



Management Discussion and Analysis

For the third quarter and nine-month period ended September 30, 2018

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Management Discussion and Analysis (MD&A)

For the third quarter and nine months ended September 30, 2018 comparing operating performance and financial position for the third quarter and nine months ended September 30, 2018 with those of 2017. This report discusses principal changes in the reviewed consolidated financial statements.

Overall market environment

The Thai economy during the third quarter of 2018 continued to expand particularly from domestic demand. Private consumption grew mainly from the durable goods segment (especially in vehicles) in line with the improvement in household income from both farm and non-farm income. However, growth in non-durable and semi-durable goods remains weak. Private investment also continued to expand from the increase in domestic machinery sales and the increase in number of registered vehicles for investment. Public spending also continued to improve from the first half of the year mainly from the disbursement in construction and machinery purchase from the Royal Irrigation Department and Department of Rural Roads. Meanwhile, in the external sector, export expanded at a slower pace due in part to the decline in export of electrical appliances, washing machines and solar cells from the US tax increase and the effect from high base of last year. Exports of electronic products also exhibit a slowdown. The tourism sector was impacted by the Phuket boat incident and partly resulted in, after seasonal adjustment, the continued decline in the number of foreign tourists during the month of July and August.

Despite the continued improvement in the economy particularly in terms of private consumption, there are still challenges ahead namely 1) Structural changes in Thai economy, particularly high level of household debt limiting widespread consumption 2) Escalating trade tension between US and the rest of the world including a slowdown in the Chinese economy which could negatively impact export and investment 3) The increase in oil prices due to geopolitical tension, particularly in the Middle East, which negatively impact the current account surplus as well as leading to higher inflation 4) Monetary tightening as the Bank of Thailand (BOT) signaled raising the interest rate in the period ahead while financial market rates are on an upward path. However, the Bank in-house research still expects that the BOT will maintain the policy rate at 1.5% until the end of this year.

For the auto industry, expansion continued during the third quarter for both the passenger and commercial vehicle segment resulting in the number of new car sales for the first 9 months of 2018 to expand by 20.3% yoy with the growth for the passenger car segment (including SUV) and the commercial vehicle segment growing at 22.8% and 18.1% respectively. The Bank in-house research projected the new car sales for the year 2018 to be around 986,000 units, a growth of 13%.

In the equity market, the average daily turnover (SET and mai) for 3Q18 decreased from Baht 59,853 million in 2Q18 to Baht 53,343 million, a 10.9% decreased. The SET index at the end of 3Q18 closed at 1,756.41 points, increasing by 10.1% from 1,595.58 points at the end of 2Q18.

Overall Business Operations

The Bank's loan portfolio during 3Q18 grew by 3.5% from the end of 2Q18, resulting in overall loan growth for the nine months of 2018 to expand by 14.1% from the end of 2017. The Bank loan portfolio expanded across all loan segments. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio at the end of 3Q18 further declined to 4.2% from 5.0% at the end of 2017. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 295 million and had gain of Baht 144 million. In the Financial Market business, the Bank generated revenue of Baht 94 million. The market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PTSEC) for 3Q18 was at 4.2%, ranking 8th from total 38 brokers.

The consolidated net profit for 3Q18 totaled Baht 1,551 million, at the same level as the previous quarter 2Q18 net profit of Baht 1,551 million. When comparing to 3Q17, the net profit for 3Q18 decreased by 10.0% comparing to net profit for 3Q17 of Baht 1,723 million.

