



KASIKORNTHAI

Management Discussion and Analysis (MD&A)

For the Quarter Ending March 31, 2020

ธนาคารกสิกรไทย
开泰银行 KASIKORNBANK



บริการทุกระดับประทับใจ

Executive Summary
Management Discussion and Analysis
For the Quarter Ending March 31, 2020

The Thai economy in the first quarter of 2020 sank into a recession due to the COVID-19 pandemic. Economic activity was crippled almost across the board in light of lockdown measures implemented in several countries to contain the viral transmission. Financial markets went into a tailspin, whereas turbulence was seen in manufacturing, service and tourism sectors, which in turn dampened domestic spending sentiment. The situation adversely affected the government's fiscal standing through the implementation of relief measures to help sustain crisis-hit businesses and cash-strapped workers, after many businesses were ordered to suspend operations in line with the government's emergency decree launched in late March 2020, while others were closed due to plunging demand. At the same time, the Bank of Thailand opted to cut the policy rate and implement additional measures in order to stabilize the financial system. Nevertheless, as the COVID-19 situation has shown no clear sign of improvement and may persist throughout the first half of this year or beyond, pending the effectiveness of pandemic control and vaccine development, the economic damage may be worse than what was seen during the 1997 financial crisis.

Given volatility in the financial market and real sector which had repercussions for the Thai financial sector, combined with the enforcement of Thai Financial Reporting Standards related to Financial Instruments (including TFRS9) since January 1, 2020, which affects classification, measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting, KBank's consolidated net profit for the first quarter of 2020 totaled Baht 6,581 million, decreasing Baht 2,221 million or 25.23 percent, over-quarter. The decrease could be attributed to non-interest income which fell Baht 8,785 million, or 54.37 percent, due mainly to the volatility of money and capital markets, and TFRS 9 impacts from reclassification and remeasurement of investments. However, net interest income increased Baht 2,512 million, or 9.82 percent, due to loan growth and the TFRS 9 revenue recognition concept adopted for calculation of interest income and fee income related to loan, as well as reduction of contributions to the Financial Institutions Development Fund (FIDF). Net interest margin (NIM) therefore stood at 3.49 percent.

Meanwhile, other operating expenses decreased by Baht 3,695 million or 17.45 percent, over-quarter. As a result, our cost to income ratio in this quarter stood at 49.31 percent. KBank also set aside a higher expected credit loss of Baht 3,047 million compared to the preceding quarter, with prudent consideration of factors in line with the uncertainties stemming from economic recession. However, our capital position – as of the end of the first quarter of 2020 – remained robust. As evidenced, capital adequacy ratio (CAR) of KASIKORNBANK FINANCIAL CONGLOMERATE according to the Basel III Accord

was 18.53 percent, with a Tier 1 capital ratio of 15.17 percent, remaining sufficient to cushion against risk in times of crisis, and greater than the Bank of Thailand's requirement.

In this quarter, KBank established business directions on the foundation of a Bank of Sustainability, accounting for the balance of three dimensions – economy, society and environment – under good corporate governance and appropriate risk management. Guided by the Customer Centricity strategy and resolution of delivering an excellent customer experience in order to empower every customer's life and business, we recognize the importance of digital financial technology's role vis-à-vis changing consumer behavior in using services, especially amid the social distancing practices put in place to combat the viral transmission, which have posed a new challenge to our competitiveness, while we have sought new business opportunities to secure our status as a leading financial institution which can rapidly and efficiently cope with potential economic volatility. All of these efforts allowed KBank and K Companies to meet business targets while we also gained wide acceptance and recognition from various organizations both at home and abroad.

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1. Overview of Operating Environment

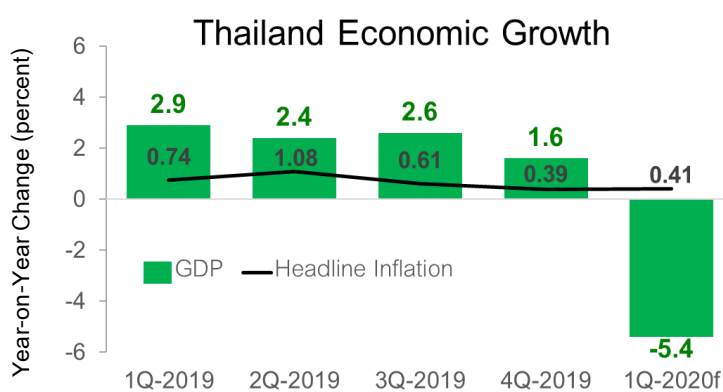
1.1 Global and Thai Economy in the First Quarter of 2020

The global economy saw a sharp contraction in the first quarter of 2020 as economic activity was crippled due to efforts to control the spread of COVID-19. The World Economic Outlook of the International Monetary Fund estimated that the public health crisis could cause economies worldwide to contract by 3.0 percent, compared to the 2.9 percent growth seen in 2019 due to shrinkage in major economies, including the US, the European Union and Japan while the Chinese economy may witness only low growth.

Governments of several countries hastened the implementation of large-scale stimulus packages in order to ameliorate the adverse impacts of the COVID-19 crisis as part of their efforts to revive their economies. Moreover, major central banks injected liquidity into the global financial system, led by the Federal Reserve which cut its Fed Funds rate to a range of 0.00-0.25 percent – the lowest rate in its history – while also implementing quantitative easing measures through the use of varied tools to prop up the flagging US economy. Meanwhile, the Bank of Japan signaled an additional accommodative monetary policy by pledging to purchase government bonds without limit and to step up its asset purchase program, whereas other Asian central banks reduced their policy rates continuously.

Looking domestically, Thailand's economic activity in many sectors declined in line with the overall global economy. The tourism sector in particular plummeted due to lockdown measures implemented in several countries, including Thailand. Worse, exports contracted as a result of the moribund economies of Thailand's trade partners. At the same time, household spending weakened amid plunging demand and the more stringent measures adopted domestically to contain the virus transmission. Overall, the contraction of spending at home and abroad during the COVID-19 pandemic dealt a severe blow to businesses and private sector employment. Only public spending continued to sustain the Thai economy. Regarding the Bank of Thailand's monetary policy, the policy rate has been steadily cut since early 2020, whereas other tools and accommodative monetary measures were adopted to shore up the overall financial and economic system. Such efforts included liquidity boosting measures to aid

financial institutions which provided support to fixed-income funds, together with establishment of a Corporate Bond Stabilization Fund (BSF) and a soft loan scheme.



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

* Projection by KResearch as of May 5, 2020

1.2 Banking Industry and Competition

Commercial banks' overall performance in the first quarter of 2020 recorded a decrease in net profit over-year. The decline could be attributed to the COVID-19 pandemic which dampened the economic environment, thus impacting the banking industry's core businesses. As a result, banks had to set aside a higher expected credit loss (ECL) under the Thai Financial Reporting Standards (TFRS 9): Financial Instruments which came into force on January 1, 2020. Nonetheless, net interest income and net interest margin (NIM) rose over-quarter due to loan growth and the TFRS9 revenue recognition concept in which interest income and fee income related to loan was calculated using the effective interest rate (EIR) method, as well as reduction in contributions to the Financial Institutions Development Fund (FIDF). Meanwhile, net fees and service income dropped over-quarter in line with decreased fee income related to loan, whereas many banks incurred losses on financial instrument measured at fair value through profit or loss under the TFRS9. All in all, most commercial banks adopted a cautious stance in asset quality management as NPLs to total loans edged higher.

As of the end of the first quarter of 2020, net loans to customers and accrued interest receivables of 14 domestically-registered commercial banks grew in line with increased business loans, whereas outstanding deposits showed higher growth of 6.12 percent and 9.51 percent, compared to year-end 2019 and the same period of last year, respectively.

Looking ahead into the remainder of 2020, the struggling economic environment, crippled by the COVID-19 pandemic, will pose an even greater challenge to commercial banks' operating performance from the lending rate reduction and assistance measures for crisis-hit clients, including suspension of principal and interest payment offered to SME business and retail customers. Also, amid the prevailing economic pressures, it may take some time before economic activity in several sectors can return to normalcy. Hence, several commercial banks may continuously set aside high provisions and focus mainly on debt restructuring in order to control loan quality, even though the Bank of Thailand's leniency in asset classification may somewhat help ease the impact of deteriorating quality of normal loan to NPLs. Meanwhile, most banks are expected to emphasize efficient cost management and adjust their operating strategies in earnest, while also seeking new partners in order to ensure increased income and customer base, especially by providing financial transactions via online channels and multiple platforms.

1.3 Significant Regulations and Rules related to Business Operations

Significant regulations and rules in the first quarter of 2020 that may have affected KBank's and K Companies' business operations included:

- **Assistance Measures for Borrowers during COVID-19 Pandemic**

The Bank of Thailand issued circular No. BOT.ForNorSor. (23) Wor.276/2563 (2020) Re: Guidelines for Providing Assistance to Borrowers Adversely Affected by the Situation that Has Impacted the Thai Economy, and circular No. BOT.ForNorSor. (01)Wor.380/2563 (2020) Re: Additional Assistance Measures for Borrowers during the COVID-19 Pandemic, in order to allow banks to swiftly and thoroughly help crisis-hit borrowers, especially via debt restructuring. Close monitoring has been undertaken to ensure that borrowers have sufficient capital funds and liquidity to continue their daily lives and business. These measures are intended to shore up borrowers' financial standing, enabling them to service their debt under the debt restructuring conditions – a circumstance that is beneficial to borrowers afflicted by the current economic environment.

KBank was well-prepared for these criteria and hence implemented various assistance measures, focusing on three issues, i.e., suspension of principal payment only, suspension of both principal and interest payment, and granting of credit lines to boost liquidity. Major points can be summarized as follows:

- (1) Credit Card: Reduction of minimum payment for all customers from the previous 10 percent to 5 percent during 2020-2021, before gradually increasing to 8 and 10 percent in 2022 and 2023, respectively.
- (2) K-Credit Card and Xpress Cash: Suspension of principal payment only until December 2020
- (3) Xpress Loan: Suspension of principal and interest payment for three accounting periods
- (4) Home Loan: Suspension of principal payment only for up to 12 months, or reduction of per-installment payment by 50 percent for up to 12 months
- (5) K-SME Credit: Suspension of principal repayment only for one year, or working capital available via two projects including a soft loan scheme and the Portfolio Guarantee Scheme Phase 8 SMEs Sangthai program where loans are guaranteed by the Thai Credit Guarantee Corporation (TCG)
- (6) KLeasing auto loan: Suspension of principal and interest payment for three accounting periods

- **Rules for Foreign Exchange Control**

The Ministry of Finance issued Notification of the Ministry of Finance Re: Foreign Exchange Control (No. 9), and the Bank of Thailand issued Notice of the Competent Officer of Foreign Exchange Control regarding Rules and Practical Methods Related to Foreign Exchange (No. 30) to ensure that relaxed rules will allow the private sector to

manage foreign exchange and conduct foreign exchange risk management with enhanced convenience and efficiency, effective February 15, 2020, which contain the salient points as follows:

- (1) Relaxed rules for foreign income which does not require repatriation: Proceeds that are allowed to be kept abroad are increased to no more than USD 1,000,000/transaction, compared to not more than USD 200,000/transaction previously. The amount includes income from exports and other incomes.
- (2) For those earning income from exports worth at least USD1,000,000/transaction: The Bank of Thailand relaxed criteria for income repatriation, allowing exporters to repatriate only the remaining amount after expenses are deducted.

