interbank lending rates were stable at 1.72 percent p.a., unchanged from the previous quarter. Those rates were influenced by the resolutions from the MPC meetings held on May 8 and June 26, 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 second quarter of 2019, our liquidity position was appropriately managed and suited to changes in businesses and financial markets, and we were able to maintain returns on investments by reducing our holding of short-term bonds of which returns were lower than the policy rate. In addition, KBank invested in top-rated foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

### Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q2-2019	Q1-2019	Change	
				Million Baht	Percent
<b>Interest income<sup>1)</sup></b>					
Interbank and money market items <sup>2)</sup>	53.12	1,547	1,697	(150)	(8.84)
Investments	46.88	1,365	900	465	51.67
<b>Total</b>	<b>100.00</b>	<b>2,912</b>	<b>2,597</b>	<b>315</b>	<b>12.13</b>

Note: <sup>1)</sup> Managerial figure

<sup>2)</sup> Including loans

During the second quarter of 2019, total interest income stood at Baht 2,912 million, increasing Baht 315 million or 12.13 percent from the previous quarter, due mainly to portfolio adjustment as earlier mentioned.

### □ Liquid Asset Ratio

KBank maintains average fortnightly current deposits at not lower than 1.00 percent of total deposits and certain types of borrowings in accordance with the Bank of Thailand's regulations. For the fortnight of June 30, 2019, our deposits at the Bank of Thailand and cash at cash center averaged Baht 26,474 million.

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

### Operating Performance of K Companies<sup>1)</sup> and Muang Thai Life Assurance PCL

(Unit: Million Baht)

	Performance Measurement	First Half of 2019	First Half of 2018	2018
KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)	Assets under Management	1,389,919	1,312,048	1,379,736
	Market Share (Percent)	18.50	18.96	19.23
KASIKORN SECURITIES PCL (KSecurities)	Trading Volume	308,822	417,328	739,327
	Market Share (Percent)	2.96	2.98	2.98
KASIKORN LEASING CO., LTD. (KLeasing)	Outstanding Loans	112,292	100,126	108,081
KASIKORN FACTORY AND EQUIPMENT CO., LTD. (KF&E)	Outstanding Loans	21,298	18,498	20,377
Muang Thai Life Assurance PCL (MTL)	Net Premiums Earned	42,696	50,602	94,467
	Market Share (Percent)	14.44	16.19	15.06

Note: <sup>1)</sup> KRResearch is not included, since this company does not engage in financial business.

During the first half of 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 fund business excluding Real Estate Investment Trust (REIT) as gauged by assets under management in this category, with a market share of 20.27 percent. Total market share of assets under management (AUM) was 18.50 percent. The excellent performance was due in part to its synergy with KBank in developing products to match consumers' needs. Notable efforts were the launch of K Positive Change Equity Fund (K-CHANGE), which invests in global stocks of companies operating businesses that have a positive impact on society in four areas, namely education, social inclusion, healthcare and the environment; and K Guaranteed 5 Years B Fund (KGT5YB), which is Thailand's first and only fund that guarantees the full investment amount.

The company also continually developed K-My Funds – an e-service channel via mobile application – to more effectively communicate with customers, especially in giving investment advice suited to different risk appetites, together with a feature that clearly displays return on investment. Another distinctive investment tool was Fund Story, designed for searching fund data to help customers in their decision-making and keeping track of price movements and historical rates of return, with an alert function when prices reach a specified target, as well as My Message, which provides personalized information with increased efficiency so that customers never miss an investment opportunity. Moreover, K-My PVD – another e-service channel via mobile application – has been further developed to provide greater convenience for provident fund members in updating their returns and setting up an effective investment and retirement plan.

Operating under business principles shared with KBank, **KSecurities** emphasizes development of excellent products and services, especially in research which 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 in alignment with investor behavior in the digital era. Notably, the company developed an online securities account opening system to facilitate customers in their transactions with a reduced documentation process. Meanwhile, focus was on enhancement of investment advisory service quality through training held for investment consultants and matching them with customers based on the customers' trading behaviors. The company also developed a tool for enhanced efficiency in tracking customer portfolios. Through these endeavors, KSecurities held a market share of 2.96 percent.

**KLeasing's** outstanding loans posted over-year growth of 12.15 percent, in line with the country's domestic auto sales growth. KLeasing enjoyed solid new loan growth, which was derived mainly from K-Auto Finance (Dealer Floorplan). Asset quality remained healthy with an NPL ratio of 1.17 percent, lower than the banking industry average. Moreover, KLeasing has continued to improve service quality and introduce new product campaigns to meet the needs of both retail and corporate customers for an enhanced service experience.