The consolidated comprehensive income for 3Q18 totaled Baht 1,489 million, an increase of 32.4% from 2Q18 amount of Baht 1,125 million. When comparing to 3Q17, the comprehensive income declined by 17.0% comparing to comprehensive income of Baht 1,796 million for 3Q17. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Summary of Performance of the Bank and subsidiaries

Percentage	3Q17	9M17	1Q18	2Q18	3Q18	9M18
Loan growth	0.2	4.4	5.7	4.3	3.5	14.1
NPLs/ Total Loans (excluding interbank)	5.6	5.6	4.7	4.5	4.2	4.2
Total loan loss reserve/ Total NPLs (coverage ratio)	105.6	105.6	110.9	113.8	115.6	115.6
Total loan loss reserve/ Total mandatory reserve	185.4	185.4	186.1	183.0	184.9	184.9

Profit and Loss Transaction

For the three-month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	4,200,604	3,820,103	380,501	10.0
Interest expenses	1,289,834	1,043,324	246,510	23.6
Interest income, net	2,910,770	2,776,779	133,991	4.8
Fees and services income	1,165,317	1,126,870	38,447	3.4
Fees and services expenses	105,999	99,298	6,701	6.7
Fees and services income, net	1,059,318	1,027,572	31,746	3.1
Gain on trading and foreign exchange transactions, net	30,383	44,771	(14,388)	(32.1)
Loss on financial liabilities designated at fair value through profit or loss, net	(80,769)	0	(80,769)	n.a.
Gain on investments, net	141,843	124,227	17,616	14.2
Dividend income and profit sharing	257,775	220,661	37,114	16.8
Other operating income	90,278	99,789	(9,511)	(9.5)
Total operating income	4,409,598	4,293,799	115,799	2.7
Other operating expenses				
Employee's expenses	1,303,510	1,311,691	(8,181)	(0.6)
Directors' remuneration	12,156	12,075	81	0.7
Premises and equipment expenses	256,883	250,255	6,628	2.6
Taxes and duties	105,056	93,534	11,522	12.3
Loss from revaluation of foreclosed assets	154,458	45,835	108,623	237.0
Loss from sale of foreclosed assets	77,783	37,404	40,379	108.0
Other expenses	435,310	372,154	63,156	17.0
Total other operating expenses	2,345,156	2,122,948	222,208	10.5
Impairment loss on loans and debt securities	30,022	75,482	(45,460)	(60.2)
Profit from operating before income tax expenses	2,034,420	2,095,369	(60,949)	(2.9)
Income tax expenses	481,514	372,757	108,757	29.2
Net profit	1,552,906	1,722,612	(169,706)	(9.9)
Net profit attributable to:				
Equity holders of the Bank	1,551,019	1,723,182	(172,163)	(10.0)
Non-controlling interests	1,887	(570)	2,457	(431.1)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,489,439	1,795,576	(306,137)	(17.0)
Non-controlling interests	1,855	(1,121)	2,976	(265.5)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	1.83	2.04	(0.21)	(10.3)

Operating results of the Bank and subsidiaries for 3Q18 comparing with 3Q17

The consolidated net profit for 3Q18 totaled Baht 1,551 million, a decrease of 10.0% yoy, of which Baht 157 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra), and subsidiaries i.e. PTSEC and PASSET. Meanwhile, the consolidated comprehensive income for 3Q18 totaled Baht 1,489 million, decreased by 17.0% yoy. The Capital Market business comprehensive income was Baht 37 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 4,201 million, increased 10.0% yoy from loan expansions. Interest income on loans increased by 19.7% yoy with interest income from hire purchase and financial lease also increasing by 5.9% yoy.

For the three-month period ended	Consolidated		Change	
	Sept 30, 2018	Sept 30, 2017	Baht million	%
Interest income	4,201	3,820	381	10.0
Interest on loans	1,640	1,370	270	19.7
Interest on interbank and money market items	67	34	33	97.2
Hire purchase and financial lease income	2,296	2,168	128	5.9
Interest on securities	122	93	29	30.7
Interest on investment in loans	69	154	(85)	(55.0)
Others	6	1	5	588.4

Interest expenses totaled Baht 1,290 million, an increase of 23.6% yoy from the growth in deposit and borrowings amount consistent with the overall expansion in loan portfolio. Cost of fund for 3Q18 slightly decreased to 2.2% comparing to 2.3% for 3Q17.