KBank has put in place relevant operational processes to accommodate these new regulations.

● Rules for Home Loan and Top-up Loan

The Bank of Thailand has issued Notification No. SorNorSor. 1/2563 (2020) Re: Rules for Home Loan and Top-up Loan, effective January 20, 2020 onwards, in order to promote home ownership among first-time homebuyers (first-home mortgage) and ease their burdens on related expenses. Therefore, home loan applicants are allowed to request top-up loans of up to 10 percent of home price. Along with this, criteria for a second-home mortgage contract have become more lenient for disciplined borrowers who have made repayment under their first-home mortgage for more than two years, as they are allowed to place a down payment of only 10 percent of home price. KBank has in place relevant procedures to accommodate the new regulation, which can be summarized as below:

- (1) Minimum down payment or the loan-to-value ratio (LTV) has been established to better reflect overall risk. New criteria for two or more mortgage loans applied for concurrently are as follows:
 - Minimum down payment of 10 percent is required for collateral valued at less than Baht 10 million under the first mortgage loan contract where repayment has been made for not less than two years.
 - Minimum down payment of 20 percent is required for collateral valued at less than Baht 10 million under the first mortgage loan contract where repayment has been made for less than two years. In cases where collateral value is Baht 10 million or more, repayment period under the first mortgage loan contract shall not be taken into account.
 - Minimum down payment of 30 percent is required under the third (onward) mortgage loan contract, regardless of home price.
- (2) Top-up loans for the first mortgage loan contract with collateral value of less than Baht 10 million shall be granted at no more than 10 percent of collateral value.

- **Rules under Law on Anti-Money Laundering, Counter-Terrorism and Proliferation of Weapon of Mass Destruction Financing**

The Anti-Money Laundering Office (AMLO) issued AMLO Rules and Procedures Re: Arrangement of Training for Reporters per Article 13 and Article 16, B.E. 2563 (2020) which was published in the Government Gazette on February 13, 2020, effective April 13, 2020. Major points of the law involve revision of provisions related to training wherein banks are required to have officers who are responsible for overseeing the preparation of transaction reports, Know Your Customer (KYC) and Customer Due Diligence (CDD) process attend training courses in accordance with these rules and procedures. If they fail to comply with this policy, they will be subject to a fine of not more than Baht 500,000.

KBank and Thai Bankers' Association are now preparing and seeking approval for training courses from AMLO.

- **Regulations for Businesses Undertaking Electronic Funds Transfer Service**

The Bank of Thailand issued Notification No. SorNorChor. 2/2562 (2019) Re: Regulations for Businesses Undertaking Electronic Funds Transfer Service, dated December 20, 2019, which was published in the Government Gazette on January 9, 2020, and effective on the following day, with the aim of revising relevant criteria to ensure clarity for practices of businesses undertaking electronic funds transfer service in safekeeping advance money in accordance with the true purpose of the law for consumer protection. Salient points of the regulations can be summarized as follows:

- (1) Banks are required to start safekeeping advance money based on the nature of transactions.
 - Real-time or same-day funds transfer service: If such transactions cannot be processed for recipients or other electronic funds transfer service providers or overseas funds transfer service providers within the same day on which the funds are received, banks are required to start safekeeping such advance money within the end of the day that the money is received. (T = transaction date)
 - Funds transfer services in the manner other than real-time or same-day transactions: If such funds transfer transactions cannot be processed for recipients or other electronic funds transfer service providers or overseas funds transfer service providers within the end of the business day following the day on which the funds are received, banks are required to start safekeeping such advance money within the end of the business day following the day on which the funds are received. (T+1 = transaction date+1)
- (2) Service scope has been expanded to allow banks to deposit advance money with the Bank of Thailand or with correspondent banks overseas in case of international funds transfer service.

KBank is now preparing for relevant procedures to accommodate the new regulations, which are expected to be completed within the timeline stipulated by the Bank of Thailand.

- **Regulations for Interest Calculation and Fee Collection**

The Bank of Thailand issued circular No. BOT.ForKhorNgor.Wor. 31/2563 (2020) Re: Interest Calculation and Fee Collection, effective January 8, 2020, requesting banks to revise guidelines for interest calculation and fee collection. Major points can be summarized as follows:

- (1) Pre-payment fee for SME and personal loans under installment plan: Calculation of pre-payment fee shall be based on the outstanding principal and period for exemption of pre-payment fee payment.
- (2) Default interest for home loan, SME loan and personal loan under installment plan: Calculation of default interest shall be based on the principal amount of relevant installment and period for exemption of default interest payment. Details of outstanding loan amount including principal, interest, default interest and fee must be provided to borrowers.
- (3) ATM or debit card fee: Annual fee payment shall automatically be reimbursed to service users on a pro-rata basis in case of service termination by service users and fee for issuance of card or PIN replacement shall not be collected, except where such issuance or PIN replacement incurs high cost.

KBank has revised pre-payment fee and ATM or debit card fee per the aforementioned criteria. For default interest, KBank is now revising the system for default interest calculation in accordance with the period required by the Bank of Thailand.

2. Risk Management and Risk Factors

2.1 Credit Risk Management

The Thai economy in the first quarter of 2020 contracted sharply due to the COVID-19 pandemic, which has steadily increased in severity across the globe and a return to normalcy pushed out ever farther. Tourism and exports have been battered severely due to trade partners' economic slowdown and crippled supply chains in many countries. This has had repercussions for business and household income in a broader scope, which has consequently shrunk domestic demand, investment and private consumption, while the debt servicing ability of the household sector and SME entrepreneurs could also deteriorate. Close attention should be paid to other risk factors including drought, the hefty household debt, delays in FY2020 budget disbursement, and the changing business landscape due to digital disruption.

Under these circumstances, KBank continually prioritized risk surveillance through prudent screening and close monitoring of borrowers along with implementation of assistance measures for affected customers, covering both corporate and retail clients. In addition, we remained cautious in credit underwriting of small and micro businesses, and focused mainly on existing customers with good track records or classified as low-risk customers.

2.2 Market Risk Management

In the first quarter of this year, the COVID-19 pandemic which has increased in its severity and it is expected to be prolonged across the globe crippled multiple Thai economic sectors, in particular tourism, manufacturing and exports. The situation eroded confidence of investors, leading to increased anxiety about a new round of economic crisis which prompted them to sell off multiple assets and shift to safe-haven liquid assets, especially the US Dollar, which strengthened at the end of the quarter. Overall, the Thai Baht weakened against the greenback compared to the previous quarter.

Meanwhile, Thai and US interest rates dropped at the beginning and the middle of the quarter. Short-term bond yields fell in line with the reduction of the policy rate, whereas the long-term bond yields were under pressure as investors increased their holdings of safe-haven assets amid the general risk-off sentiment.

In the wake of the World Health Organization declaring COVID-19 to be a pandemic and the eruption of an oil price war between Saudi Arabia and Russia, there were rising fears that the economy would plunge into deep recession – a signal of an imminent economic crisis. Given this anxiety, investors rushed to sell their assets, sending financial markets into a tailspin. To cope with this crisis, several central banks, including the Bank of Thailand, announced liquidity boosting measures to tame the volatility.

At the same time, Thai stock markets plunged throughout the quarter amid investors' risk-off sentiment and a slump in oil prices due to disagreement on oil production between the world's large oil producers. Heavy sell-off of shares was evident, which triggered the "circuit breaker" of the Stock

Exchange of Thailand in order to temporarily suspend share trading for the first time since 2008. Criteria for the circuit breaker measure were also adjusted to be more stringent in order to curb excess volatility in the Thai bourse.

To cope with the extremely volatile financial markets, KBank is closely monitoring the situation and assessing possible impacts. For instance, we have enhanced the frequency of impact assessment and continuously monitored the market situation to ensure that effective actions are taken in a timely manner to cope with a highly volatile market. KBank has also placed importance on efficient risk management under the supervision of the Risk Oversight Committee, Market Risk Management Sub-committee and Enterprise Risk Management Division, to ensure timely and efficient risk management, thus maintaining risk within specified prudent limits.

2.3 Liquidity Risk Management

Liquidity in the financial markets both at home and abroad tightened, especially at the end of the quarter as investors heavily sold off various assets and shifted to hold more cash, especially in the US Dollars. Against this backdrop, several central banks worldwide, including the Bank of Thailand, expedited the issuance of liquidity boosting measures, including quantitative easing (QE), to offset the impact of the tightened liquidity.

Overall, loans of Thai commercial banks, both corporate and retail loans, were hit hard by the COVID-19 pandemic. In response to this, the Bank of Thailand and financial institutions jointly introduced assistance measures for credit card customers and those of other loan products. To help ease the burdens of cash-strapped businesses, a soft-loan scheme was launched along with reduction of interest rates and fees for SME entrepreneurs and households.

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. In addition, we are watchful for any potential impacts on our loan level, deposits and liquidity, both short- and long-term, to ensure that we adopt appropriate fund-raising strategies.

2.4 Operational Risk

KBank has conducted proactive operational risk management since January 2020 in order to cope with the emerging risk from the COVID-19 pandemic. Major initiatives can be summarized as follows:

1. **Implement COVID-19 preventive and monitoring measures and activate an incident response team to combat the spread of the virus.** They include:

- 1.1 Implement preventive measures

- Recommend employees to avoid traveling between buildings and implement social distancing measures in the workplace.
- Provide personal protective equipment (PPE) such as surgical masks, hand sanitizer, etc. to employees who are in at-risk groups.
- Increase frequency of cleaning and disinfecting touch points.
- Install thermoscan cameras to measure body temperature of employees and visitors at the entrance of KBank main branches.
- Adjust work format to minimize the risk of COVID-19 transmission through implementation of IT facilities to support employees in working from home, and improve service system capacity to accommodate the use of services via digital channels appropriate for customer demand.

1.2 Implement a monitoring system to keep abreast of COVID-19 incidents

- Within KBank: Employees can report COVID-19 incidents via email or by calling a central telephone number.
- Outside KBank: We keep updated with the situation around the globe and in Thailand in order to assess the impact it may have on KBank business operations which are reported to the high-ranking executives on a daily basis.

1.3 Activate an incident response team

- An incident response team (IRT) has been activated to be responsible for decision-making and overall incident management.
- A special task force has been set up whereas preventive measures have been comprehensively implemented in terms of personnel, places and internal/external communications to ensure effective actions when customers or employees are found to be at risk of infection or diagnosed with COVID-19.

2. Prepare business continuity planning (BCP)

- Determine mission critical activities (MCA) to cover certain transactions that must be undertaken in accordance with the Bank of Thailand's additional guidelines, including assistance measures for borrowers affected by the COVID-19 pandemic.
- Work from split sites to ensure continuity of mission critical activities at not less than two buildings, in case one of the two sites must be closed or employees are ordered to self-quarantine.
- Adjust work formats and methods to assist customers affected by the viral pandemic to conduct transactions within acceptable risk appetite.
- Provide employees accommodation near their workplace and prepare shuttle transportation service for key employees as a precautionary measure in case travel between buildings or between provinces is restricted by the government.

3. Business Directions and Operations of Core Businesses

3.1 Sustainable Development and Corporate Governance

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

In the first quarter of 2020, KBank became a signatory to the UN Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative, or UNEP FI. KBank is the first and only Thai bank to join more than 170 banks worldwide in signing the Principles, which provide the framework for a sustainable banking system and align the banking industry with society's goals as expressed in the United Nations Sustainable Development Goals and the Paris Agreement on Climate Change.

