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July 21, 2017

Subject: Management Discussion and Analysis for the second quarter ended June 30, 2017 (Unaudited)

To: The President
The Stock Exchange of Thailand

Kiatnakin Bank Public Company Limited (“the Bank” or “KK”) submits the Management Discussion and Analysis (MD&A) report for the second quarter ended June 30, 2017 comparing operating performance and financial position for the second quarter and the first half of 2017 with those of 2016. This report discusses principal changes in the unaudited consolidated financial statements.

Overall market environment

The Thai economy continued to expand during 2Q17 and for the first half of 2017 with growth contributed from the following 3 sectors: 1) Export sector continued to expand with growth for the first five months of 2017 at 7.2% due to the increased in external demand of electronic goods and also the increased in global commodity prices 2) Tourism sector continued to be positive with tourists arrivals during the first five months of 2017 totaling 14.3 million, a 2.7% growth 3) Agricultural sector also improved from the increased in global agricultural prices and sufficient water level led to favorable farming conditions. Nevertheless, risk factors still remain from the following 1) Contractions in private investment continue especially in the construction segment 2) Continued slowdown in manufacturing productions especially for domestic consumptions 3) Inflation continuing to decelerate with core inflation at an 87 months low, implying a still weak domestic demand.

For the second half of 2017, although the economy is projected to continue to improve, certain areas that still could limit the growth 1) Farm-related household income could slowdown from the decline in agricultural products prices particularly for rubber and oil palm causing a potential decline in consumption 2) Manufacturing capacity also remains at low level indicating slow growth for private investment 3) Exports could also face a potential slowdown from the decline in prices of petroleum-related products and agricultural products consistent with the global oil prices. Additionally, the strengthening of the Thai Baht will also impact exporters.

The auto industry during 2Q17 and first half of 2017 also exhibited a continual improvement. The number of new car sales for the first six months of 2017 totaled 409,980 units, a growth of 11.2% with the growth for the commercial vehicle segment and the passenger car segment growing at 3.8% and 25.0% respectively comparing to the same period last year. The high increased for the passenger car segment stemmed partly from the low base of previous year and also from the launch of new car models. Based on the Bank in-house research, new car sales for the year 2017 is now projected to increase by 4.7% with total sales of around 805,000 units.

In the equity market, the average daily turnover (SET and mai) for 2Q17 decreased from Baht 50,865 million in 1Q17 to Baht 42,089 million. The SET index at the end of 2Q17 closed at 1,574.74 points, almost at the same level of 1,575.11 points at the end of 1Q17.

Overall Business Operations for the second quarter of 2017

The Bank's loan portfolio for 2Q17 expanded at 2.8% for the quarter resulting in total loan portfolio increased of 4.1% for the first half of 2017. Loan growth continues to be from the following areas: housing loans increased by 93.2%, micro SMEs including SME Car3x loans expanded at 51.7%, personal loans increased by 18.7%, corporate banking loans expanded by 106.8%, Lombard loans expanded by 15.3% with real estate development loans also registering a slight growth of 0.5% YTD. Meanwhile, hire purchase loans still showed contractions of 5.2% from the end of 2016.

For asset quality, the amount of Non-Performing Loans (NPLs) increased from the end of 2016 with the Non-Performing Loans (NPLs) to total loans ratio at the end of 2Q17 at 5.8%, increasing from 5.6% as of the end of 2016. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 142 million and had gain of Baht 74 million.

For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 4.93%, increased from 4.51% in 1Q17, ranking 5th from total 37 brokers.