For the three-month period ended	Consolidated		Change	
	Sept 30, 2018	Sept 30, 2017	Baht million	%
Interest expense	1,290	1,043	247	23.6
Interest on deposits	694	586	108	18.5
Interest on interbank and money market items	36	29	6	21.0
Interest on debt issued and borrowings	304	229	76	33.0
Fees and charges on borrowings	3	2	1	63.8
FIDF and DPA fees	239	188	51	27.3
Others	13	10	4	38.8

Net interest income amounted to Baht 2,911 million, an increase of Baht 134 million or 4.8% yoy from Baht 2,777 million in 3Q17. Yield on loan for 3Q18 declined from 7.7% to 7.3% yoy from the expansions of loan portfolio in the low yield segment – housing loans, corporate lending and real estate

development loans. Meanwhile, cost of fund for 3Q18 declined slightly to 2.2% from 2.3% yoy. Loan spread declined from 5.4% in 3Q17 to 5.1% for 3Q18.

%	3Q17	9M17	1Q18	2Q18	3Q18	9M18
Yield on loan	7.7	7.6	7.2	7.2	7.3	7.2
Cost of fund	2.3	2.3	2.3	2.3	2.2	2.3
Loan spread	5.4	5.3	4.9	4.9	5.1	5.0

Net fees and services income totaled Baht 1,059 million, increasing 3.1% yoy. Bancassurance fee amounted to Baht 263 million, increasing 6.8% yoy from Baht 246 million for 3Q17. For Capital Market business, fee from Asset Management business totaled Baht 198 million, an increase of 55.8% yoy from Baht 127 million from the continued growth in Asset under Management. Meanwhile, brokerage income totaled Baht 377 million, declining by 13.3% yoy from Baht 435 million from the decline in market share of PTSEC. Meanwhile, fee from investment banking business totaled Baht 86 million increasing from Baht 60 million in 3Q17.

Total operating income amounted to Baht 4,410 million, increased by Baht 116 million or up 2.7% yoy mainly from the increase in net interest income and net fees and services income.

Other operating expenses were Baht 2,345 million, increased by 10.5% yoy. For 3Q18, the Bank recorded loss on sale of foreclosed assets totaled Baht 78 million comparing to loss of Baht 37 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars totaled Baht 221 million, with loss increasing from Baht 187 million in 3Q17 and from gain on sale of foreclosed properties totaled Baht 144 million, almost at same level of 3Q17 gain amount of Baht 149 million. During 3Q18, the Bank sold foreclosed properties in the amount of Baht 295 million comparing to Baht 316 million sold in 3Q17. The Bank also recorded loss from revaluation of foreclosed assets of Baht 154 million, increasing from Baht 46 million for 3Q17.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 3Q18 totaled Baht 2,113 million, a slight increase of 3.6% from expenses of Baht 2,040 million yoy. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 46.4% for 3Q18 comparing to 45.9% during 3Q17.

Impairment loss on loans and debt securities totaled Baht 30 million, declining when comparing to Baht 75 million in 3Q17. During 3Q18, the Bank has recorded a reversal on loss on impairment of investments in receivables in the amount of Baht 268 million arising from the Bank outstanding principal payable to the Legal Execution Department in the amount of Baht 575 million from the year 2010 which resulted from the breach of contract for bidding a secured property in a bankruptcy case of a Bank's debtor in which the Legal Execution Department demanded for the different amount between the first and final bidding. The legal process has concluded and the Bank having preferential right over such amount, recorded the reversal on loss on impairment of investments in receivables. The Bank has partly recorded

the reversal on loss on impairment of investments in receivables in the amount of Baht 278 million in the year 2010.

Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 0.96%¹ of average loan for 3Q18. Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,779 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio stood at 184.9% comparing to 185.4% yoy. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) increased to 115.6% for 3Q18 from 105.6% for 3Q17.