In addition, the Corporate Governance Committee approved the 2020 sustainable development plan, focusing on provision of knowledge and environmental, social and governance (ESG) compliance, at both the national and international level, including analysis, comparison and assessment of KBank performance with the international standards as well as information disclosure in accordance with the Global Report Initiative: GRI Standards and the Task Force on Climate-Related Financial Disclosure (TCFD) in order to ensure that our sustainable development practices are on par with international standards.

KBank, meanwhile, strongly believes that good corporate governance is essential for sustainable business operations and instrumental in making KBank a Bank of Sustainability, aside from creating confidence among all shareholders and stakeholders. We reviewed our corporate governance practices to ensure compliance with the Corporate Governance Code of the Office of the Securities and Exchange Commission, while a number of activities were undertaken to promote good corporate governance practices with a focus on effective and efficient performance of duties. They included:

- Communicating our No Gift Policy to executives and employees of KBank, companies within KASIKORNBANK FINANCIAL CONGLOMERATE, as well as our counterparties and customers
- Reviewing knowledge and understanding on the Code of Conduct among our employees and arranging for their annual acknowledgment and compliance
- Making plans for holding activities to promote corporate governance practices
- Organizing training courses and evaluation of employees' knowledge of compliance with the Code of Conduct and Anti-Corruption Policy via KBank e-Learning system
- Holding orientation sessions for new executives and employees

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

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

In the first quarter of 2020, KBank emphasized data analytics for predictive integrated risk management (IRM) through the establishment of comprehensive risk management principles and policies, efficient capital management and a risk-aware culture Bank-wide. Given our preparedness in terms of personnel, IT systems as well as sound risk management via change in our work format and service suspension at high-risk locations, KBank was able to efficiently cope with the COVID-19 pandemic, allowing us to continuously provide services to customers without interruption.

In addition, KBank expedited the launch of assistance measures for customers affected by the COVID-19 pandemic, including retail, SME business and corporate clients, to ease their debt payment burdens along with offering them lifelines of credit. These efforts have been undertaken in strict compliance with related rules and regulations to ensure that KBank can fully and efficiently comply with standards and requirements to cushion against economic volatilities, as well as aligning with policies and measures of the Bank of Thailand and relevant supervisory agencies.

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

- Ecosystem Orchestrator & Harmonized Channel: Orchestrating ecosystems with partners and providing excellent experiences throughout customer journeys
- Intelligent Lending: Leverage customer data to offer personalized lending experience
- Proactive Risk & Compliance Management: Proactively identifying potential risk and establishing loss prevention and detection
- New Growth in Regional Market: Exploring new growth opportunities in other countries.
- Data Analytics: Expanding data analytics capability to enhance business opportunity and operational efficiency
- Cyber Security & IT Resilience: Enhancing comprehensive cyber security and IT capabilities

- Performing Talent and Agile Organization: Developing employee potential in the drive towards an agile organization
- Modern World-Class Technology Capability: Adopting modern world-class technology to make KBank the top regional financial service provider

3.3 Customer Segments and Services

KBank continues to gear up for being a Regional Digital Bank. To this end, we have expanded our financial services within Thailand and the region alike, for the purpose of saving and investment, borrowing, transactions and risk prevention. In parallel, we have upgraded our digital capability for improved access to a large number of customers and better understanding of customer demands in local markets. Meanwhile, we act as a digital platform provider, focusing on non-financial services in order to meet customers' needs beyond the banking realm in a bid to broaden our customer base in the digital age. Our key operations in three main customer segments in the first quarter of 2020 are as follows:

■ Retail Business

KBank has focused on data analytics and synergy with business partners in order to develop and offer multiple products and services that can meet each individual customer's needs in every aspect of their lives via the mixture of physical branches and digital channels to deliver the best customer experience. These efforts are intended to promote customer engagement with the aim of making KBank their Main Operating Bank (MOB), thus elevating our competitiveness for sustainable and long-term growth.

High Net Worth Individual customers: Determined to perform at the standard of an international comprehensive wealth management service, KBank aims to assist our High Net Worth Individual clients attain their definition of perfect wealth. Amid the uncertain global market, we have stayed abreast of the latest developments and closely communicated with our customers. Therefore, KBank worked with our partners and Lombard Odier to recommend that our customers invest in multiple assets that are consistent with the prevailing circumstances in a volatile market environment, focusing on sustainable returns for risk diversification. KBank also teamed with KASIKORN ASSET MANAGEMENT Co., Ltd. to waive a switching fee for mutual fund investment in order to encourage customers to switch their investment to new funds that focus on risk diversification and are resilient in the face of short-term volatility. Meanwhile, KPB Investment Flash on COVID-19 was introduced as a dedicated YouTube channel to provide precise and easy-to-understand information in the form of video clips, in order to support our customer in passing through the present crisis together.

Affluent: To elevate THE WISDOM brand and maintain our leadership status in this segment, KBank aims to deliver a superior experience to our customers through both financial and non-financial services. We introduced saving and investment products that offer long-term attractive returns to cope with global market volatility. Focusing on the '4D' strategies, namely Diversification, Defensive, Duration and

Discipline, we thus launched K Fixed Income Plus Fund (K-FIXEDPLUS), K Global Income Fund (K-GINCOME), K STAR Equity Fund (K-STAR) and K Fixed-Dated Asian Bond 2022B (KAB22B). In parallel, KBank introduced special fixed-term deposits offering attractive interest rates, and life insurance products served by Relationship Managers and experts that provide recommendations on multiple investments along with policy consolidated advice on life and health insurance plans that are tailored to the demands of clients with VIP services available at branches and across all other bank channels.

Middle Income and Mass: KBank issued relief measures for COVID-19 hit customers via suspension of principal and interest payment and reduction of monthly installment payment. Moreover, we offered free insurance coverage for illness or death from COVID-19 to our K PLUS customers who registered to receive the privilege via LINE KBank Live. In addition, KBank encouraged the general public to make donations for the purchase of essential equipment for hospitals via K PLUS, either by donating money or redeeming KBank Reward Points for donation.

Regarding loan products in this quarter, KBank focused on maintaining overall portfolio quality by applying digital technologies for data analytics and screening target customers with potential in order to enhance lending efficiency and minimize credit risk. Along with this, we developed digital lending in order to reach out to payroll customers, SME operators and customers acquired through our business partnerships such as Grab Driver and sellers on e-commerce platforms Shopee and Lazada.

For Home Loan, we offered special interest rate loans to homebuyers of projects that received pre-finance assistance from KBank, and arranged the Super Save 2020 campaign to promote Refinance with Home Loan, along with the Home to Cash promotion to raise the ratio of secured loan. Meanwhile, KBank focused on promoting greater use of K-Credit Card based on big data analytics and through the launch of digital marketing campaigns covering purchase of goods, product delivery, online accommodation reservation, tax payment, campaign to promote more application for KBank JCB Credit Card and OneSiam KBank Credit Card, cash back offering and transfer of accumulated points to our business partners' loyalty programs to meet customers' needs and spur spending via K-Credit Card. With regard to personal loan, KBank has developed features of Xpress Cash that allow customers to make an installment payment under the KBank Smart Pay program for up to 36 months while also offering special interest rates to new applicants.

For saving and investment, KBank introduced the KBank x BLACKPINK Taweessup Special Fixed Deposit Account which offers high returns, while customers who want to open a K-eSavings Account can verify their identity via facial recognition technology on K PLUS or at K-Check ID. Furthermore, KBank has joined the test of using cross-bank identity verification through the National Digital ID (NDID) platform for opening a digital deposit account in the Bank of Thailand's Regulatory Sandbox. Regarding insurance products, we launched personal accident insurance PA+ via K PLUS with a premium of only Baht 365 per year and COVID-19 insurance product offered via branches and RMs to ensure increased coverage for our customers.

▪ SME Business

Aspiring to become a Total Solution Provider for our SME customers, KBank focuses on solid teamwork among our Relationship Managers (RMs), who are well-versed in KBank products, and branch officers who have in-depth understanding of our customers' businesses and needs. Along with this, we have deployed innovative digital technologies and data analytics for customers' enhanced business efficiency along with knowledge-based assistance and business networking in order to efficiently expand our customer base and ensure swift and accurate service provision at all times in accordance with our resolution of delivering an excellent customer experience, with emphasis given to asset quality management for the sustainable business growth of both our customers and KBank, alike.

In this quarter, we offered financial products and services via both RMs and digital channels, allowing us to meet customer needs with speed and accuracy in terms of funding sources, competitiveness enhancement and business opportunity expansion. We also introduced assistance measures for SME customers affected by economic malaise, drought and the COVID-19 pandemic. Notable initiatives included:

- Revolving Loan for SMEs which features working capital with repayment and re-borrowing flexibility
- Expansion of the customer base within value chains, especially among businesses with brighter growth prospects, namely construction and construction materials, consumer goods and communications
- Introduction of commercial loan programs under Portfolio Guarantee Scheme Phase 8 (PGS8) which features commercial loans guaranteed by the Thai Credit Guarantee Corporation (TCG)
- Portfolio Guarantee Scheme Phase 8 SMEs Sangthai program, aimed at boosting liquidity for businesses
- Soft loan program for machinery replacement
- The “Do Good and Get Loan” program which features loans granted to SMEs with special conditions, in order to promote the SME Single Account policy initiated by the government.

With the aim of supporting the thriving e-commerce business, KBank offered comprehensive financial services through MADHUB – the solution hub for online traders. Under the “Better Together” collaboration, we joined forces with our e-commerce partners, namely Shopee and Lazada, in launching the “Online Business Loan” – a financial solution that requires no documentation or collateral, offered via K PLUS in this quarter. In addition, we teamed with Kerry Express (Thailand) Public Company Limited to debut MADCARD for Kerry Express – a debit card for online business that offers cash back and discounts to cardholders. Meanwhile, customers were equipped with knowledge, experience and techniques for online business via KBank online channels including Facebook and YouTube, under the K SME CARE program.

With regard to card accepting merchants, K-Merchant has been developed to accommodate Xpress Cash in accepting installment payment for goods/services for up to 36 months (Sale Finance) and full payment (Single Purchase) via UPI (UnionPay International) on Electronic Data Capture (EDC) and via merchant websites in order to provide greater convenience in payment for goods and services to retail clients in need of Xpress Loan for consumption.

With our focus on QR payment acceptance with Thai QR Payment and MyPromptQR via K PLUS Shop – a mobile application designed for merchants, KBank teamed with Thailand Post to offer discounts on EMS fees in the form of an e-Coupon to online traders and K PLUS Shop users. Along with this, we have upgraded the system to accommodate a rising volume of transactions for enhanced efficiency and stability.

In addition, KBank continued to promote e-Donation service via the QR Donation program on K PLUS with the aim of supporting an efficient and transparent donation mechanism, while also providing greater convenience to donors in donating money to charitable organizations linked to the Revenue Department's e-Donation system.

■ **Corporate Business**

KBank is determined to meet all of our corporate customers' business needs, especially through funding support, advisory services and multiple formats of fund mobilization, to ensure their cost effectiveness under appropriate risk management. Along with this, we have given staunch support to their transactions via of electronic channels, while focusing on the offering of products and services responsive to all parties, including customers, suppliers, business owners and employees throughout the ecosystem, for increased competitiveness and effective business management in a comprehensive manner. These efforts are aimed at maintaining our status as customers' Main Operating Bank (MOB).