**KF&E**, which specializes in equipment leasing, reported growth of 4.52 percent from the end of 2018. Loans were mainly extended to 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. It has also been working with KBank RMs to achieve service excellence with a higher customer satisfaction level.

**MTL** upheld its leading position in the life insurance business, with the number-three market share in total premiums at 14.44 percent. The company remained at the forefront in bancassurance, thanks to close cooperation with KBank in developing insurance plans that are in line with KBank customers' demands.

## 4.6 Capital Requirements

As of the end of the second quarter of 2019, KBank, under the Basel III capital requirements, had capital funds of Baht 361,573 million, consisting of Baht 310,251 million in Tier-1 capital and Baht 51,322 million in Tier-2 capital. The capital adequacy ratio of KBank was 17.35 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>	Jun. 30, 2019	Mar. 31, 2019	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018
Tier-1 Capital Ratio	9.00	16.19	15.73	7.875	15.90	16.50	15.57
<i>Common Equity Tier-1 Ratio</i>	7.50	16.19	15.73	6.375	15.90	16.50	15.57
Tier-2 Capital Ratio	-	2.36	2.39	-	2.42	2.46	2.48
<b>Capital Adequacy Ratio</b>	<b>11.50</b>	<b>18.55</b>	<b>18.12</b>	<b>10.375</b>	<b>18.32</b>	<b>18.96</b>	<b>18.05</b>

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Jun. 30, 2019	Mar. 31, 2019	Minimum Requirement & Conservation Buffer <sup>3)</sup>	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018
Tier-1 Capital Ratio	9.00	14.89	14.57	7.875	14.75	15.26	14.43
<i>Common Equity Tier-1 Ratio</i>	7.50	14.89	14.57	6.375	14.75	15.26	14.43
Tier-2 Capital Ratio	-	2.46	2.47	-	2.51	2.55	2.56
<b>Capital Adequacy Ratio</b>	<b>11.50</b>	<b>17.35</b>	<b>17.04</b>	<b>10.375</b>	<b>17.26</b>	<b>17.81</b>	<b>16.99</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:

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

## 4.7 Credit Ratings

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

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Jun. 30, 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, focusing on attracting capable persons to work with KBank, developing employee skills and abilities in alignment with KBank strategies, and creating a positive employee experience and engagement, especially via labor relations management. Key initiatives in the second quarter of 2019 were as follows:

- **Attracting capable persons to work with KBank:** KBank added a channel for communicating with the general public under the KASIKORN CAREER brand via Instagram in addition to Facebook and YouTube – social media portals presently used by KBank. Through these outlets, we showcased activities, work styles and employees' actual lives at KBank to allow the public to get a taste of the real workplace environment, in alignment with the concept, "Everything is POSSIBLE here".

Meanwhile, KBank initiated projects and activities to draw high-potential personnel including university students and experienced workers to join our workforce. They were: (1) K Talent Engagement and Networking held in Boston, New York and Chicago, U.S.A.; (2) Quality Assurance and Software Testing for students of the Department of Computer Engineering, Faculty of Engineering, Chulalongkorn University; and (3) K-Capstone which 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, wherein they were assigned to create a tangible communication platform – a new business perspective – to be pitched to the judging committee.

Moreover, we screened high-caliber persons including present KBank employees to receive one of 16 scholarships as part of our effort to nurture talents and develop leaders for KBank.

- **Developing employee skills and abilities in alignment with KBank strategies:** Aiming to become a data-driven organization where employees collaboratively embrace an agile way of work, KBank has designed learning platforms to enhance employees' skills as follows:
  - (1) Development of skills towards data-driven decision making: KBank invited an expert from Microsoft's U.S. operations to give a talk, "Data-Driven for Business Transformation", to share his experience in using data for enhancing organizational competitiveness.
  - (2) Development of skills towards an agile way of work: KBank has set our sights on promoting an agile work style within KBank which requires teamwork of experts in various fields to experiment with new things through trial and error, working with regular communications and continuous improvement to ensure swift achievement. To this end,

this concept has first been applied to key projects of KBank, including those of the Human Resource Division; the Bank plans to introduce the agile work format to other divisions in the future. To equip our employees with knowledge about the agile methodology, KBank, in this quarter, invited world-renowned experts to give a lecture entitled “Agile Transformation” in order to share their insights and experience about organizational development through agile solutions.