Corporate Income Tax totaled Baht 482 million or 23.7% tax rate. The increased in tax rate resulted from the transaction relating to the breach of contract for bidding a secured property in a bankruptcy case of a Bank's debtor as described above. The expenses arising from such transaction are not deductible for tax purposes.

Basic earnings per share at Baht 1.83 per share.

Annualized Ratios	3Q17	9M17	1Q18	2Q18	3Q18	9M18
Net Profit (Baht million)	1,723	4,432	1,513	1,551	1,551	4,615
ROAE (%)	17.3	14.7	14.4	14.7	15.0	14.9
ROE (%)	17.3	14.7	14.6	14.5	15.0	14.9
ROAA (%)	2.7	2.5	2.3	2.2	2.1	2.2
Comprehensive income (Baht million)	1,796	4,775	1,476	1,125	1,489	4,090
ROAE (%)	18.0	15.9	14.0	10.7	14.4	13.2
ROE (%)	18.0	15.8	14.3	10.5	14.4	13.2
ROAA (%)	2.8	2.7	2.2	1.6	2.0	2.0

Operating results of the Bank and subsidiaries for the nine months of 2018 comparing with the nine months of 2017

The consolidated net profit for the nine months of 2018 totaled Baht 4,615 million, increased by 4.1% comparing to the same period last year, of which Baht 981 million was the net profit from Capital Market business operated by Phatra Capital Plc. (Phatra), and subsidiaries i.e. PTSEC and PASSET. Meanwhile, the consolidated comprehensive income totaled Baht 4,090 million, declining by 14.3% with Capital Market business's comprehensive income at Baht 393 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Net interest income amounted to Baht 8,307 million, up 4.2% from the expansion in loans. Loan spread declined from 5.3% to 5.0% yoy for the nine months of 2018 due to the high growth in loan portfolio in the low yield segment – housing loans, corporate lending and real estate development loans

¹ Excluding reversal on loss on impairment of investments in receivables of Baht 268 million

with yield on loan declining from 7.6% to 7.2% yoy while cost of fund remained stable at 2.3% for the first nine months of 2018 comparing to the same period last year.

Net fee and service income totaled Baht 3,265 million, increasing 13.1% yoy. The fee from Asset Management business increased to Baht 594 million for the nine months of 2018, an increase of 73.2% from Baht 343 million yoy. Brokerage fee totaled Baht 1,215 million, increasing 9.1% from Baht 1,114 million yoy. Bancassurance fee amounted to Baht 768 million, increasing 5.7% from Baht 726 million yoy. Financial advisory and underwriting fee amounted to Baht 212 million declining 14.2% from Baht 247 million during the nine months of 2017.

Total operating income amounted to Baht 13,173 million, an increase of 9.3% yoy from the increase in net interest income and net fee and services income. Additionally, gain on trading and foreign exchange transactions totaled Baht 281 million, increasing by 223.9% from Baht 87 million yoy. Dividend income and profit sharing amounted to Baht 848 million, also increasing by 48.9% from Baht 569 million during the same period last year.

Other operating expenses were Baht 6,561 million, increased by 9.3% yoy mainly from the increase in personnel expenses. Cost-to-income ratio excluding loss from sale and revaluations of foreclosed assets for the nine months of 2018 stood at 47.2% comparing to 46.7% for the same period last year.

Impairment loss on loans and debt securities totaled Baht 952 million, increasing by 36.4% from Baht 698 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.15%² of average loan for the nine months of 2018.