Summary of Performance of the Bank and subsidiaries

Percentage	2Q16	1H16	2016	1Q17	2Q17	1H17
Loan growth	(0.4)	(1.6)	(0.8)	1.3	2.8	4.1
NPLs/ Total Loans (excluding interbank)	6.1	6.1	5.6	5.6	5.8	5.8
Total loan loss reserve/ Total NPLs (coverage ratio)	95.7	95.7	110.1	110.0	104.6	104.6
Total loan loss reserve/ Total mandatory reserve	169.8	169.8	187.8	188.1	185.1	185.1

Operating Performance for the second quarter of 2017

Profit and Loss Transaction

For the three month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	3,677,566	3,668,333	9,233	0.3
Interest expenses	1,029,550	1,133,429	(103,879)	(9.2)
Interest income, net	2,648,016	2,534,904	113,112	4.5
Fees and services income	1,015,779	1,008,384	7,395	0.7
Fees and services expenses	84,968	103,565	(18,597)	(18.0)
Fees and services income, net	930,811	904,819	25,992	2.9
Gain (Loss) on trading and foreign exchange transactions, net	(21,274)	151,024	(172,298)	(114.1)
Gain (Loss) on investments, net	51,277	71,858	(20,581)	(28.6)
Dividend income and profit sharing	207,619	116,157	91,462	78.7
Other operating income	136,605	187,964	(51,359)	(27.3)
Total operating income	3,953,054	3,966,726	(13,672)	(0.3)
Other operating expenses				
Employee's expenses	1,161,050	1,130,136	30,914	2.7
Directors' remuneration	11,175	14,710	(3,535)	(24.0)
Premises and equipment expenses	254,794	255,488	(694)	(0.3)
Taxes and duties	70,087	65,525	4,562	7.0
Loss from revaluation of foreclosed assets (reversal)	162,910	(53,527)	216,437	(404.4)
Loss (Gain) from sale of foreclosed assets	47,562	(10,441)	58,003	(555.5)
Other expenses	406,899	444,470	(37,571)	(8.5)
Total other operating expenses	2,114,477	1,846,361	268,116	14.5
Impairment loss on loans and debt securities	455,582	618,290	(162,708)	(26.3)
Profit from operating before income tax expenses	1,382,995	1,502,075	(119,080)	(7.9)
Income tax expenses	177,320	177,544	(224)	(0.1)
Net profit	1,205,675	1,324,531	(118,856)	(9.0)
Net profit attributable to:				
Equity holders of the Bank	1,185,153	1,296,976	(111,823)	(8.6)
Non-controlling interests	20,522	27,555	(7,033)	(25.5)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,416,416	1,485,097	(68,681)	(4.6)
Non-controlling interests	20,772	27,645	(6,873)	(24.9)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	1.40	1.53	(0.13)	(8.5)

Operating results of the Bank and subsidiaries for 2Q17 comparing with 2Q16

The consolidated net profit for the second quarter of 2017 totaled Baht 1,185 million, a decreased of 8.6% yoy, of which Baht 146 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra), and subsidiaries i.e. PSEC and PASSET. Meanwhile, the consolidated comprehensive income for the second quarter of 2017 totaled Baht 1,416 million, decreased by 4.6% yoy. The Capital Market business comprehensive income was Baht 393 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 3,678 million, increased slightly by 0.3% yoy mainly from the increase in interest income on loans by 23.7% from the growth in loan portfolio and also from the cash-basis interest income received from non-performing loans. Meanwhile, interest income from investment in loans decreased by 64.4% and interest income from hire purchase and financial lease also slightly declined due to the decelerated hire purchase loan growth.

For the three month period	Consolidated		Change	
	Jun 30, 2017	Jun 30, 2016	Baht million	%
Interest income	3,678	3,668	9	0.3
Interest on loans	1,238	1,001	237	23.7
Interest on interbank and money market items	32	40	(7)	(18.4)
Hire purchase and financial lease income	2,200	2,219	(19)	(0.8)
Interest on securities	95	97	(2)	(2.2)
Interest on investment in loans	111	311	(200)	(64.4)
Others	1	0	1	n.a.