In response to the government's assistance measures for corporate clients afflicted by economic woes, drought and the COVID-19 pandemic – the latter directly crippling the airline and tourism industries, KBank granted them credit lifelines to ensure that they have sufficient liquidity to stay afloat. Regarding customers with business potential, we offered advisory services and assisted them in their fund raising via various channels suited to their demand, including both short- and long-term loans, and investment in Thailand and abroad, as well as providing them guidelines for foreign exchange risk protection and up-to-date information on the currency situation.

For customer potential development, KBank has encouraged our clients to acquire business partners in the form of B2B (Business to Business) and B2C (Business to Customers) format through our K-Value Chain Solutions that is designed to enhance customers' business opportunities, ensuring sustainable growth.

Moreover, customers have been urged to conduct transactions via online systems to ensure that they can carry out their business without interruption amid travel restrictions during the COVID-19 pandemic. Notable initiatives included the introduction of K-Cash Connect Plus that allows customers to

make immediate funds transfer to recipients or a third party having a KBank account, as well as K CONNECT-LG which features issuance of letter of guarantee via electronic channel.

3.4 Service Channels

KBank focused on providing seamless online and offline services of both KBank and our business partners. We have orchestrated ecosystems with partners while also developing our core service channels for enhanced efficiency in accessing customers in order to deliver them excellent services under the greatest cost management effectiveness.

1. Branch network: Key initiatives for branch network management in the first quarter of 2020 included:

- **Domestic branch network:** We focused on providing harmonized channels to ensure enhanced service and sale efficiency in alignment with changing customer behaviors, anywhere and anytime. With the aim of delivering a positive customer experience, KBank has applied technology and “big data” for linkage of all service channels including physical and electronic branches, services outside of branches, K-Contact Center as well as services via banking agents and service channels of our business partners. At the same time, KBank continued to consolidate branches to reduce redundancy, especially those with relatively low traffic.

In this quarter, KBank opened new hybrid branches, bringing the total number of KBank branches in this format to 14, in order to deliver a new customer experience through the use of self-service electronic machines. Meanwhile, we continued to provide services at five K PARK locations, three mini branches (this branch format shares the space of our business partners to provide customers basic services), and two Happy Loan Centers by KBank to offer loan products and advisory services dedicated to retail clients. Along with this, KBank Service was expanded to Kerry Express service points of Kerry Express (Thailand) Public Company Limited and Mini Big C locations to allow customers to conduct deposit/withdrawal transactions, bill payment and identity verification for opening of electronic accounts, with different scopes of services available at each banking agent.

We continued to work towards appropriate management of foreign exchange booths in viable areas. Along with this, our automated currency exchange machines are available 24 hours a day. Meanwhile, KBank launched the YouTrip e-Wallet to allow customers to top up and exchange currencies via application for spending abroad or online with greater convenience. To remain competitive, we revised our foreign exchange buying and selling rates.

Due to the COVID-19 pandemic, KBank announced temporary suspension of services at certain branches affected by the viral transmission, whereas service hours at some branches were adjusted in accordance with the government’s state of emergency declaration. Meanwhile, foreign exchange services at branches and Foreign Exchange Booths nationwide were halted indefinitely, as of 5:00 p.m. on March 8, 2020.

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

- 1) **Conventional Expansion:** We have expanded our business network and services within the AEC+3 region continuously. In response to customers seeking to venture into other Asian countries, we set our sights on expanding business operations in the People’s Republic of China, Lao People’s Democratic Republic, and Kingdom of Cambodia, and upgrading the representative office in Ho Chi Minh City, the Socialist Republic of Vietnam, to the status of an international branch, while also increasing our shares held in a local bank in the Republic of Indonesia and investing in a local bank of the Republic of the Union of Myanmar within this year.
- 2) **Digital Expansion:** KBank prioritized development of regional electronic payment systems, allowing us to build a database of customers’ financial transactions within the region which can be further applied in our loan services and investment. One notable initiative was the launch of QR KBank – an e-wallet application which can be used for top-up, funds transfer and QR payment, available in Lao People’s Democratic Republic. In addition, “Borderless Payments for All” was introduced to provide greater convenience to customers of all segments in the region wanting to make international funds transfer and payment – especially low-value transactions – at lower fees.
- 3) **Industry Solutions and Ecosystem Expansion, especially in target countries within CCLMVI*:** We have sought opportunities to foster collaboration with new tech partners, to allow Thai and local businesses to gain better access to financial services. This year, KBank teamed with an e-commerce partner in the Socialist Republic of Vietnam and payment business partner in the Republic of Indonesia to implement a pilot project that aims to push Thai businesses and products to compete in the regional arena.

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

Branches and Financial Service Network

Domestic	Number of Locations		International	Number of Locations	
	Mar. 2020	Dec. 2019		Mar. 2020	Dec. 2019
Branch Network ¹⁾	887	886	Branches of Locally Incorporated Institution	6	6
Foreign Exchange Booth	131	137	KASIKORNTHAI BANK LIMITED (Lao PDR)	2	2
THE WISDOM	97	97	KASIKORNBANK (CHINA) CO., LTD.	4	4
SME Business Center ²⁾	134	135	Branches	3	3
International Trade Service Center	58	58	Representative Offices	7	7
Cheque Direct Service	22	22			

Note: ¹⁾ Excluding 8 branches, classified as other branch platforms per the Bank of Thailand’s conditions

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

2. Electronic Network:

- **K-ATMs and K-CDMs:** Service efficiency enhancement has been a major focus with function development to completely meet customer needs. We have adjusted the system of ATMs located in front of branches to accommodate identity verification for opening of an electronic account. Meanwhile, KBank and Government Savings Bank (GSB) jointly provided shared ATM terminals under the white-label ATM project to ensure broader service coverage and cost efficiency while also providing greater convenience to customers, as they can conduct the same transactions as those done at their own bank's ATM terminals with no withdrawal fees and unlimited transactions. Moreover, KBank's electronic network is ready to accommodate numerous financial transactions 'round-the-clock with security through self-service machines that offer prompts in multiple languages for the greater convenience of our foreign clients.

Electronic Banking Services

Electronic Banking Services	Number of Units	
	Mar. 2020	Dec. 2019
Self-Service Channel (K-ATM and K-CDM)	10,994	10,973
K-ATM (Automated Teller Machines)	8,184	8,168
K-CDM (Cash Deposit Machines)	2,810	2,805
K-PUM (Passbook Update Machines)	1,030	1,028
Automated Currency Exchange Machines	5	5

- **Digital Banking Services:** KBank focused on development of the digital banking system for enhanced customer convenience and service coverage through linkage of other service channels including those of our business partners within the ecosystem for increased service efficiency in order to accommodate changing lifestyles while maintaining our status as the number-one digital banking provider. Major initiatives in the first quarter of 2020 included:

- 1) **K PLUS:** We focused on development of K PLUS to ensure linkage with our business partners' platforms in order to make K PLUS a lifestyle banking platform fit for our customers' everyday use in order to give them an excellent experience. We have also enhanced features to allow for 24-hour financial transactions on K PLUS, with new services available as follows:
 - KBank Smart Cash: This novel service allows K-Credit cardholders to convert their remaining credit limit to cash for crediting into their accounts by themselves, with no need to call the K-Contact Center.
 - Share QR from other Applications to K PLUS: The service features payment of goods and services by sending QR code via other applications such as LINE to online stores or customers using K PLUS who want to make payment via QR code.

- Development of member card feature on K PLUS to be a fully-fledged digital loyalty platform: This initiative links all customers' spending channels via K PLUS such as the KS Amazing Point program of KASIKORN SECURITIES clients.
- 2) **K-Cyber:** We focused on maintaining the integrity of the K-Cyber system. Data security is ensured through implementation of ISO 27001:2013, giving our customers more confidence when conducting financial transactions via all digital banking channels.
 - 3) **K-Payment Gateway:** This service channel has been continually enhanced in conformity with the Payment Card Industry Data Security Standard (PCI-DSS). For increased online payment acceptance capacity, KBank developed Pay PLUS Notification that requires customers to provide their mobile phone number for notification, Pay PLUS App Switch/Pay with K PLUS that allows customers to pay via K PLUS, as well as fee collection from payers. All of these endeavors aim to completely address the needs of online stores of all business types, regardless of their manner of connectivity.
 - 4) **KBank Live:** This service channel is used for communicating with customers via Facebook, Twitter, Instagram, YouTube, and LINE applications in order to offer products and services, financial knowledge and relevant information, and news such as promotion of KBank x BLACKPINK Taweessup Special Fixed Deposit Account, announcement of branch suspension, and registration for free COVID-19 life insurance product and KBank's assistance measures for our customers.
- **K-Contact Center:** In order to deliver a beyond-expectation customer experience, we have elevated our services to ensure total solutions as a Customer Fulfillment Center. KBank aims to become a Customer Engagement Center for a long-lasting relationship with clients, and thus be the most top-of-mind bank that is always on the side of customers with a socially engaging system through development of services in three dimensions, i.e.,
 - 1) Development of Non-Voice Channel & Self-Service: The chatbot program has been developed to offer precise and real-time information about KBank products and services, thus leading to enhanced service efficiency. The program offers a fast, secure and convenient channel with its customer authentication system.
 - 2) Development of Knowledge Management Smart Agent Portal: This noteworthy effort is aimed at bolstering K-Contact Center capabilities for enhanced service efficiency.
 - 3) Case & Incident Management: In cooperation with the Thai Bankers' Association, we have implemented the Banking Industry-Wide Customer Incident Management Standard to ensure same-day problem-solving. Guidelines for effective communication with customers have been put in place in order to maintain public image of the banking industry.

3.5 Awards and Commendation

KBank and K Companies have achieved good business performance, earning the recognition of various organizations at home and abroad, proven by many awards granted during the first quarter of 2020, notably:

Awards to KBank and K Companies
Awards to KBank <ul style="list-style-type: none">● Six awards from The Digital Banker in Digital CX Summit & Awards 2020: Winner: Best Digital Customer Experience in Wealth Management, Winner: Loan Offering of the Year (MADFUND by KBank for Lazada Sellers), Winner: Outstanding Customer Experience for Loans (MADFUND by KBank for Lazada Sellers), Winner: Best Customer Experience – Debit Card (JOURNEY Card), Highly Acclaimed: Best Digital Customer Experience in Private Banking and Highly Acclaimed: Best Digital Customer Experience – Loan Application (MADFUND by KBank for Lazada Sellers)● Two awards: Thailand Capital Markets Deal of the Year - Asset World's Bt48bn IPO and Thailand Bond House of the Year, from IFR Asia journal● Two awards: Top Underwriting Bank 2019 and Deal of the Year 2019 – GPSC from the Thai Bond Market Association● Top Outright Primary Dealer 2019 from the Bank of Thailand● 2020 Thailand's Most Admired Brand for K-Credit Card products (for six years running) and K PLUS, based on survey by BrandAge magazine● Best Brand Performance on Social Media in Banking Category from Wisersight (Thailand) Co., Ltd. which is a social media analytics company
Awards to KAsset <ul style="list-style-type: none">● Most Prominent Fund House in Corporate Bond Market of 2019 for three years running from the Thai Bond Market Association● Three awards: Best Fund House - Domestic Equity, Best Retirement Mutual Fund – Equity for K Equity Retirement Mutual Fund (KEQRMF) and Best Long-Term Equity Fund for K 20 Select Long-term Equity Fund (K20SLTF) from Morning Star (Thailand) Co., Ltd.
Awards to KBTG <ul style="list-style-type: none">● K PLUS as #1 of Finance Application in Thailand from Monthly Active User: MAU (iOS & Google Play)● KBank as 1 of 20 Asia/Pacific Best Bank for 2020 from International Data Corporation (IDC)

4. Operating Performance and Financial Position Analysis

4.1 Operating Performance

In the first quarter of 2020, the Thai financial market faced volatility due to the COVID-19 pandemic which crippled Thai economic activity almost across the board and dampened domestic spending sentiment. The Bank of Thailand therefore cut its policy rate and implemented additional measures in order to stabilize the financial system, whereas the government issued stimulus packages to ease the impact of the COVID-19 pandemic.