² Excluding reversal on loss on impairment of investments in receivables of Baht 268 million

Statement of Comprehensive Income

For the nine-month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	11,964,427	11,088,581	875,846	7.9
Interest expenses	3,656,997	3,117,729	539,268	17.3
Interest income, net	8,307,430	7,970,852	336,578	4.2
Fees and services income	3,592,608	3,165,445	427,163	13.5
Fees and services expenses	327,201	279,265	47,936	17.2
Fees and services income, net	3,265,407	2,886,180	379,227	13.1
Gain on trading and foreign exchange transactions, net	280,948	86,740	194,208	223.9
Gain on financial liabilities designated at fair value through profit or loss, net	9,037	0	9,037	n.a.
Gain (Loss) on investments, net	185,994	175,504	10,490	6.0
Dividend income and profit sharing	847,950	569,477	278,473	48.9
Other operating income	275,939	361,054	(85,115)	(23.6)
Total operating income	13,172,705	12,049,807	1,122,898	9.3
Other operating expenses				
Employee's expenses	4,056,282	3,593,423	462,859	12.9
Directors' remuneration	35,072	55,067	(19,995)	(36.3)
Premises and equipment expenses	768,035	746,981	21,054	2.8
Taxes and duties	296,372	246,149	50,223	20.4
Loss from revaluation of foreclosed assets	40,308	145,348	(105,040)	(72.3)
Loss from sale of foreclosed assets	62,597	35,389	27,208	76.9
Other expenses	1,302,019	1,182,805	119,214	10.1
Total other operating expenses	6,560,685	6,005,162	555,523	9.3
Impairment loss on loans and debt securities	952,240	698,157	254,083	36.4
Profit from operating before income tax expenses	5,659,780	5,346,488	313,292	5.9
Income tax expenses	1,034,927	887,237	147,690	16.6
Net profit	4,624,853	4,459,251	165,602	3.7
Net profit attributable to:				
Equity holders of the Bank	4,614,970	4,432,287	182,683	4.1
Non-controlling interests	9,883	26,964	(17,081)	(63.3)
Total comprehensive income attributable to:				
Equity holders of the Bank	4,090,431	4,774,673	(684,242)	(14.3)
Non-controlling interests	9,679	25,150	(15,471)	(61.5)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	5.45	5.23	0.22	4.2

Statements of Financial Position

Assets, as of September 30, 2018, totaled Baht 295,877 million, increased by Baht 36,541 million or 14.1% from the end of 2017.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Sept 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Amount</u>	<u>%</u>
Cash	1,134,200	1,424,564	(290,364)	(20.4)
Interbank and money market items, net	16,408,888	11,510,827	4,898,061	42.6
Derivatives assets	3,461,488	3,373,938	87,550	2.6
Investments in securities, net	41,852,467	34,048,463	7,804,004	22.9
Investments in receivables, net	1,852,209	2,170,438	(318,229)	(14.7)
Investments in properties, net	22,234	148,233	(125,999)	(85.0)
Loans to customers and accrued interest receivables, net				
Loans to customers	241,258,737	211,741,726	29,517,011	13.9
Accrued interest receivables	1,089,622	980,205	109,417	11.2
Total loans to customers and accrued interest receivables	242,348,359	212,721,931	29,626,428	13.9
<u>Less</u> Deferred revenue	(21,873,885)	(19,634,968)	(2,238,917)	11.4
<u>Less</u> Allowance for doubtful accounts	(10,778,792)	(10,573,666)	(205,126)	1.9
<u>Less</u> Allowance for troubled debt restructuring	(409)	(2,294)	1,885	(82.2)
Total loans to customers and accrued interest receivables, net	209,695,273	182,511,003	27,184,270	14.9
Properties foreclosed, net	4,016,269	4,094,492	(78,223)	(1.9)
Land, premises and equipment, net	2,898,726	2,744,165	154,561	5.6
Other intangible assets, net	959,826	795,761	164,065	20.6
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,649,826	1,703,440	(53,614)	(3.1)
Accounts receivable from clearing house and broker - dealers	643,986	3,992,555	(3,348,569)	(83.9)
Securities and derivative business receivables	4,690,988	4,741,374	(50,386)	(1.1)
Other assets, net	3,524,290	3,009,956	514,334	17.1
Total assets	295,876,705	259,335,244	36,541,461	14.1

Liabilities amounted to Baht 254,479 million, increasing 16.8% from the end of 2017. Deposits were Baht 165,077 million, increasing by 24.2%. Deposits comprised of 58.3% of term deposits and 41.7% of current and saving accounts (CASA), an increase comparing with CASA of 40.6% at the end of 2017.

