



Management Discussion and Analysis

For the fourth quarter and year ended December 31, 2018

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Management Discussion and Analysis (MD&A)

For the fourth quarter and year ended December 31, 2018 comparing operating performance and financial position for the fourth quarter and year ended December 31, 2018 with those of 2017. This report discusses principal changes in the audited consolidated financial statements.

Overall market environment

The Thai economy for the year 2018 expanded as expected according to its potential. For the last quarter of 2018, the economy continued to expand largely from domestic demands contributed both from private consumption and private investment. Private consumption grew notably in durable goods segment (especially in vehicles) while growth in non-durable and semi-durable goods contracted partly from the decline in farm income both in terms of agricultural prices and production. Private investment also expanded by investment in machinery and equipment in line with the import of capital goods which partly stemmed from the relocation of the manufacturing base of hard disk drive to Thailand earlier. Meanwhile, public spending in capital expenditure slightly declined from the high base of last year. For export sector, exports value for 2018 expanded 6.7% from the same period last year. In the tourism sector, the number of tourist arrivals for 2018 totaled 38.3 million, growth of 7.9% from the same period last year from the growth in tourists in key markets such as Malaysia, India, South Korea, Japan and Russia. The number of Chinese tourists also exhibited an increase during December 2018, the first increase during the past 5 months since the Phuket boat incident partly due to the exemption of visa on arrival fee which started from November 15, 2018 resulting in the number of Chinese tourist arrivals to total 10.5 million for the year 2018, an increase of 7.4% from last year. Overall, the Thai economy for the year 2018 expanded by 4.1%.

The Thai economic growth for 2019 is expected to decelerate, with the main drivers namely export and tourism sectors potentially slowing down partly from the continue trade tensions between the US and China. Meanwhile, consumption could potentially be limited by the depressions in farm income and high level of household debt while inflation remains at a low level. Other key risks that need to be monitored are the slowdown in global economy especially the Chinese economy, lower than expected growth in the tourism sector, political uncertainties and strengthening of the Thai Baht which may impact competitiveness in international trades. However, acceleration in public investment, fiscal stimulus, increase in relocations of production base to Thailand would be beneficial to private consumptions and investments and lessen the negative impacts from the external factors.

For the monetary policy, at the meeting on December 19, 2018, the Monetary Policy Committee (MPC), voted 5 to 2 to raise the policy rate by 0.25% from 1.50% to 1.75%, the first policy rate increase in 7 years. The main factors that contribute to the rate hike are to curb financial stability risks and to start building policy space.

In the auto industry, expansion continued during 2018 with total number of car sales at 1,041,739 units, growth of 19.5%. The commercial and passenger vehicle segment for 2018 expanded by 22.2% and 15.4% yoy respectively. The high growth in the passenger car segment are the results of a low base of the previous year, the new car purchase as a result of the end of the first car scheme and continued promotional activities in the auto industry.

In the equity market, the average daily turnover (SET and mai) for the year 2018 increased 15.1% from Baht 50,114 million in 2017 to Baht 57,674 million in 2018. The SET index at the end of 2018 closed at 1,563.88 points, decreased by 10.8% from 1,753.71 points at the end of 2017.

Overall Business Operations

The Bank's loan portfolio for the year 2018 expanded at 18.5% from the end of 2017 across all loan segments. For asset quality, the Non-Performing Loans (NPLs) continue to show improvement with the Non-Performing Loans (NPLs) to total loans ratio at the end of 2018 declining to 4.1% from 5.0% at the end of 2017. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 1,378 million and had gain of Baht 703 million. In the Financial Market business, the Bank generated revenue of Baht 301 million. For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 4.55%, decreased from 4.69% in 2017, ranking 7th from total 38 brokers. The Investment Banking business generated total revenue of Baht 822 million while fee from Asset Management business totaled Baht 801 million. Meanwhile, the Investment business recorded revenue, when including comprehensive loss, had total gain of Baht 99 million.