Interest expenses totaled Baht 1,030 million, decreasing by Baht 104 million or a decline of 9.2% yoy. Cost of fund for 2Q17 decreased to 2.3% from 2.7% yoy. The decline continues to be from the result of the reduction in deposit rates and the Bank continuous efforts on optimizing its funding structures.

For the three month period	Consolidated		Change	
	Jun 30, 2017	Jun 30, 2016	Baht million	%
Interest expense	1,030	1,133	(104)	(9.2)
Interest on deposits	582	528	54	10.2
Interest on interbank and money market items	30	13	16	121.7
Interest on debt issued and borrowings	223	395	(172)	(43.4)
Fees and charges on borrowings	1	0	1	194.8
FIDF and DPA fees	185	185	0	0.2
Others	9	12	(4)	(29.9)

Net interest income amounted to Baht 2,648 million, an increase of 4.5% yoy from Baht 2,535 million in 2Q16. Yield on loan increased for 2Q17 to 7.6% from 7.3% in 2Q16 partly from the increase in yield on hire purchase loans from the higher portion of used cars mix in portfolio and also from the increase in personal loan segment. Cost of fund dropped further yoy from 2.7% to 2.3% resulting in improvement in loan spread from 4.6% in 2Q16 to 5.3% in 2Q17.

%	2Q16	1H16	2016	1Q17	2Q17	1H17
Yield on loan	7.3	7.4	7.5	7.6	7.6	7.6
Cost of fund	2.7	2.7	2.5	2.4	2.3	2.3
Loan spread	4.6	4.7	4.9	5.2	5.3	5.3

Net fees and services income totaled Baht 931 million, increasing by 2.9% from 2Q16. For Capital Market business, fee from Asset Management business increased to Baht 115 million in 2Q17, an increase of 41.5% yoy. Financial advisory and underwriting fees totaled Baht 107 million, increasing from Baht 19 million in 2Q16. Meanwhile, brokerage income totaled Baht 325 million, decreasing by 24.9% yoy from the decline in market trading volume. Bancassurance fee amounted to Baht 237 million remaining at stable level comparing to Baht 232 million in 2Q16.

Total operating income amounted to Baht 3,953 million, decreased slightly by 0.3% yoy. While net interest income and net fees and services income increased, the Bank recorded loss on trading and foreign exchange transactions in the amount of Baht 21 million comparing to gain of Baht 151 million in 2Q16. Meanwhile, the Bank also recorded lower gain in investments yoy during 2Q17.

Other operating expenses were Baht 2,114 million, increased by 14.5% yoy. Other operating expenses also included loss from sale of foreclosed assets, which in 2Q17 had a total loss of Baht 48 million, comparing to gain of Baht 10 million during 2Q16. The loss on sale of foreclosed assets of Baht 48 million comprised of loss from sale of repossessed cars totaled Baht 122 million, declining 7.2% yoy or reducing from loss of Baht 131 million in 2Q16 while gain on sale of foreclosed properties totaled Baht 74 million, a decrease of 47.5% comparing to gain of Baht 142 million in 2Q16. During 2Q17, the Bank sold foreclosed properties in the amount of Baht 142 million comparing to Baht 360 million sold during 2Q16. The Bank also recorded loss from revaluation of foreclosed assets at Baht 163 million, an increase of 404.4% from 2Q16.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 2Q17 totaled Baht 1,904 million, declining slightly comparing to expenses of Baht 1,910 million for 2Q16. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 47.3% for 2Q17, increasing slightly from 46.5% yoy.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 456 million, declining 26.3% from Baht 618 million in 2Q16.

Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 11,089 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio increased to 185.1% comparing to 169.8% at the end of 2Q16. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) is at 104.6%, increased from 95.7% at the end of 2Q16.

Corporate Income Tax totaled Baht 177 million or 12.8% tax rate. Basic earnings per share at Baht 1.40 per share.