Meanwhile, debts and borrowings were Baht 60,042 million, increased by 6.0% from the end of 2017. During 3Q18, the Bank issued debentures totaling Baht 11,215 million. Loan to deposits and borrowings ratio stood at 97.8%, comparing to 101.8% at the end of 2017.

<u>LIABILITIES</u> (BAHT'000)	CONSOLIDATED		Change	
	Sept 30, 2018	Dec 31, 2017	Amount	%
Deposits	165,076,797	132,878,106	32,198,691	24.2
Current Account	341,213	414,598	(73,385)	(17.7)
Saving Account	68,545,899	53,472,240	15,073,659	28.2
Term Deposit	95,404,583	78,238,356	17,166,227	21.9
Certificate of Deposit	785,102	752,912	32,190	4.3
Interbank and money market items, net	8,193,859	8,289,723	(95,864)	(1.2)
Liabilities payable on demand	682,313	557,819	124,494	22.3
Financial liabilities designated at fair value through profit or loss	952,940	0	952,940	n.a.
Derivatives liabilities	3,743,442	4,303,925	(560,483)	(13.0)
Debt issued and borrowings	60,041,617	56,657,584	3,384,033	6.0
Senior securities	51,214,876	50,657,584	557,291	1.1
Subordinated bond	7,400,000	6,000,000	1,400,000	23.3
Bills of Exchange	1,426,742	0	1,426,742	n.a.
Provisions	698,495	632,129	66,366	10.5
Deferred tax liabilities	21,326	160,138	(138,812)	(86.7)
Accounts payable to clearing house and broker - dealers	1,963,576	422,323	1,541,253	364.9
Securities and derivative business payables	4,848,890	4,514,754	334,136	7.4
Accrued interest expenses	827,679	499,498	328,181	65.7
Other accounts payable	2,626,750	2,924,233	(297,483)	(10.2)
Legal Execution Department payable	0	575,380	(575,380)	(100.0)
Income tax payable and specific business tax payable	456,297	558,172	(101,875)	(18.3)
Other liabilities	4,345,321	4,813,228	(467,907)	(9.7)
Total liabilities	254,479,302	217,787,012	36,692,290	16.8

Shareholders' equity was Baht 41,397 million, decreased 0.4% from the end of 2017. Total issued and paid-up capital totaled Baht 8,468 million. Share premium totaled Baht 9,356 million. Unappropriated retained earnings at Baht 21,505 million.

The Dividend payment

In accordance with the resolution of the Board of Directors' meeting No.9/2018 held on August 23, 2018 which approved the interim dividend payment for the January 1 – June 30, 2018 operations at the rate of Baht 2.00 per share. The interim dividend was paid on September 21, 2018.

Capital Adequacy Ratio (BIS ratio)

As at September 30, 2018, the Capital Adequacy Ratio (BIS ratio) under Basel III, which included profit for the first half of 2018 after deducting dividend payment, was at 16.36% while Tier-1 ratio was at 12.85%. When including profit up to end of 3Q18, the BIS ratio will increase to 17.03% while Tier-1 ratio will be 13.52%.

Business Segment Performance

The Kiatnakin Phatra Financial Group (“the Group”) business is divided into two main areas: the commercial banking business operated by the Bank and capital market business operated by its subsidiaries which are comprised of PHATRA, PTSEC and PASSET.