Since January 1, 2020, KBank and its subsidiaries initially adopted the Thai Financial Reporting Standards related to financial instruments (including TFRS9) which affects classification, measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. The impact from first-time adoption is adjusted to retained earnings as of January 1, 2020. In addition, the financial statements are prepared in accordance with the Bank of Thailand's notification in which some items are not comparable with the financial statements and key financial ratio of previous year.

KBank's consolidated net profit for the first quarter of 2020 totaled Baht 6,581 million, decreasing Baht 2,221 million or 25.23 percent, over-quarter. The decrease could be attributed to non-interest income which fell Baht 8,785 million, or 54.37 percent due mainly to the volatility of money and capital markets during the economic recession caused by the COVID-19 pandemic, and TFRS 9 impacts from reclassification and remeasurement of investments. Meanwhile, net premiums earned – net rose. Net interest income increased Baht 2,512 million, or 9.82 percent due to loan growth and TFRS 9 revenue recognition concept adopted for calculation of interest income and fee income related to loan, and reduction of contributions to the Financial Institutions Development Fund (FIDF). Net Interest Margin (NIM) therefore stood at 3.49 percent. Meanwhile, other operating expenses decreased by Baht 3,695 million or 17.45 percent. As a result, our cost to income ratio stood at 49.31percent. KBank has set aside an increased expected credit loss of Baht 3,047 million, compared to the preceding quarter, with prudent consideration on factors in line with uncertainties stemming from economic recession.

Operating Performance for the First Quarter of 2020

(Unit: Million Baht)

	Q1-2020	Q4-2019	Change		Q1-2019	Change	
			Increase (Decrease)	Percent		Increase (Decrease)	Percent
Net Interest Income	28,082	25,570	2,512	9.82	25,252	2,830	11.21
Non-Interest Income	7,372	16,157	(8,785)	(54.37)	12,241	(4,869)	(39.78)
Total Operating Income - net	35,454	41,727	(6,273)	(15.03)	37,493	(2,039)	(5.44)
Total Other Operating Expenses	17,481	21,176	(3,695)	(17.45)	16,010	1,471	9.19
Expected Credit Loss	11,872	-	11,872	100.00	-	11,872	100.00
Impairment Loss on Loans and Debt Securities	-	8,825	(8,825)	(100.00)	7,580	(7,580)	(100.00)
Net Profit (attributable to equity holders of KBank)	6,581	8,802	(2,221)	(25.23)	10,044	(3,463)	(34.47)
Basic Earnings per Share (Baht)	2.75	3.68	(0.93)	(25.23)	4.20	(1.45)	(34.47)

When compared to same period of last year, KBank's consolidated net profit decreased Baht 3,463 million, or 34.47 percent. Net interest income rose Baht 2,830 million or 11.21 percent, derived largely from loan growth and TFRS9 revenue recognition concept in which interest income and fee income related to loan was calculated by using effective interest rate (EIR) method, while previously calculated by contractual rate, as well as reduction in contributions to the Financial Institutions Development Fund (FIDF). NIM therefore stood at 3.49 percent. Meanwhile, non-interest income decreased by Baht 4,869 million or 39.78 percent due mainly to the volatility of money market and capital market during the economic recession stemming from COVID-19, and TFRS 9 impacts from reclassification and remeasurement of investments that reflected in non-interest income. Moreover, other operating expenses increased by Baht 1,471 million or 9.19 percent due to debt management expenses, IT related expenses and marketing expenses, resulting in the cost to income ratio to stand at 49.31 percent. KBank has set aside an increased expected credit loss of Baht 4,292 million, compared to the same period of last year.

Major financial ratios that reflected operating performance of KBank and our subsidiaries in the first quarter of 2020 compared to the previous quarter and the same period of last year included:

(Unit: Percent)

Financial Ratio	Q1-2020	Q4-2019	Change	Q1-2019	Change
Return on Assets (ROA) ¹⁾	0.78	1.08	(0.30)	1.27	(0.49)
Return on Equity (ROE) ¹⁾	6.48	8.72	(2.24)	10.46	(3.98)
Net Interest Margin (NIM) ¹⁾	3.49	3.25	0.24	3.32	0.17
Cost to Income Ratio	49.31	50.75	(1.44)	42.70	6.61

¹⁾ Annualized

(Unit: Percent)

Financial Ratio	Mar. 31, 2020	Dec. 31, 2019	Change	Mar. 31, 2019	Change
Significant increase in credit risk loans					
to total loans	9.32	-	9.32	-	9.32
Net NPLs to Total Loans	3.86	3.65	0.21	3.44	0.42
Total allowance for expected credit loss ⁴⁾					
to NPL gross (Coverage ratio)	138.66	-	138.66	-	138.66
Total allowance to NPL gross (Coverage ratio)	-	148.60	(148.60)	158.78	(158.78)
Loans ²⁾ to Deposits Ratio	92.78	96.62	(3.84)	96.77	(3.99)
Capital Adequacy Ratio ³⁾	18.53	19.62	(1.09)	18.12	0.41
Tier 1 Capital Ratio ³⁾	15.17	16.19	(1.02)	15.73	(0.56)

²⁾ Loans = Loans to customers³⁾ KASIKORNBANK FINANCIAL CONGLOMERATE's Capital Adequacy Ratio (CAR)⁴⁾ Included allowance for expected credit loss of loan commitment and financial guarantee

□ Net Interest Income

KBank's consolidated net interest income for the first quarter of 2020 was Baht 28,082 million, increasing Baht 2,512 million, or 9.82 percent over-quarter, which was derived mainly from interest income from loans due to loan growth and TFRS 9 revenue recognition concept which interest income shall be calculated by using effective interest rate method, while previously calculated by contractual rate. In addition, fee income related to loan shall be gradually recognized as interest income using effective interest rate method under TFRS 9. In addition, interest expenses decreased due to temporary reduction of contributions to Financial Institutions Development Fund (FIDF) from 0.46 percent to 0.23 percent per year, effective from 2020 to 2021. Our NIM therefore equaled 3.49 percent, higher than the previous quarter.

(Unit: Million Baht)

	Q1-2020	Q4-2019	Change		Q1-2019	Change		
			Increase (Decrease)	Percent		Increase (Decrease)	Percent	
Interest Income								
Interbank and Money Market Items	1,030	1,305	(275)	(21.06)	1,951	(921)	(47.19)	
Deposits	79	257	(178)	(69.22)	347	(268)	(77.23)	
Loans (without Repurchase Agreements)	144	107	37	33.88	173	(29)	(16.38)	
Repurchase Agreements	807	941	(134)	(14.20)	1,431	(624)	(43.62)	
Investments	5,529	5,584	(55)	(0.99)	4,842	687	14.18	
Trading Investments	49	80	(31)	(38.03)	86	(37)	(42.63)	
Available-for-Sale Investments	-	1,236	(1,236)	(100.00)	873	(873)	(100.00)	
Held-to-Maturity Investments	-	4,268	(4,268)	(100.00)	3,883	(3,883)	(100.00)	
Investment in Debt Instruments measured at Fair								
Value through Other Comprehensive Income	1,109	-	1,109	100.00	-	1,109	100.00	
Investment in Debt Instruments measured at								
Amortized Cost	4,261	-	4,261	100.00	-	4,261	100.00	
Others	110	-	110	100.00	-	110	100.00	
Loans	25,655	24,165	1,490	6.17	23,755	1,900	8.00	
Hire Purchase and Finance leases	1,563	1,508	55	3.59	1,415	148	10.45	
Others	2	4	(2)	(46.64)	3	(1)	(42.06)	
Total Interest Income	33,779	32,566	1,213	3.72	31,966	1,813	5.67	
Total Interest Expenses	5,697	6,996	(1,299)	(18.57)	6,714	(1,017)	(15.16)	
Total Interest Income – net	28,082	25,570	2,512	9.82	25,252	2,830	11.21	
Yield on Earning Assets (percent)	4.20	4.15		0.05	4.21		(0.01)	
Cost of Fund (percent)	0.98	1.25		(0.27)	1.22		(0.24)	
Net Interest Margin (NIM) (percent)	3.49	3.25		0.24	3.32		0.17	

When compared to the same quarter of the previous year, net interest income increased by Baht 2,830 million or 11.21 percent, which came from an increase of Baht 1,900 million in interest income from loans, or 8.00 percent due to loan growth and TFRS 9 revenue recognition concept for calculation of interest income and fee income related to loan as well as reduction in contributions to Financial Institutions Development Fund (FIDF). As a result, our NIM was higher than that in the same period of last year.

□ Non-Interest Income

KBank's consolidated non-interest income in the first quarter of 2020 totaled Baht 7,372 million, decreasing Baht 8,785 million, or 54.37 percent over-quarter. The decrease was attributed mainly to the volatility of money and capital markets during the economic recession caused by the COVID-19 pandemic, and TFRS 9 impacts from reclassification and remeasurement of investments that reflect in non-interest income. Net fees and service income totaled Baht 8,850 million, decreasing by Baht 557 million or 5.92

percent, due mainly to fees from underwriting, fees from card business, and fee income related to loan which changed to reflect in interest income under TFRS 9, while brokerage fees, fees from money transfer and aval increased. Net premiums earned - net was also higher.

When compared to the same period of last year, non-interest income decreased by Baht 4,869 million or 39.78 percent due mainly to the volatility of money and capital markets and a decrease in fee income related to loan which changed to reflect in interest income under TFRS 9. Meanwhile, net fees and service income increased by Baht 120 million or 1.38 percent, due mainly to brokerage fees, fees from money transfer and fund management as well as net premiums earned – net.

(Unit: Million Baht)

	Q1-2020	Q4-2019	Change		Q1-2019	Change	
			Increase (Decrease)	Percent		Increase (Decrease)	Percent
Non-Interest Income							
Fees and Service Income	12,335	13,026	(691)	(5.30)	12,149	186	1.53
Fees and Service Expenses	3,485	3,619	(134)	(3.70)	3,419	66	1.92
Fees and Service Income - net	8,850	9,407	(557)	(5.92)	8,730	120	1.38
Gain (Loss) on Financial Instrument measured at Fair							
Value through Profit or Loss	(2,898)	-	(2,898)	(100.00)	-	(2,898)	(100.00)
Gain (Loss) on Trading and Foreign Exchange							
Transactions	-	1,979	(1,979)	(100.00)	2,231	(2,231)	(100.00)
Gain (Loss) on Investments	144	4,753	(4,609)	(96.96)	262	(118)	(44.93)
Share of Profit (Loss) from Investments using Equity Method	12	(17)	29	170.08	16	(4)	(23.52)
Dividend Income	776	577	199	34.41	629	147	23.33
Net Premiums Earned	15,796	20,511	(4,715)	(22.99)	20,076	(4,280)	(21.32)
Other Operating Income	289	621	(332)	(53.51)	337	(48)	(14.26)
<u>Less</u> Underwriting Expenses	15,597	21,674	(6,077)	(28.04)	20,040	(4,443)	(22.17)
Total Non-Interest Income	7,372	16,157	(8,785)	(54.37)	12,241	(4,869)	(39.78)

□ Other Operating Expenses

KBank's consolidated other operating expenses for the first quarter of 2020 was Baht 17,481 million, falling Baht 3,695 million, or 17.45 percent over-quarter due to seasonality wherein branding campaigns and marketing activities were held in line with business direction of KBank in the fourth quarter of 2019. As a result, our cost to income ratio stood at 49.31 percent, down from 50.75 percent in the previous quarter.