Annualized Ratios	2Q16	1H16	2016	1Q17	2Q17	1H17
Net Profit (Baht million)	1,297	2,404	5,547	1,524	1,185	2,709
ROAE (%)	13.2	12.5	14.2	14.8	11.6	13.5
ROE (%)	13.2	12.7	14.6	15.1	11.3	13.4
ROAA (%)	2.2	2.1	2.4	2.6	1.9	2.2
Comprehensive income (Baht million)	1,485	2,841	5,756	1,563	1,416	2,979
ROAE (%)	15.2	14.8	14.7	15.2	13.9	14.9
ROE (%)	15.1	15.0	15.2	15.5	13.5	14.8
ROAA (%)	2.6	2.4	2.4	2.6	2.2	2.4

Operating results of the Bank and subsidiaries for the first half of 2017 comparing with the first half of 2016. The consolidated net profit for the first half of 2017 totaled Baht 2,709 million, increased by 12.7% comparing to the same period last year, of which Baht 325 million was the net profit from Capital Market business operated by Phatra Capital Plc. (Phatra), and subsidiaries i.e. PSEC and PASSET. Meanwhile, the consolidated comprehensive income totaled Baht 2,979 million, increased by 4.9% with Capital Market business's comprehensive income at Baht 668 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 5,194 million, up 6.6% following improving loan spread from 4.7% to 5.3%. Yield on loan slightly increased from 7.4% to 7.6% while cost of fund declined from 2.7% to 2.3% for the first half of 2017 comparing with the same period last year.

Net fee and service income totaled Baht 1,859 million, increasing 3.0% from the first half of 2016 mainly from the increased in financial advisory and underwriting fee which amounted to Baht 187 million for the first half of 2017 from Baht 31 million, an increase of 510.9% comparing to the same period last year. Fee from Asset Management business for the first half of 2017 totaled Baht 216 million, also increased 35.8%, while brokerage fee declined 22.4% yoy.

Total operating income amounted to Baht 7,756 million, an increase of 2.1% from the same period last year mainly from the increase in net interest income and net fee and services income. Meanwhile, gain on trading and foreign exchange transactions and gain on investments from Capital Market business declined by 84.7% and 54.7% respectively.

Other operating expenses were Baht 3,882 million, increased by 10.7% due in large part to the increased in loss from revaluation of foreclosed assets. Cost-to-income ratio excluding loss from sale and revaluations of foreclosed assets for the first half of 2017 stood at 47.2% comparing to 46.8% for the same period last year.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 623 million, decreasing from Baht 1,202 million, a decline of 48.2% yoy.

Statement of Comprehensive Income

For the six month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	7,268,478	7,161,472	107,006	1.5
Interest expenses	2,074,405	2,289,563	(215,158)	(9.4)
Interest income, net	5,194,073	4,871,909	322,164	6.6
Fees and services income	2,038,575	2,032,423	6,152	0.3
Fees and services expenses	179,967	227,856	(47,889)	(21.0)
Fees and services income, net	1,858,608	1,804,567	54,041	3.0
Gain on trading and foreign exchange transactions, net	41,969	273,898	(231,929)	(84.7)
Gain (Loss) on investments, net	51,277	113,249	(61,972)	(54.7)
Dividend income and profit sharing	348,816	228,668	120,148	52.5
Other operating income	261,265	307,495	(46,230)	(15.0)
Total operating income	7,756,008	7,599,786	156,222	2.1
Other operating expenses				
Employee's expenses	2,281,732	2,231,504	50,228	2.3
Directors' remuneration	42,992	19,270	23,722	123.1
Premises and equipment expenses	496,726	503,996	(7,270)	(1.4)
Taxes and duties	152,615	141,500	11,115	7.9
Loss from revaluation of foreclosed assets (reversal)	99,513	(155,813)	255,326	(163.9)
Loss (Gain) from sale of foreclosed assets	(2,015)	(56,443)	54,428	(96.4)
Other expenses	810,651	822,664	(12,013)	(1.5)
Total other operating expenses	3,882,214	3,506,678	375,536	10.7
Impairment loss on loans and debt securities	622,675	1,202,438	(579,763)	(48.2)
Profit from operating before income tax expenses	3,251,119	2,890,670	360,449	12.5
Income tax expenses	514,480	453,804	60,676	13.4
Net profit	2,736,639	2,436,866	299,773	12.3
Net profit attributable to:				
Equity holders of the Bank	2,709,105	2,403,559	305,546	12.7
Non-controlling interests	27,534	33,307	(5,773)	(17.3)
Total comprehensive income attributable to:				
Equity holders of the Bank	2,979,097	2,840,936	138,161	4.9
Non-controlling interests	26,271	33,914	(7,643)	(22.5)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	3.20	2.84	0.36	12.7