Both the commercial banking business and the capital market business work closely together in order to achieve combined results in the three business objectives which the Group places focus upon 1) Credit Business 2) Private Banking and 3) Investment Banking. For Credit Business which will focus on loan expansions to retail and Small and Medium Enterprise segment, the goals will be on building efficiencies, creating standards, identifying new alternative channels to reach targeted client segment while maintaining an effective risk management and credit monitoring and control. For Private Banking, the goal is to grow the business by capitalizing on capital market group’s expertise in the wealth management business and through the commercial banking business distribution channels to increase fee income and assets under advice. The area of Investment Banking will combine the expertise of several functions within the Group to allow the Group to offer more comprehensive financial services to meet clients’ demands.

Commercial Banking Business including retail lending, commercial lending, corporate lending, Special Asset Management (SAM) or distressed asset management loan and other loans. The breakdown of total loan portfolio is as follows;

Type of loans	Sept 30, 2018		Dec 31, 2017		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	137,499	62.5	125,954	65.3	9.2
Hire Purchase	107,800	49.0	103,926	53.9	3.7
Personal loan	6,369	2.9	5,745	3.0	10.8
Micro SMEs loan	6,685	3.0	5,031	2.6	32.9
Housing loan	16,646	7.6	11,252	5.8	47.9
Commercial Lending	52,321	23.8	44,283	23.0	18.2
Real Estate Development loan	25,943	11.8	21,276	11.0	21.9
SMEs loan	26,377	12.0	23,007	11.9	14.6
Corporate Lending	23,214	10.5	15,807	8.2	46.9
Special Asset Management loan	582	0.3	607	0.3	(4.1)
Lombard loan	6,525	3.0	6,273	3.3	4.0
Total loans and account receivables	220,141	100.0	192,924	100.0	14.1

Retail Lending totaled Baht 137,499 million, increased by 9.2% from the end of 2017. Retail loans include hire purchase loans, personal loans, Micro SMEs loans and housing loans.

Hire purchase loans amounted to Baht 107,800 million, expanded 3.7% from the end of 2017. New hire purchase business volume booked during 3Q18 totaled Baht 10,905 million, an increase of 25.1% from the same period last year. The portion of hire purchase loan to total Bank loan portfolio is currently at 49.0% with the portion of new cars to used cars at 39:61. Domestic new car sales for the nine months of 2018 totaled 746,584 units, increasing by 20.3% comparing to sales for the same period last year. The penetration rate of KK new cars lending to the domestic new car sales for the nine months of 2018 was at 2.8%, increased from 2.7% as of end of 2017.

As of end of 3Q18, the Bank loan portfolio in other retail loans expanded by 34.8% from the end of 2017 with total combined other retail loans portion to total Bank loan portfolio at 13.5%.

Commercial Lending business amounted to Baht 52,321 million, an increase of 18.2% from the end of 2017. Commercial Lending includes real estate development loans and SMEs loans, details are as follows:

Real estate development loans (RE) were Baht 25,943 million, expanded by 21.9% from the end of 2017 mainly as a result of the Bank expansion into larger customer segment during the year 2017.

SMEs loans were Baht 26,377 million, expanded by 14.6%. SMEs loan comprises of several business sectors including Apartment & Hotel, Logistics, Commercial & Industrial and Construction Machinery & Materials.

Corporate Lending provides lending services to listed companies clients and large corporate clients or financing for Investment Banking transaction of Capital Market Business. Current outstanding loans totaled Baht 23,214 million, a growth of 46.9% from the end of 2017.

Special asset management (SAM) is responsible for distressed asset management business and sale of foreclosed assets. Current outstanding financial claim loans totaled Baht 582 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 6,525 million, increasing by 4.0% from the end of 2017.