The consolidated net profit for the year 2018 totaled Baht 6,042 million, an increase of 5.3% from Baht 5,737 million in 2017. The consolidated comprehensive income for 2018 totaled Baht 5,123 million, declining by 16.2% comparing to Baht 6,115 million in 2017. 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	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018
Loan growth	4.8	9.3	5.7	4.3	3.5	3.8	18.5
NPLs/ Total Loans (excluding interbank)	5.0	5.0	4.7	4.5	4.2	4.1	4.1
Total loan loss reserve/ Total NPLs (coverage ratio)	109.8	109.8	110.9	113.8	115.6	114.8	114.8
Total loan loss reserve/ Total mandatory reserve	188.6	188.6	186.1	183.0	184.9	186.3	186.3

Profit and Loss Transaction

For the year ended December 31, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	16,294,353	14,844,465	1,449,888	9.8
Interest expenses	5,032,721	4,216,027	816,694	19.4
Interest income, net	11,261,632	10,628,438	633,194	6.0
Fees and services income	5,022,025	4,448,116	573,909	12.9
Fees and services expenses	442,747	392,980	49,767	12.7
Fees and services income, net	4,579,278	4,055,136	524,142	12.9
Gain on trading and foreign exchange transactions, net	457,007	268,337	188,670	70.3
Gain on financial liabilities designated at fair value through profit or loss, net	62,709	0	62,709	n.a.
Gain (loss) on investments, net	389,893	177,943	211,950	119.1
Dividend income and profit sharing	967,561	673,584	293,977	43.6
Other operating income	384,989	494,417	(109,428)	(22.1)
Total operating income	18,103,069	16,297,855	1,805,214	11.1
Other operating expenses				
Employee's expenses	5,573,375	4,967,514	605,861	12.2
Directors' remuneration	46,688	67,367	(20,679)	(30.7)
Premises and equipment expenses	1,163,974	988,137	175,837	17.8
Taxes and duties	392,544	332,325	60,219	18.1
Loss from revaluation of foreclosed assets	244,229	276,330	(32,101)	(11.6)
Loss from sale of foreclosed assets	237,664	209,155	28,509	13.6
Other expenses	1,811,985	1,737,545	74,440	4.3
Total other operating expenses	9,470,459	8,578,373	892,086	10.4
Impairment loss on loans and debt securities	1,245,495	763,224	482,271	63.2
Profit from operating before income tax expenses	7,387,115	6,956,258	430,857	6.2
Income tax expenses	1,342,829	1,190,205	152,624	12.8
Net profit	6,044,286	5,766,053	278,233	4.8
Net profit attributable to:				
Equity holders of the Bank	6,041,983	5,736,869	305,114	5.3
Non-controlling interests	2,303	29,184	(26,881)	(92.1)
Total comprehensive income attributable to:				
Equity holders of the Bank	5,123,220	6,114,527	(991,307)	(16.2)
Non-controlling interests	1,283	26,523	(25,240)	(95.2)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	7.14	6.78	0.36	5.3

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

The consolidated net profit for the year 2018 totaled Baht 6,042 million, an increase of 5.3% yoy, of which Baht 1,380 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra), and subsidiaries. Meanwhile, the consolidated comprehensive income for the year 2018 totaled Baht 5,123 million, declining by 16.2% yoy. The Capital Market business comprehensive income was Baht 585 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 16,294 million, increased 9.8% from 2017 from loan expansions. Interest income on loans increased by 23.5% yoy with interest income from hire purchase and financial lease also increasing by 3.1% yoy. Interest on investment in loans declined 39.1%.