Statements of Financial Position

Assets, as of June 30, 2017, totaled Baht 265,149 million, increased by Baht 31,373 million or 13.4% from the end of 2016. Total loans net deferred revenue amounted to Baht 183,364 million from Baht 176,354 million at the end of 2016.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Jun 30, 2017</u>	<u>Dec 31, 2016</u>	<u>Amount</u>	<u>%</u>
Cash	1,018,732	1,167,425	(148,693)	(12.7)
Interbank and money market items, net	32,783,432	11,484,482	21,298,950	185.5
Derivatives assets	2,521,229	1,353,345	1,167,884	86.3
Investments in securities, net	27,484,051	28,365,336	(881,285)	(3.1)
Investments in receivables, net	2,426,475	2,553,786	(127,311)	(5.0)
Investments in properties, net	785,441	851,094	(65,653)	(7.7)
Loans to customers and accrued interest receivables, net				
Loans to customers	202,878,335	196,487,830	6,390,505	3.3
Accrued interest receivables	987,626	922,666	64,960	7.0
Total loans to customers and accrued interest receivables	203,865,961	197,410,496	6,455,465	3.3
<u>Less</u> Deferred revenue	(19,514,492)	(20,133,733)	619,241	(3.1)
<u>Less</u> Allowance for doubtful accounts	(11,088,006)	(10,964,711)	(123,295)	1.1
<u>Less</u> Allowance for troubled debt restructuring	(907)	(1,135)	228	(20.1)
Total loans to customers and accrued interest receivables, net	173,262,556	166,310,917	6,951,639	4.2
Properties foreclosed, net	3,712,272	3,728,384	(16,112)	(0.4)
Land, premises and equipment, net	2,126,201	2,091,799	34,402	1.6
Other intangible assets, net	741,270	733,724	7,546	1.0
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,786,414	1,680,935	105,479	6.3
Accounts receivable from clearing house and broker - dealers	2,603,204	629,469	1,973,735	313.6
Securities and derivative business receivables	5,883,291	7,602,021	(1,718,730)	(22.6)
Other assets, net	4,948,342	2,157,627	2,790,715	129.3
Total assets	265,148,945	233,776,379	31,372,566	13.4

Liabilities amounted to Baht 225,040 million, increasing 16.4% from the end of 2016. Deposits were Baht 133,858 million, increasing by 21.8%. Deposits comprised of 52.2% of term deposits and 47.8% of current and saving accounts (CASA), compared with CASA of 53.7 % at the end of 2016.

Meanwhile, debts and borrowings were Baht 38,039 million, decreased by 32.1% from the end of 2016. During 2Q17, the Bank issued debentures totaling Baht 16,062 million. Loan to deposits and borrowings ratio stood at 106.9% comparing to 106.3% at the end of 2016.