(3) Enhancement of skills to accommodate present and future work: KBank has encouraged employees to participate in various e-learning programs, namely ChulaMOOC, SkillLane, Coursera and EdX, to upskill and reskill themselves in order to broaden their perspectives and knowledge.

- **Creating a positive employee experience and engagement:** We implemented various programs and activities to promote leadership and foster a healthy work environment. They were as follows:

(1) The “Pan” for You under the Leadership Development Program (LDP): The event was held for first-time LDP participants who had a chance to meet closely with KBank’s Chief Executive Officer and other high-ranking executives. This was intended to make these select employees feel proud of themselves and strengthen their bonds with executives.

(2) The VP Retreat 2019 under the theme, “Exponential Thinking Towards Exponential Growth”: To strengthen relationships and collaboration among executives at the Vice President level or executives of equivalent positions of KBank and K Companies, the program featured team-building activities to promote K-Culture in accordance with KBank’s four Core Values, namely customer centricity, organization-wide teamwork, professionalism and innovation.

(3) The K-Coaching Academy program: The “Seniors Want to Coach – Juniors Want to Talk” Season 3 was held as part of this program to allow employees especially the talent to be coached by department heads and other executives of higher rank up to Senior Executive Vice Presidents. Furthermore, we launched campaigns via various activities and media to promote a good coaching environment within the organization.

(4) The “K-Style DIY to Boost Your Image and KBank Brand”: The activities featured a DIY session where personality experts were invited to offer advice on how to adjust the character traits of our staff members to be more professional in order to enhance the KBank brand.

- **Employee relations and benefits:** KBank held the second Employees’ Committee meeting for 2019 between KBank executives and the Employees’ Committee, along with the meeting between the KASIKORNBANK Labour Union and KASIKORNBANK Officer Labour Union. These efforts

allowed consultations and problem-solving discussions which were instrumental in improving our work process, thus conducive to maintaining the high level of service our employees give to our customers, minimizing operational risks, and strengthening employee engagement.

## 5.2 IT Management

In the second 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, to cope with fast-changing consumer behaviors in this highly competitive, technology-driven marketplace. Our key initiatives can be summarized as follows:

- **Development of KBank's mobile banking application (K PLUS):**
  1. To enable K-eSavings Account opening without passbook on K PLUS
  2. To allow K-Credit Cardholders to exchange KBank Reward Points for The One Points
  3. To enable purchase of travel insurance for more than one traveler at a time
- **Development of KBank mobile banking application for merchants (K PLUS Shop):** Users can add an M GEN Card to K PLUS to view accumulated points and Card privileges.
- **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 allows users to make balance inquiry, funds transfer and bill payment using a system that meets the security standards of K PLUS. Service rollout is expected in the third quarter of 2019.
- **Development of Application Programming Interface (API) Manager system:** KBank has adopted an open API to allow developers to study and jointly develop a payment acceptance channel via QR API. The QR API, which has been developed to accommodate credit card payment, is presently being tested with the ZORT application – an online order and inventory management system. KBank is now developing other API systems to expand our scope of services with increased efficiency.
- **Development of machine learning technology:** We have continually developed biometric technology to accommodate the Face Pay system. Optical Character Recognition (OCR) has also been developed for customer data verification in order to provide customers greater convenience in their payment while also accommodating the offering of products and services suited to customer needs, with enhanced security.
- **Development of functions of blockchain for recording financial transaction data:** KBank and other commercial banks have established BCI (Thailand) Co., Ltd. to provide an electronic letter of guarantee (e-LG) service – the first service on blockchain, which allows all participating banks to link together within a common platform to ensure flexibility, security and reliability in

the issuance of e-LG and prevention of LG forgery. This prototype service can be further developed as an element of the country's infrastructure in order to promote technology inclusion among all businesses.

- **Development of Electronic Know-Your-Customer (National Digital Identity):** KBank, the Electronic Transactions Development Agency (Public Organization) and other commercial banks have together established a working group to design and develop formats for sharing data among banks via a Digital Identity Platform as a common standard for electronic transactions. KBank has also employed facial recognition biometrics for account opening at branches nationwide. Currently, we are developing the K PLUS application to accommodate identity proofing and verification via the national digital ID (NDID) system.

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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 starts as a thin point at the top left and curves downwards and to the right, ending in a thick vertical bar at the bottom right. The shape is smooth and organic in form.

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