For the year ended	Consolidated		Change	
	Dec 31, 2018	Dec 31, 2017	Baht million	%
Interest income	16,294	14,844	1,450	9.8
Interest on loans	6,203	5,023	1,180	23.5
Interest on interbank and money market items	246	155	91	58.4
Hire purchase and financial lease income	9,074	8,805	269	3.1
Interest on securities	458	378	80	21.1
Interest on investment in loans	292	480	(188)	(39.1)
Others	22	3	19	614.0

Interest expenses totaled Baht 5,033 million, an increase of 19.4% yoy from the growth in deposit consistent with the overall expansion in loan portfolio. Cost of fund for 2018 was maintained at 2.3%, the same level as in 2017.

For the year ended	Consolidated		Change	
	Dec 31, 2018	Dec 31, 2017	Baht million	%
Interest expense	5,033	4,216	817	19.4
Interest on deposits	2,642	2,270	373	16.4
Interest on interbank and money market items	155	118	38	32.1
Interest on debt issued and borrowings	1,237	1,031	206	19.9
Fees and charges on borrowings	20	6	14	247.7
FIDF and DPA fees	931	754	177	23.5
Others	47	38	10	26.2

Net interest income amounted to Baht 11,262 million, an increase of Baht 633 million or 6.0% yoy from Baht 10,628 million in 2017. Yield on loan for 2018 declined from 7.5% to 7.2% 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 2018 was maintained at 2.3% resulting in loan spread to decline from 5.2% in 2017 to 5.0% for 2018.

%	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018
Yield on loan	7.4	7.5	7.2	7.2	7.3	7.3	7.2
Cost of fund	2.3	2.3	2.3	2.3	2.2	2.3	2.3
Loan spread	5.1	5.2	4.9	4.9	5.1	5.0	5.0

Net fees and services income totaled Baht 4,579 million, increasing 12.9% yoy from Baht 4,055 million in 2017. Bancassurance fee amounted to Baht 1,000 million, increasing 4.4% yoy from Baht 957 million for 2017. For Capital Market business, fee from Asset Management business totaled Baht 801 million, an increase of 49.9% yoy from Baht 535 million. Financial advisory and underwriting fees totaled Baht 560 million¹. Meanwhile, brokerage income totaled Baht 1,563 million, increasing slightly from Baht 1,545 million yoy.

Total operating income amounted to Baht 18,103 million, increased by Baht 1,805 million or up 11.1% from 2017 mainly from the increase in net interest income of 6.0% and net fees and services income of 12.9%. Additionally, gain on trading and foreign exchange transactions totaled Baht 457 million, increasing by 70.3% yoy. Gain on investments also increased by 119.1% to Baht 390 million. Dividend income and profit sharing amounted to Baht 968 million, also increasing by 43.6% from the same period last year.

Other operating expenses were Baht 9,470 million, increased by 10.4% yoy from Baht 8,578 million during 2017. For 2018, the Bank recorded loss on sale of foreclosed assets totaled Baht 238 million comparing to loss of Baht 209 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars totaled Baht 941 million, with loss increasing from Baht 713 million during 2017 and from gain on sale of foreclosed properties totaled Baht 703 million increasing from gain of Baht 504 million for the year 2017. During 2018, the Bank sold foreclosed properties in the amount of Baht 1,378 million comparing to Baht 987 million sold in 2017.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 2018 totaled Baht 8,989 million, an increase of 11.1% from expenses of Baht 8,093 million yoy. Premises and equipment expenses increased partly from the renovations of KKP Tower. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 47.8% for 2018 declining slightly comparing to 48.2% during 2017.

Impairment loss on loans and debt securities for 2018 totaled Baht 1,245 million, increasing when comparing to Baht 763 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.16%² of average loan for 2018. Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,760 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio at the end of 2018 stood at 186.3%

¹ For 2018, total revenue generated from the Investment Banking business totaled Baht 822 million which included Financial Advisory Fee, Underwriting Fee, Brokerage revenue and Other fee

² Excluding reversal on loss on impairment of investments in receivables of Baht 268 million during 3Q18

comparing to 188.6% yoy. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) increased to 114.8% for 2018 from 109.8% yoy.