When compared to the same period of last year, other operating expenses increased by Baht 1,471 million or 9.19 percent due to debt management expenses, IT related expenses and marketing expenses, while total operating income decreased. Therefore, our cost to income ratio of the first quarter of 2020 was higher than the 42.70 percent in the same quarter of last year.

(Unit: Million Baht)

	Q1-2020	Q4-2019	Change		Q1-2019	Change	
			Increase (Decrease)	Percent		Increase (Decrease)	Percent
Employee Expenses	8,199	8,370	(171)	(2.05)	8,047	152	1.89
Directors' Remuneration	22	22	-	(0.28)	18	4	21.04
Premises and Equipment Expenses	3,044	3,574	(530)	(14.84)	3,070	(26)	(0.86)
Taxes and Duties	1,394	1,235	159	12.90	1,248	146	11.75
Others	4,822	7,975	(3,153)	(39.53)	3,627	1,195	32.96
Total Other Operating Expenses	17,481	21,176	(3,695)	(17.45)	16,010	1,471	9.19
Cost to Income Ratio (percent)	49.31	50.75		(1.44)	42.70		6.61

□ Expected Credit Loss

KBank and our subsidiaries had expected credit loss of Baht 11,872 million, an increase of Baht 3,047 million, over-quarter. The figure was also higher over the same period of last year. The increase could be attributed to our prudent consideration on factors in line with uncertainties stemming from continued economic slowdown caused by the COVID-19 pandemic. Thus, our expected credit loss to average loan for the first quarter of 2020 stood at 2.35 percent, higher than 1.79 percent in the previous quarter and 1.58 percent in the same period of last year.

Expected credit loss

(Unit: Million Baht)

	Q1-2020	Q4-2019	Change		Q1-2019	Change	
			Increase (Decrease)	Percent		Increase (Decrease)	Percent
Expected credit loss	11,872	-	11,872	100.00	-	11,872	100.00
Impairment Loss on Loans and Debt Securities	-	8,825	(8,825)	(100.00)	7,580	(7,580)	(100.00)
Expected credit loss to average loan (percent)	2.35	-	2.35	100.00	-	2.35	100.00
Impairment Loss on Loans and Debt Securities to average loan (percent)	-	1.79	(1.79)	(100.00)	1.58	(1.58)	(100.00)

Allowance for Expected Credit Loss

As of March 31, 2020, our consolidated allowance for expected credit loss totaled Baht 118,064 million.

— Non-Performing Loans and Restructuring Loans

Non-Performing Loans

As of March 31, 2020, KBank's consolidated NPLs stood at Baht 91,113 million, 3.86 percent of the total outstanding credit, including that of financial institutions. Bank-only NPLs totaled Baht 88,702 million, 3.83 percent of the total outstanding credit, including that of financial institutions. The NPLs data is shown in the table below:

Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Mar. 31, 2020	Dec. 31, 2019
Consolidated NPLs	91,113	84,038
Percent of total outstanding credit, including that of financial institutions	3.86	3.65
Bank-only NPLs	88,702	81,814
Percent of total outstanding credit, including that of financial institutions	3.83	3.62

Net Non-Performing Loans

As of March 31, 2020, KBank's consolidated net NPLs stood at Baht 54,902 million or 2.36 percent of the total outstanding credit, including that of financial institutions. Bank-only net NPLs totaled Baht 53,660 million or 2.35 percent of the total outstanding credit, including that of financial institutions. The net NPLs data is shown in the table below:

Net Non-Performing Loans

(Unit: Million Baht)

For the Quarter Ending	Mar. 31, 2020	Dec. 31, 2019
Consolidated net NPLs	54,902	55,682
Percent of total outstanding credit, including that of financial institutions	2.36	2.45
Bank-only net NPLs	53,660	55,079
Percent of total outstanding credit, including that of financial institutions	2.35	2.47

Restructuring Loans

KBank and its subsidiaries engaged in debt restructuring contracts which were classified as NPL that incurred losses and not incurred losses, which were troubled debt restructuring. In the first quarter of 2020, there were debt before restructuring amounting to Baht 2,259 million and incurred losses amounting to Baht 16 million.

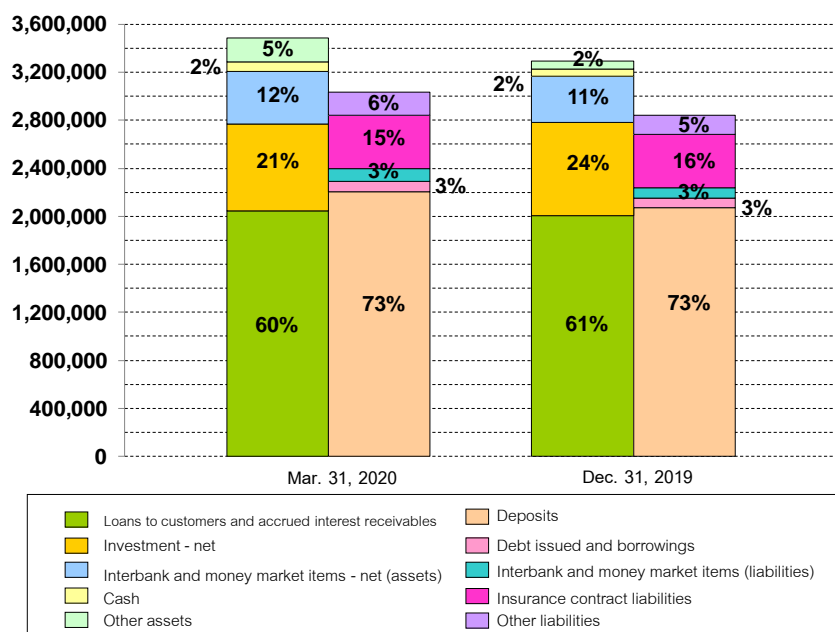
Properties Foreclosed

As of March 31, 2020, our consolidated properties foreclosed had a net value of Baht 25,724 million, thus being 0.74 percent of total assets.

4.2 Financial Position Analysis

Assets and Liabilities Structure

(Unit: Million Baht)



□ Assets

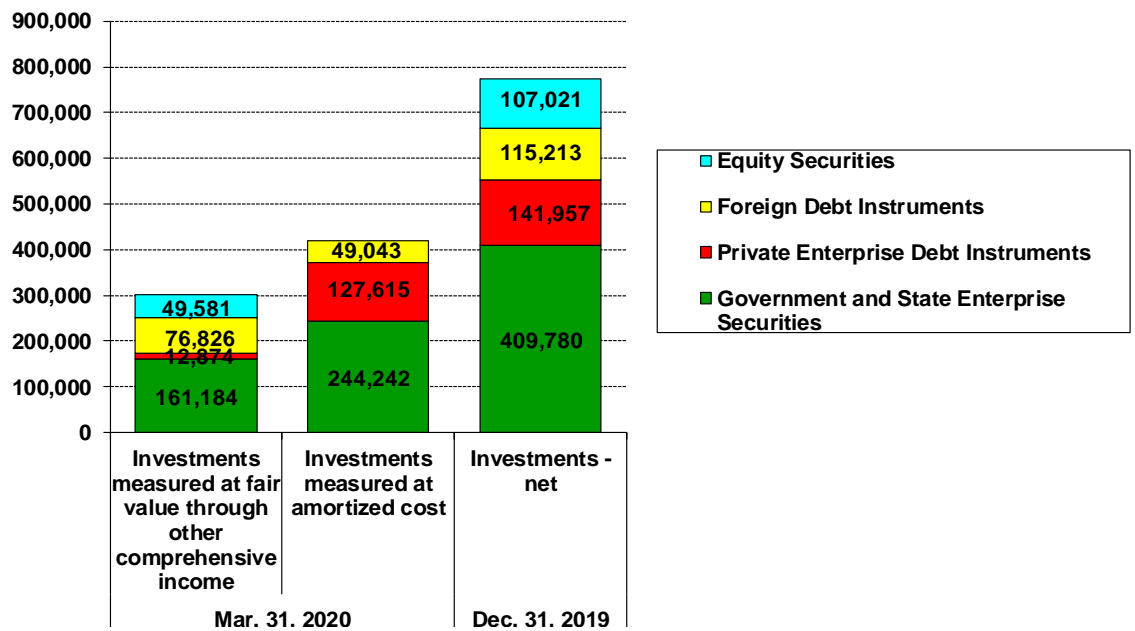
At the end of the first quarter of 2020, KBank's consolidated assets totaled Baht 3,483,527 million, increasing Baht 189,638 million or 5.76 percent from the end of 2019. The increase was due mainly to an increase in net interbank and money market items (assets) and loan growth. Key details are as follows:

- Net interbank and money market items (assets) at the end of the first quarter of 2020 totaled Baht 439,673 million, increasing Baht 53,733 million or 13.92 percent from the end of 2019, due mainly to KBank's liquidity management.
- Financial assets measured at fair value through profit or loss at the end of the first quarter of 2020 totaled Baht 64,183 million, mainly from the reclassification from net investment to be financial assets measured at fair value to profit or loss in accordance with TFRS 9 and the effects from volatility of money market and capital market during the economic recession caused by the COVID-19 pandemic.
- Net investments at the end of the first quarter of 2020 totaled Baht 721,365 million, decreasing by Baht 53,275 million or 6.88 percent from the end of 2019, mainly from the reclassification to be financial assets measured at fair value to profit and loss in accordance with TFRS 9 and the effects from volatility of money and capital markets during the economic recession caused by the COVID-19 pandemic.

- Loans to customers at the end of the first quarter of 2020 amounted to Baht 2,043,093 million, increasing Baht 41,137 million or 2.05 percent from the end of 2019 due mainly to an increase in working capital and commercial loan.

Investments in Securities

(Unit: Million Baht)



□ Liabilities and Equity

Our consolidated liabilities, at the end of the first quarter of 2020, amounted to Baht 3,033,814 million, increasing Baht 193,640 million or 6.82 percent, from the end of 2019. The increase was mainly attributable to an increase in deposits and interbank and money market items (liabilities). Significant changes in our consolidated liabilities included:

- Deposits at the end of the first quarter of 2020 equaled Baht 2,202,112 million, increasing Baht 130,063 million or 6.28 percent from the end of 2019, mainly as a result of an increase in savings deposits.
- Interbank and money market items (liabilities) as of the end of the first quarter of 2020 totaled Baht 104,027 million, increasing Baht 22,399 million or 27.44 percent from the end of 2019, due mainly to KBank's liquidity management.
- Debts issued and borrowings at the end of the first quarter of 2020 totaled Baht 87,937 million, increasing by Baht 6,113 million or 7.47 percent from the end of 2019, due mainly to an increase in exchange rate.

- Insurance contract liabilities at the end of the first quarter of 2020 totaled Baht 448,525 million, an increase of Baht 2,430 million or 0.54 percent from the end of 2019, in line with a rising volume of life insurance business transactions.