NPLs distribution by loan type (consolidated)

Type of loans	Sept 30, 2018			Dec 31, 2017		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	3,193	34.2	2.3	2,985	30.9	2.4
Hire Purchase	2,221	23.8	2.1	2,223	23.0	2.1
Personal loan	197	2.1	3.1	166	1.7	2.9
Micro SMEs loan	539	5.8	8.1	431	4.5	8.6
Housing loan	237	2.5	1.4	165	1.7	1.5
Commercial Lending	5,575	59.6	10.7	6,075	63.0	13.7
Real Estate Development loan	4,120	44.1	15.9	4,558	47.2	21.4
SMEs loan	1,455	15.6	5.5	1,518	15.7	6.6
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	582	6.2	100.0	587	6.1	96.7
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	9,350	100.0	4.2	9,647	100.0	5.0

The Non-Performing Loans (NPLs) as of the end of 3Q18 amounted to Baht 9,350 million or 4.2% of total loans, declining from 5.0% at the end of 2017 as a result of the Bank continuous close monitoring of asset quality. NPLs for the real estate segment continued to decline further to 15.9% at the end of 3Q18 from 21.4% at the end of 2017

Capital Market business comprises of brokerage business, investment banking business, investment business, and asset management business. Details are as follows:

- **Equity and Derivatives Brokerage Business**

Phatra Securities Plc. (“PTSEC”) operates Agency Business providing both securities and derivatives brokerage services to local and foreign institutional investors, as well as high net worth individuals under Private Wealth Management. For high net worth clients, other wealth management products are provided such as mutual funds and structured products. For 3Q18, the market share³ of PTSEC was 4.2%, ranking 8th from total 38 brokers. PTSEC generated brokerage revenue totaling Baht 312 million comprising of equity brokerage revenue of Baht 283 million, derivatives brokerage revenue of Baht 27 million and other brokerage revenue of Baht 2 million. Additional, PTSEC also had brokerage revenue from selling agent fees of Baht 115 million.⁴

- **Investment Banking Business**

Investment banking business, operated by PTSEC, provides financial advisory service as well as underwriting service. In 3Q18, the revenue was Baht 86 million, contributed to financial advisory fee amounting Baht 40 million, underwriting fee amounting Baht 12 million and other fee amounting Baht 34 million.

- **Investment Business**

Investment Business is managed by 3 departments in which Phatra operates direct investment business, by Direct Investment Department (“DI”), with medium to long-term investment horizon, while PTSEC manages short-term investment, by Investment and Trading Group, comprising of Equity and Derivatives Trading Department (“EDT”) and Hedge Fund Department (“HF”). EDT focuses on equity and equity-linked securities in the capital market and derivatives market, with short-term investment not more than 1 year by applying Arbitrage investment strategy as well as issuing and offering financial structured products. HF focuses on equity and derivatives trading with less than 1 year investment horizon, applying Market Neutral strategy and advanced statistical modeling.

In 3Q18, DI focusing on long-term investment with value based investment philosophy recorded loss on investment including loss on re-measuring available-for-sale securities totaling Baht 91 million. HF posted loss of Baht 44 million for the quarter.⁵ Meanwhile, EDT had gain on investment totaling Baht 76 million.⁶ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment loss of Baht 28 million.

- **Asset Management Business**

Phatra Asset Management Co., Ltd. (“PASSET”), under mutual fund and private fund management licenses, offers fund management services to individuals and corporate customers. PASSET’s

³ Including SET and mai but excluding proprietary trading

⁴ Including selling agent fee which receive from Subsidiary Company

⁵ In addition to the investment revenue, HF also had foreign exchange loss and advisory fee revenue totaling gain Baht 1 million and hedging cost of Baht 4 million. In summary, total HF loss after cost of hedging was Baht 47 million

⁶ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 70 million

mutual fund AUM as of 30 September 2018 was Baht 66,407 million with total 26 funds under management consisting of 23 mutual funds and 3 property funds. PASSET's market share in terms of mutual fund was 1.3%. In 3Q18, PASSET's fee income from mutual fund business totaled Baht 125 million. As of 30 September 2018, asset under management from private fund was Baht 27,841 million. PASSET's fee income from private fund business totaled Baht 76 million.