Corporate Income Tax totaled Baht 1,343 million or 18.2% tax rate.

Basic earnings per share at Baht 7.14 per share increased from 6.78 per share during 2017.

Annualized Ratios	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018
Net Profit (Baht million)	1,305	5,737	1,513	1,551	1,551	1,427	6,042
ROAE (%)	12.8	14.1	14.4	14.7	15.0	13.7	14.5
ROE (%)	13.0	14.2	14.6	14.5	15.0	13.9	14.6
ROAA (%)	2.1	2.3	2.3	2.2	2.1	1.9	2.1
Comprehensive income (Baht million)	1,340	6,115	1,476	1,125	1,489	1,033	5,123
ROAE (%)	13.2	15.0	14.0	10.7	14.4	9.9	12.3
ROE (%)	13.4	15.2	14.3	10.5	14.4	10.0	12.4
ROAA (%)	2.1	2.5	2.2	1.6	2.0	1.4	1.8

Operating results of the Bank and subsidiaries for 4Q18 comparing with 4Q17

The consolidated net profit for 4Q18 totaled Baht 1,427 million, increasing by 9.4% from the same period last year, of which Baht 399 million was the net profit from Capital Market business operated by Phatra Capital Plc. (Phatra), and subsidiaries. Meanwhile, the consolidated comprehensive income totaled Baht 1,033 million, declining by 22.9% with Capital Market business's comprehensive income at Baht 192 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 2,954 million, up 11.2% from the expansion in loans. For Q418, loan spread slightly declined from 5.1% to 5.0% yoy due to the high growth in loan portfolio in the low yield segment per aforementioned with yield on loan declining from 7.4% to 7.3% yoy while cost of fund remained stable at 2.3% yoy for Q418.

Net fee and service income totaled Baht 1,314 million, increasing 12.4% yoy. The fee from Asset Management business increased to Baht 207 million for Q418, an increase of 8.3% from Baht 192 million yoy. Financial advisory and underwriting fee amounted to Baht 348 million increasing by 100.8% from Baht 173 million during Q417. Brokerage fee also totaled Baht 348 million, declining 21.5% from Baht 444 million in Q417 mainly from the decline in market trading volume yoy. Meanwhile, Bancassurance fee amounted to Baht 232 million, maintained at the same level of Baht 231 million in Q417.

Total operating income amounted to Baht 4,930 million, an increase of 16.1% yoy from the increase in net interest income and net fee and services income. Additionally, dividend income and profit sharing amounted to Baht 120 million, increasing by 14.9% from Baht 104 million during Q417. Gain in investments totaled Baht 204 million comparing to Baht 2 million yoy. Gain on trading and foreign exchange transactions totaled Baht 176 million, declining slightly by 3.0% from Baht 182 million yoy.

Other operating expenses were Baht 2,910 million, increased by 13.1% yoy. For 4Q18, the Bank recorded loss on sale of foreclosed assets totaled Baht 175 million at similar level as Q417 of Baht 174 million.

Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars totaled Baht 379 million, with loss increasing from Baht 269 million in 4Q17 and from gain on sale of foreclosed properties totaled Baht 204 million, comparing to gain amount of Baht 95 million yoy. During 4Q18, the Bank sold foreclosed properties in the amount of Baht 353 million comparing to Baht 211 million sold in 4Q17. Cost-to-income ratio excluding loss from sale and revaluations of foreclosed assets for Q418 stood at 49.3%, declining when comparing to 52.2% during Q417.

Impairment loss on loans and debt securities totaled Baht 293 million, increasing from Baht 65 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars for 4Q18 stood at 1.20% of average loan.