At the end of the first quarter of 2020, total equity attributable to equity holders of KBank amounted to Baht 406,789 million, increasing Baht 431 million or 0.11 percent from the end of 2019.

□ Impacts from First-Time Adoption of Thai Financial Reporting Standards (TFRS)

KBank and its subsidiaries have initially adopted TFRS 9: Financial Instruments and TFRS 16: Lease which are effective on January 1, 2020.

- TFRS 9: Financial instruments affects definition, recognition, measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting
- TFRS 16: Lease affects lessees to recognize right of use asset and lease liability on commencement date, except for short-term and low value asset leases.

Impacts on financial statements from first-time adoption of such financial reporting standards as of January 1, 2020 are as follows:

(Unit: Million Baht)

	As of January 1, 2020	
	Consolidated	The Bank
Total Assets increased	13,067	6,458
Total Liabilities increased	4,259	4,042
Total Equity increased		
Attributable to equity holders of the Bank	4,811	2,416
Non-controlling interests	3,997	-

□ Relationship between Sources and Uses of Funds

As of March 31, 2020, the funding structure as shown in the consolidated financial statement comprised Baht 3,033,814 million in liabilities and Baht 406,789 million in total equity, resulting in a debt-to-equity ratio of 7.46. The main source of funds on the liabilities side was deposits, which equaled Baht 2,202,112 million, or 63.22 percent of the total source of funds, as of March 31, 2020. Other sources of funds included interbank and money market items as well as debt issued and borrowings, which accounted for 2.99 percent and 2.52 percent of the total source of funds, respectively.

As of March 31, 2020, KBank and subsidiaries' major use of funds was loans which amounted to Baht 2,043,093 million, resulting in loan-to-deposit ratio of 92.78 percent. As for the remaining liquidity, KBank invested in various selections of liquid assets, such as interbank and money market items, financial assets measured at fair value through profit or loss and investments in securities.

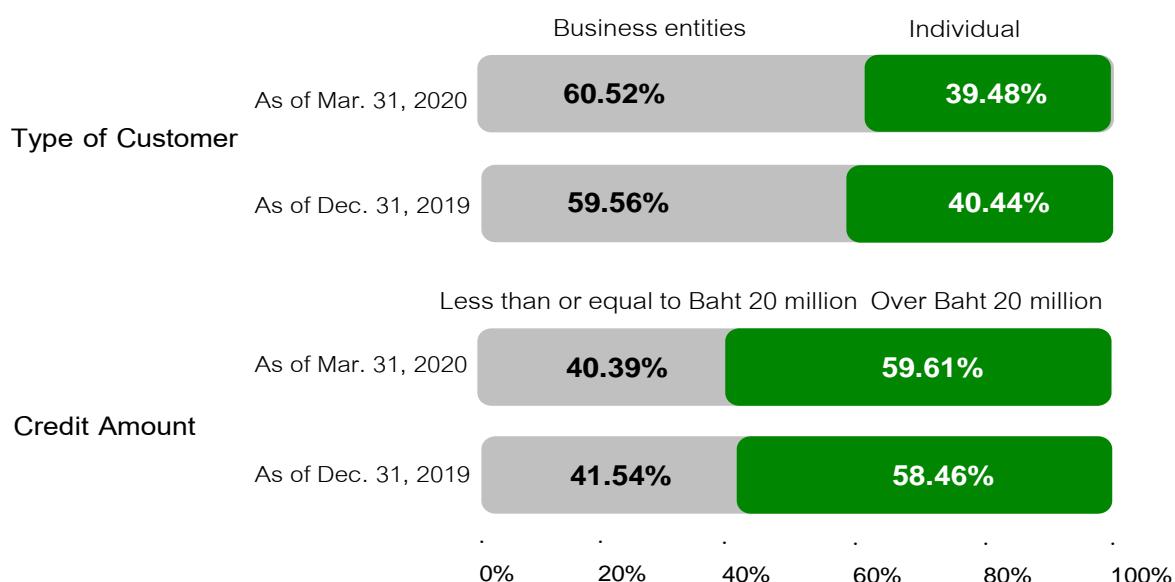
4.3 Loans and Deposits

Loans

As of March 31, 2020, KBank's consolidated outstanding loans stood at Baht 2,043,093 million, increasing by Baht 41,137 million, or 2.05 percent, compared to Baht 2,001,956 million as of December 31, 2019.

As of March 31, 2020, 60.52 percent of KBank's outstanding loans were made to juristic persons or registered businesses. Loan accounts exceeding Baht 20 million totaled Baht 1,183,811 million, or 59.61 percent of the total whereas the remaining 40.39 percent went to loan accounts of less than Baht 20 million.

Loan Portfolio by Type of Customer and Credit Amount



Loans Classified by Business

(Unit: Million Baht)

	Mar. 31, 2020		Dec. 31, 2019	
	Corporate Business ¹⁾	Retail Business ²⁾	Corporate Business ¹⁾	Retail Business ²⁾
Loans	1,433,825	552,207	1,363,221	555,451

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

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

As of the end of the first quarter of 2020, our corporate business loans (Corporate and SME customers) increased by Baht 70,604 million, or 5.18 percent, from the end of 2019. The increase was derived mainly from Corporate customers, especially those in oil and petrochemicals, and agroindustry. Meanwhile, our SME business loans were relatively stable in line with torpid economic activity of some major sectors due to the COVID-19 pandemic, as evidenced by slowdown in real estate and auto parts business. Meanwhile, outstanding loans in tourism and service industry were higher, resulting from KBank's assistance measures. Certain industries that saw rising demand for loan included consumer goods and construction.

Our retail loans fell Baht 3,244 million, or 0.58 percent over-year, due to seasonality amid credit card loan repayment for tax-saving funds purchased during the last year-end. Meanwhile, home loans enjoyed slightly higher growth than what was seen at the end of 2019, thanks to the government's real estate stimulus measures through reduction in housing transfer and mortgage registration fees for homes priced at not more than Baht 3 million, effective until December 24, 2020, and the Baan Dee Mee Down program that offered a cash rebate of Baht 50,000 to homebuyers with annual income of not more than Baht 1.2 million who applied for home loan with mortgage registered by March 31, 2020. Moreover, KBank offered comprehensive loan products, namely Home Loan Refinance and Home to Cash. At the same time, personal loan exhibited steady growth.

To assist all customers affected by the COVID-19 pandemic, KBank launched special measures for six types of loan products, namely K-Credit Card, Xpress Cash, Xpress Loan, Home Loan, K-SME Credit and KLeasing auto loan. We focused on three issues, i.e., 1) Suspension of principal payment only or suspension of both principal and interest payment, 2) Reduction of per-installment payment, and 3) Granting of new credit lines via a soft loan scheme and the Portfolio Guarantee Scheme Phase 8 SMEs Sangthai program of the Thai Credit Guarantee Corporation (TCG). These measures aim to provide funding sources and liquidity consistent with customers' needs in order to save their jobs or keep their business

running. Customers are invited to request the assistance via the K-Contact Center, chatbot and KBank's website.

KBank is also prepared for changing circumstances, especially if customers seek additional credit lifelines. We are ready to cooperate with the government via implementation of their policies to assist business operators and reinvigorate the Thai economy.

□ Deposits

Deposits Classified by Type of Deposit Account

(Unit: Million Baht)

	Percent of Total Deposits	Deposits		Change	
		Mar. 31, 2020	Dec. 31, 2019	Increase (Decrease)	Percent
Total Deposits	100.00	2,202,112	2,072,049	130,063	6.28
Current accounts	5.51	121,265	118,550	2,715	2.29
Savings accounts	72.56	1,597,848	1,466,473	131,375	8.96
Fixed-term deposit accounts	21.93	482,999	487,026	(4,027)	(0.83)

At the end of the first quarter of 2020, total deposits of both Corporate Business and Retail Business increased Baht 130,063 million, or 6.28 percent, compared to the end of 2019, amid declining competition in the deposit market due to a high level of excess liquidity in the banking system. Meanwhile, customers moved to park their cash in savings accounts to cope with uncertainty after the implementation of preventive measures against the COVID-19 pandemic, which resulted in an increase of 8.96 percent in savings deposit compared to the end of last year. Therefore, savings deposits saw higher growth, in contrast to that of current account and fixed-term deposits. Moreover, deposit mobilization cost was dwindling in line with the policy rate cut and reduced contributions to the Financial Institutions Development Fund (FIDF), which allowed banks to pass the obtained benefits on to customers affected by the COVID-19 pandemic.

KBank continued to prioritize the maintaining of liquidity and deposit cost management to ensure that they are at appropriate levels, with the balanced distribution of deposits in each customer segment in alignment with the strategies of a Bank of Sustainability and Customer Centricity under our resolution of delivering an excellent customer experience. To maintain our status as Customers' Main Bank, we always strive to nurture customer relationships via the offering of special fixed-term deposit products as alternatives for them that also serve as a funding instrument for KBank at an appropriate cost and timing. KBank teamed with KASIKORN ASSET MANAGEMENT COMPANY Co., Ltd. to adopt the 'Investor Focus' strategy and thus ensure enhanced investment effectiveness for unitholders amid the highly volatile global market. To this end, we offered mutual funds that provide investors opportunity to gain attractive returns despite uncertain market circumstances. Moreover, investment products and services were developed to

meet investor demands, especially those of new-generation clients, along with recommendations on portfolio arrangement to ensure higher returns.

KBank always focuses on greater customer convenience when it comes to saving to ensure that customers' financial goals can be met. To this end, we introduced a service for K-eSavings Account opening via K PLUS with facial recognition – a biometric technology adopted for identity verification. Customers can also verify their identity at K-Check ID and K-ATM available at KBank and other K-Check ID service points at Thailand Post, Big C Supercenter, Kerry Express (Thailand) Public Company Limited, etc. Furthermore, since February, KBank has joined the test of using cross-bank identity verification through the National Digital ID (NDID) platform for opening a digital deposit account in the Bank of Thailand's Regulatory Sandbox.

4.4 Treasury Operations

During the first quarter of 2020, average overnight interbank lending rates stood at 1.04 percent p.a., down from the average rate of 1.58 percent p.a. in the preceding quarter, in line with the policy rate reduction of 0.50 percent in the previous quarter to 0.75 percent p.a. Those rates were influenced by the policy rate cut per the resolutions from the Monetary Policy Committee (MPC) meeting held on February 5, 2020, and its special meeting on March 20, 2020, wherein the key policy rate was slashed 0.25 percent each time, to 1.00 percent and 0.75 percent p.a., respectively.

KBank's liquidity position and investment portfolios were managed primarily to cope with future changes in business conditions and in line with the domestic economy, as well as money and capital markets both at home and abroad. In the first quarter of 2020, we were able to manage our liquidity position in a manner appropriate for the changing business circumstances, as reflected in the small decrease in returns on investment despite reduced liquidity and continual policy rate reductions. We sold government bonds with maturities of less than six months that offered lower returns than the policy rate, but invested in those with maturities of one year and longer, in line with the falling policy rate trend. In addition, KBank invested in top-rated foreign bonds when their returns were more attractive than those of their Thai counterparts, to generate returns within an appropriate risk appetite.