Statement of Comprehensive Income

For the three-month period ended December 31, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	4,329,926	3,755,884	574,042	15.3
Interest expenses	1,375,724	1,098,298	277,426	25.3
Interest income, net	2,954,202	2,657,586	296,616	11.2
Fees and services income	1,429,417	1,282,671	146,746	11.4
Fees and services expenses	115,546	113,715	1,831	1.6
Fees and services income, net	1,313,871	1,168,956	144,915	12.4
Gain on trading and foreign exchange transactions, net	176,059	181,597	(5,538)	(3.0)
Gain on financial liabilities designated at fair value through profit or loss, net	53,672	0	53,672	n.a.
Gain on investments, net	203,899	2,439	201,460	8,259.9
Dividend income and profit sharing	119,611	104,107	15,504	14.9
Other operating income	109,050	133,363	(24,313)	(18.2)
Total operating income	4,930,364	4,248,048	682,316	16.1
Other operating expenses				
Employee's expenses	1,517,093	1,374,091	143,002	10.4
Directors' remuneration	11,616	12,300	(684)	(5.6)
Premises and equipment expenses	395,939	241,156	154,783	64.2
Taxes and duties	96,172	86,176	9,996	11.6
Loss from revaluation of foreclosed assets	203,921	130,982	72,939	55.7
Loss from sale of foreclosed assets	175,067	173,766	1,301	0.7
Other expenses	509,966	554,740	(44,774)	(8.1)
Total other operating expenses	2,909,774	2,573,211	336,563	13.1
Impairment loss on loans and debt securities	293,255	65,067	228,188	350.7
Profit from operating before income tax expenses	1,727,335	1,609,770	117,565	7.3
Income tax expenses	307,902	302,968	4,934	1.6
Net profit	1,419,433	1,306,802	112,631	8.6
Net profit attributable to:				
Equity holders of the Bank	1,427,013	1,304,582	122,431	9.4
Non-controlling interests	(7,580)	2,220	(9,800)	(441.4)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,032,789	1,339,854	(307,065)	(22.9)
Non-controlling interests	(8,396)	1,373	(9,769)	(711.5)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	1.69	1.54	0.15	9.7

Statements of Financial Position

Assets, as of December 31, 2018, totaled Baht 306,329 million, increased by Baht 46,994 million or 18.1% from the end of 2017.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Dec 31, 2018</u>	<u>Dec 31, 2017</u>	<u>Amount</u>	<u>%</u>
Cash	1,335,668	1,424,564	(88,896)	(6.2)
Interbank and money market items, net	28,199,589	11,510,827	16,688,762	145.0
Derivatives assets	3,315,858	3,373,938	(58,080)	(1.7)
Investments in securities, net	29,780,567	34,048,463	(4,267,896)	(12.5)
Investments in receivables, net	1,769,505	2,170,438	(400,933)	(18.5)
Investments in properties, net	22,132	148,233	(126,101)	(85.1)
Loans to customers and accrued interest receivables, net				
Loans to customers	249,982,184	211,741,726	38,240,458	18.1
Accrued interest receivables	1,170,011	980,205	189,806	19.4
Total loans to customers and accrued interest receivables	251,152,195	212,721,931	38,430,264	18.1
<u>Less</u> Deferred revenue	(22,086,038)	(19,634,968)	(2,451,070)	12.5
<u>Less</u> Allowance for doubtful accounts	(10,759,343)	(10,573,666)	(185,677)	1.8
<u>Less</u> Allowance for troubled debt restructuring	(432)	(2,294)	1,862	(81.2)
Total loans to customers and accrued interest receivables, net	218,306,382	182,511,003	35,795,379	19.6
Properties foreclosed, net	3,724,922	4,094,492	(369,570)	(9.0)
Land, premises and equipment, net	2,772,514	2,744,165	28,349	1.0
Other intangible assets, net	1,117,889	795,761	322,128	40.5
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,861,740	1,703,440	158,300	9.3
Accounts receivable from clearing house and broker - dealers	3,411,791	3,992,555	(580,764)	(14.5)
Securities and derivative business receivables	4,212,723	4,741,374	(528,651)	(11.1)
Other assets, net	3,432,183	3,009,956	422,227	14.0
Total assets	306,329,498	259,335,244	46,994,254	18.1

Liabilities amounted to Baht 263,989 million, increasing 21.2% from the end of 2017. Deposits were Baht 181,694 million, increasing by 36.7%. Deposits comprised of 61.6% of term deposits and 38.4% of current and saving accounts (CASA), declining when comparing with CASA of 40.6 % at the end of 2017. Meanwhile, debts and borrowings were Baht 49,008 million, declining by 13.5% from the end of 2017. During 2018, the Bank issued debentures totaling Baht 70,436 million. Loan to deposits and borrowings ratio stood at 99.1%, comparing to 101.8% at the end of 2017.

<u>LIABILITIES</u> (BAHT'000)	CONSOLIDATED		Change	
	Dec 31, 2018	Dec 31, 2017	Amount	%
Deposits	181,693,821	132,878,106	48,815,715	36.7
Current Account	352,967	414,598	(61,631)	(14.9)
Saving Account	69,345,929	53,472,240	15,873,689	29.7
Term Deposit	111,396,122	78,238,356	33,157,766	42.4
Certificate of Deposit	598,803	752,912	(154,109)	(20.5)
Interbank and money market items, net	13,156,615	8,289,723	4,866,892	58.7
Liabilities payable on demand	503,487	557,819	(54,332)	(9.7)
Financial liabilities designated at fair value through profit or loss	1,193,144	0	1,193,144	
Derivatives liabilities	3,438,329	4,303,925	(865,596)	(20.1)
Debt issued and borrowings	49,008,059	56,657,584	(7,649,525)	(13.5)
Senior securities	40,222,972	50,657,584	(10,434,613)	(20.6)
Subordinated bond	8,290,000	6,000,000	2,290,000	38.2
Bills of Exchange	495,088	0	495,088	
Provisions	779,584	632,129	147,455	23.3
Deferred tax liabilities	20,457	160,138	(139,681)	(87.2)
Accounts payable to clearing house and broker - dealers	120,194	422,323	(302,129)	(71.5)
Securities and derivative business payables	5,297,794	4,514,754	783,040	17.3
Accrued interest expenses	692,732	499,498	193,234	38.7
Other accounts payable	2,232,379	2,924,233	(691,854)	(23.7)
Legal Execution Department payable	0	575,380	(575,380)	(100.0)
Income tax payable and specific business tax payable	854,568	558,172	296,396	53.1
Other liabilities	4,997,775	4,813,228	184,547	3.8
Total liabilities	263,988,938	217,787,012	46,201,926	21.2

Shareholders' equity was Baht 42,341 million, increased by 1.9% 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 22,935 million.

The Dividend payment

The Bank paid the remaining dividend for the year 2017 operations at the rate of Baht 3.00 per share on May 21, 2018 and paid the interim dividend payment for the January 1 – June 30, 2018 operations at the rate of Baht 2.00 per share on September 21, 2018.

Capital Adequacy Ratio (BIS ratio)

As at December 31, 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 16.29% while Tier-1 ratio was at

12.49%. When including profit up to end of 4Q18, the BIS ratio will increase to 17.46% while Tier-1 ratio will be 13.65%.

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	Dec 31, 2018		Dec 31, 2017		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	140,402	61.4	125,954	65.3	11.5
Hire Purchase	108,191	47.3	103,926	53.9	4.1
Personal loan	6,528	2.9	5,745	3.0	13.6
Micro SMEs loan	7,040	3.1	5,031	2.6	39.9
Housing loan	18,642	8.2	11,252	5.8	65.7
Commercial Lending	55,813	24.4	44,283	23.0	26.0
Real Estate Development loan	29,052	12.7	21,276	11.0	36.6
SMEs loan	26,760	11.7	23,007	11.9	16.3
Corporate Lending	23,873	10.4	15,807	8.2	51.0
Special Asset Management loan	565	0.2	607	0.3	(6.9)
Lombard loan	7,947	3.5	6,273	3.3	26.7
Total loans and account receivables	228,599	100.0	192,924	100.0	18.5