Treasury Operations Income

(Unit: Million Baht)

Income Structure of Treasury Operations (Banking Book)	Percent of Total Income	Q1-2020	Q4-2019	Change	
				Increase (Decrease)	Percent
Interest income¹⁾					
Interbank and money market items ²⁾	44.50	987	1,157	(170)	(14.69)
Investments	55.50	1,231	1,289	(58)	(4.50)
Total	100.00	2,218	2,446	(228)	(9.32)

Notes: ¹⁾ Managerial figures

²⁾ Including loans

During the first quarter of 2020, total interest income stood at Baht 2,218 million, decreasing Baht 228 million or 9.32 percent from the previous quarter, due to the declining interest rate of repurchase agreement transactions.

4.5 Capital Requirements

As of the end of the first quarter of 2020, KASIKORNBANK FINANCIAL CONGLOMERATE, under the Basel III capital requirements, had capital funds of Baht 423,627 million, consisting of Baht 346,755 million in Tier-1 capital and Baht 76,872 million in Tier-2 capital. The capital adequacy ratio was 18.53 percent, above the BOT's minimum requirement and capital buffers of 12.00 percent. Details of the capital adequacy ratio are shown in the following table:

Capital Adequacy Ratio¹⁾

- KASIKORNBANK FINANCIAL CONGLOMERATE²⁾

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum requirement & Capital buffers ³⁾	Mar. 31, 2020	Minimum requirement & Capital buffers ³⁾	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Tier-1 Capital Ratio	9.50	15.17	9.00	16.19	16.76	16.19	15.73
<i>Common Equity Tier-1 Ratio</i>	8.00	15.17	7.50	16.19	16.76	16.19	15.73
Tier-2 Capital Ratio	-	3.36	-	3.43	2.34	2.36	2.39
Capital Adequacy Ratio	12.00	18.53	11.50	19.62	19.10	18.55	18.12

- The Bank

(Unit: Percent)

Capital Adequacy Ratio	Basel III						
	Minimum requirement & Capital buffers ³⁾	Mar. 31, 2020	Minimum requirement & Capital buffers ³⁾	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Tier-1 Capital Ratio	9.50	14.08	9.00	14.94	15.46	14.89	14.57
<i>Common Equity Tier-1 Ratio</i>	8.00	14.08	7.50	14.94	15.46	14.89	14.57
Tier-2 Capital Ratio	-	3.49	-	3.58	2.45	2.46	2.47
Capital Adequacy Ratio	12.00	17.57	11.50	18.52	17.91	17.35	17.04

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

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

³⁾ Bank of Thailand (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 at 2.50 percent per annum since 1 January 2019 onwards.
- Domestic Systematically Important Banks Buffer (D-SIBs Buffer): BOT required the D-SIBs to maintain an additional Common Equity Tier 1 at 1.00 percent per annum on a phase-in basis at 0.50 percent from 1 January 2019 and increase to be 1.00 percent since 1 January 2020 onwards.

4.6 Credit Ratings

At the end of the first quarter of 2020, KBank's credit rating given by Moody's Investors Service, Standard & Poor's, and Fitch Ratings remained unchanged from the end of 2019.

Details are shown in the following table.

KASIKORNBANK's Credit Ratings	
Credit Ratings Agency	Mar. 31, 2020
Moody's Investors Service¹⁾	
<u>Foreign Currency</u>	
Outlook	Positive
Long-term - Senior Unsecured Notes	Baa1
- Deposit	Baa1
- Counterparty Risk	A3
- Subordinated Debt	Baa3
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
Baseline Credit Assessment	Baa1
<u>Domestic Currency</u>	
Outlook	Positive
Long-term - Deposit	Baa1
- Counterparty Risk	A3
Short-term - Debt/Deposit	P-2
- Counterparty Risk	P-2
<hr/>	
Standard & Poor's¹⁾	
<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+

Fitch Ratings ¹⁾International Credit Ratings (Foreign Currency)

Outlook	Stable
Long-term Issuer Default Rating	BBB+
Short-term Issuer Default Rating	F2
Senior Unsecured Notes	BBB+

Viability	bbb+
Subordinated Debt (Basel III-compliant Tier 2 securities)	BBB
Support	2
Support Rating Floor	BBB-

National Credit Ratings

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

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

5. Operations of Support Groups

5.1 Human Resource Management

KBank's human resource management operations are in line with our business operations during the current situation. Three key initiatives in the first quarter included the Human Resource Management Strategic Plan, Practical Guidelines for Work Performance during the COVID-19 pandemic and Employee Relations.

- **Human Resource Management Strategic Plan**

KBank prioritizes employee management and development in support of our major human resource management operations. Major endeavors included:

- Enhancement of skills, competency and leadership among employees and executives at all levels via the following three operations:
 - (1) Attracting capable persons to work with KBank: To this end, we organized K Capstone Year 3 to support students who were the finalists of a startup learning program to broaden their horizons in our internship program. Moreover, KBank Young Scholarship and KBTG Young Tech Scholarship programs were held to award scholarships to fourth-year students to further their studies in the Master of Business Administration (MBA) and technology fields. Meanwhile, we continued our activities held on the LINE application and KASIKORN Career on Facebook to establish a relationship with the general public. Aside from analyzing the participants' behaviors based on the information obtained in order to find the careers of their interest, these platforms also serve as communication channels regarding job application.
 - (2) Reskilling & Upskilling Workforce: KBank has developed tools for analyzing work that will match future business needs and has prepared a personnel allocation and development plan in order to efficiently accommodate changing work formats.
 - (3) Retaining employees for workplace happiness: We conducted an employee engagement survey with a focus on career opportunity while also preparing divisional engagement action plans. Moreover, we implemented the KONNECT+ program featuring an internal communication channel via LINE application with HR Chatbot system that automatically answers inquiries, provides updated news of KBank and solves employee problems regarding leave, welfare, returns, learning programs and access to KBank's work systems.
- Establishing a highly agile working environment: To exceed the set goal, we have fully employed a model for agile organization structure with the Human Resource Division and other divisions that support the work of KBank's special projects. Along with this, relevant personnel have been groomed to be agile coaches who will act as advisors with regard to the agile mindset and agile way of work in our drive towards being a highly agile organization.

Moreover, KBank held Possibility Awards program for the second consecutive year to encourage employees to showcase their creative ideas that can be further applied to the development of KBank products and services.

- **Practical Guidelines for Work Performance during COVID-19 Pandemic**

KBank has established practical guidelines to combat the viral transmission with details as follows:

- Preventive measures for employees: KBank has established an Incident Response Team (IRT), and implemented a Business Continuity Plan as well as precautionary measures to ensure the safety and well-being of employees. Such measures included social distancing guidance, and management of workforce wherein only essential staff members are required to station at the office while a number of employees are allowed to work from home. Moreover, employees are prohibited from traveling to high-risk locations and areas under surveillance, while at-risk staff members are required to self-quarantine at home for 14 days. Other precautionary actions include distribution of personal protective equipment (PPE) to employees, regular ozone disinfection procedures at buildings and installation of thermoscan cameras at the entrance of main branch buildings to screen visitors. Meanwhile, PR media have been posted in common areas within KBank buildings to provide knowledge of COVID-19, while employees are encouraged to hold video conferences as part of the effort to prevent viral spread.
- Communications with employees: To keep our employees aware of the situation and ensure their safety and well-being both at the workplace and at home, KBank is using multiple internal communication channels including KONNECT+ in Line application, KBank Live, email and kworkplace.com website, as well as announcements posted in common areas of KBank buildings.
- Way of work adjustment: In response to the government's social distancing policy, KBank has divided employees into two groups based on the nature of their work, while ensuring that they stay productive:
 - (1) Employees working at head offices: These staff members are urged to work from home, while they can collaborate with their teams via online channels or video conferences.
 - (2) Employees working at branches: These staffers are divided into two groups, and they can perform work alternately at their branch and from home. KBank has put in place preventive and precautionary measures at branches to ensure employee safety and well-being, including limits to the of number of customers using services at branches. Meanwhile, employees working from home are required to enhance their skills related to their work and duties, especially via online self-learning platforms.

- Enhancement of learning skills for employees while working from home: We have encouraged these staff members to attend online learning courses via electronic platforms such as KDwise, SkillLane, TBAC, Coursera and EdX.
- Postponement of activities: KBank has suspended the schedules for arranging K-Spirit, which is held annually, as well as activities under the leadership development and Possibility Awards programs.

- **Employee Relations and Benefits**

KBank welcomed consultations and problem-solving discussions between employees and KBank to strengthen our relationship. In collaboration with the KASIKORNBANK Labour Union and KASIKORNBANK Officer Labour Union, KBank took remedial actions towards employees performing in violation of regulatory requirements. These efforts were instrumental in maintaining the high level of service our employees give to our customers, and in minimizing operational risks. We also established practical guidelines on various key issues in compliance with labour laws of AEC countries and the People's Republic of China, so that our employees abroad can perform their work correctly.

5.2 IT Management

In the first quarter of 2020, 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 behavior in this highly competitive, technology-driven marketplace while also seeking business opportunities after the lockdown measures and social distancing practices were put in place to combat the COVID-19 pandemic. Our key initiatives can be summarized as follows:

- **KBank's mobile banking application (K PLUS):** The K PLUS system has been developed in order to offer benefits to K PLUS clients through 30-day free application for a COVID-19 life insurance policy. Moreover, K PLUS capacity was enhanced in order to accommodate rising transaction volume in light of the COVID-19 crisis. In this quarter, K-Smart Cash service was introduced to provide greater convenience to holders of K-Credit Card and Xpress Cash in using cash advance by transferring funds into their KBank savings account, as well as in making cardless withdrawal at K-ATMs.

To better align with customer demand, we enhanced K PLUS features to allow customers to suspend or cancel their K-Credit Card on their own, increase their debit card daily limit to Baht 500,000, and make funds transfer with QR photo confirmation shared with other applications such as LINE and WhatsApp. Moreover, our customers can add up to 12 accounts to K PLUS including deposit, K-Credit Card and Xpress Card accounts, connect the

KS Amazing Point member card of KASIKORN SECURITIES Co., Ltd. to K PLUS, or request loan receipt and home loan certificate via K PLUS immediately.

- **KBank mobile banking application for merchants (K PLUS SHOP):** The application was continually upgraded to better meet business needs. Notable initiatives included B Scan C which features payment acceptance service at shops bearing the MyPromptQR logo in order to make payment to Big C Supercenters across the country. Meanwhile, C Scan B service was expanded to accept payment via QR API for stores under the Boonthavorn network and our partners in education-related business such as Taamkru and Schooney – among startup companies in educational development. The service is now being piloted in certain KFC branches and will further expand its presence to other outlets nationwide. Its capacity has been increased to accommodate stores with a network of up to 500 branches.
- **Launch KBank Open API for financial products:** KBank Open API allows customers using services with other businesses to swiftly link to our services and products under internationally recognized security standards. The service involves domestic and international funds transfer, payment via Payment Gateway, QR Payment, information sharing service via K PLUS, checking of mobile banking transaction slips and financial transaction data, and facial recognition for identity verification. KBank plans to continuously unveil new APIs in order to offer products and services to our trade partners seeking to strengthen their business capabilities.
- **Development of state-of-the-art technology for real-world application:**
 - (1) Blockchain technology for transaction data records: KBank has teamed with Samitivej Hospital to conduct trial development of a data wallet for storing patient information via smart watch, as part of cardiovascular disease research.
 - (2) Machine learning technology and research regarding facial recognition and analysis for identity verification. The technology is now in trial use for payment at the KBTG canteen.
 - (3) Machine learning technology and research regarding Optical Character Recognition (OCR): We put into test the launch of LINE chatbot Khunthong, which excels at payment collection, either in groups or individually. This innovative service has attracted as many as 30,000 users.

Disclaimer

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

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

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