Retail Lending totaled Baht 140,402 million, increased by 11.5% 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 108,191 million expanded 4.1% from the end of 2017. New hire purchase business volume booked during 2018 totaled Baht 45,934 million, an increase of 34.1% from the same period last year. The portion of hire purchase loan to total Bank loan portfolio is currently at 47.3% with the portion of new cars to used cars at 39:61. Domestic new car sales for 2018 totaled 1,041,739 units, increasing by 19.5% comparing to sales for the same period last year. The penetration rate of KK new cars lending to the domestic new car sales for 2018 was at 2.7% maintained at the same level as of end of 2017.

For 2018, the Bank loan portfolio in other retail loans continued to expand by 46.2% from the end of 2017 with total combined other retail loans portion to total Bank loan portfolio increasing to 14.1%.

Commercial Lending business amounted to Baht 55,813 million, an increase of 26.0% 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 29,052 million, expanded by 36.6% 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 26,760 million, expanded by 16.3%. 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 23,873 million, growth of 51.0% 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 565 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 7,947 million, increasing by 26.7% from the end of 2017.

NPLs distribution by loan type (consolidated)

Type of loans	Dec 31, 2018			Dec 31, 2017		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	3,485	37.1	2.5	2,985	30.9	2.4
Hire Purchase	2,443	26.0	2.3	2,223	23.0	2.1
Personal loan	193	2.1	3.0	166	1.7	2.9
Micro SMEs loan	579	6.2	8.2	431	4.5	8.6
Housing loan	270	2.9	1.4	165	1.7	1.5
Commercial Lending	5,353	56.9	9.6	6,075	63.0	13.7
Real Estate Development loan	3,942	41.9	13.6	4,558	47.2	21.4
SMEs loan	1,411	15.0	5.3	1,518	15.7	6.6
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	565	6.0	100.0	587	6.1	96.7
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	9,403	100.0	4.1	9,647	100.0	5.0

The Non-Performing Loans (NPLs) as of the end of 2018 declined to Baht 9,403 million or 4.1% 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 13.6% at the end of 2018 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. (“PSEC”) 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 2018, the market share³ of PSEC was 4.55%, ranking 7th from total 38 brokers. PSEC generated brokerage revenue totaling Baht 1,138 million comprising of equity brokerage revenue of Baht 1,014 million and derivatives brokerage revenue of Baht 124 million. Additional, PSEC also had brokerage revenue from selling agent fees of Baht 486 million.⁴

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 2018, the revenue was Baht 822 million, contributed to financial advisory fee

³ Including SET and mai but excluding proprietary trading

⁴ Including selling agent fee which receive from Subsidiary Company

amounting Baht 199 million, underwriting fee amounting Baht 365 million, brokerage revenue of Baht 150 million and other fee amounting Baht 108 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 PSEC 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 2018, 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 827 million. HF posted gain of Baht 32 million for the quarter.⁵ Meanwhile, EDT had gain on investment totaling Baht 802 million.⁶ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment gain of Baht 99 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 mutual fund AUM as of 31 December 2018 was Baht 64,618 million with total 29 funds under management consisting of 26 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.28%. In 2018, PASSET’s fee income from mutual fund business totaled Baht 508 million. As of 31 December 2018, asset under management from private fund was Baht 27,364 million. PASSET’s fee income from private fund business totaled Baht 302 million.

⁵ In addition to the investment revenue, HF also had foreign exchange loss and advisory fee revenue totaling gain Baht 3 million and hedging cost of Baht 13 million. In summary, total HF gain after cost of hedging was Baht 22 million

⁶ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 787 million