LIABILITIES (BAHT'000)	CONSOLIDATED		Change	
	Jun 30, 2017	Dec 31, 2016	Amount	%
Deposits	133,858,053	109,922,919	23,935,134	21.8
Current Account	280,559	397,636	(117,077)	(29.4)
Saving Account	63,700,969	58,626,581	5,074,388	8.7
Term Deposit	69,077,830	50,094,639	18,983,191	37.9
Certificate of Deposit	798,694	804,063	(5,368)	(0.7)
Interbank and money market items, net	33,074,886	8,359,651	24,715,235	295.6
Liabilities payable on demand	498,308	225,390	272,918	121.1
Derivatives liabilities	3,628,044	2,499,389	1,128,655	45.2
Debt issued and borrowings	38,039,090	56,054,619	(18,015,529)	(32.1)
Senior securities	32,039,090	49,964,619	(17,925,529)	(35.9)
Subordinated bond	6,000,000	6,000,000	0	0.0
Bills of Exchange	0	90,000	(90,000)	(100.0)
Provisions	587,060	567,823	19,237	3.4
Deferred tax liabilities	114,458	54,614	59,844	109.6
Accounts payable to clearing house and broker - dealers	1,555	2,885,681	(2,884,126)	(99.9)
Securities and derivative business payables	5,078,805	4,382,762	696,043	15.9
Accrued interest expenses	432,836	476,549	(43,713)	(9.2)
Other accounts payable	4,668,112	1,876,181	2,791,931	148.8
Legal Execution Department payable	575,380	575,380	0	0.0
Income tax payable and specific business tax payable	581,812	605,053	(23,241)	(3.8)
Other liabilities	3,901,764	4,773,014	(871,250)	(18.3)
Total liabilities	225,040,163	193,259,025	31,781,138	16.4

Shareholders' equity was Baht 40,109 million, decreased 1.0% from the end of 2016. Total issued and paid-up capital totaled Baht 8,468 million. Share premium totaled Baht 9,356 million. Unappropriated retained earnings at Baht 19,827 million.

The Dividend payment

The Annual General Meeting of shareholders on April 24, 2017 approved the annual dividend payment for 2016 at the rate of Baht 6.00 per share. The interim dividend was paid on September 23, 2016 at the rate of Baht 2.00 per share with the remaining Baht 4.00 per share paid on May 23, 2017.

Capital Adequacy Ratio (BIS ratio)

As at June 30, 2017, the Capital Adequacy Ratio (BIS ratio) under Basel III which included profit for the year 2016 was at 17.54% while Tier-1 ratio was at 14.20%. When including profit up to end of 2Q17, the BIS ratio will increase to 18.64% while Tier-1 ratio will be 15.30%.

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	Jun 30, 2017		Dec 31, 2016		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	123,483	67.2	123,716	70.1	(0.2)
Hire Purchase	107,168	58.3	113,049	64.1	(5.2)
Personal loan	5,035	2.7	4,240	2.4	18.7
Micro SMEs loan	4,150	2.3	2,735	1.6	51.7
Housing loan	7,130	3.9	3,691	2.1	93.2
Commercial Lending	40,914	22.3	41,337	23.4	(1.0)
Real Estate Development	19,375	10.5	19,279	10.9	0.5
SMEs loan	21,539	11.7	22,058	12.5	(2.4)
Corporate Lending	14,233	7.7	6,882	3.9	106.8
Special Asset Management loan	617	0.3	665	0.4	(7.2)
Lombard loan	4,457	2.4	3,867	2.2	15.3
Total loans and account receivables	183,704	100.0	176,466	100.0	4.1

Retail Lending totaled Baht 123,483 million, decreased slightly by 0.2% from the end of 2016. Retail loans include hire purchase loans, personal loans, Micro SMEs loans including SME Car3x loans and housing loans.

Hire purchase loans amounted to Baht 107,168 million, declining by 5.2% from end of 2016. New hire purchase business volume booked during 2Q17 totaled Baht 7,717 million, decreasing 20.6% yoy. The portion of new cars to used cars is currently at 46:54. Domestic new car sales for the first six months of 2017 totaled 409,980 units, increasing by 11.2% 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 first six months of 2017 was at 2.8%, declining from 3.7% as of end of 2016.

Other retail loans continued to grow at a high rate contributed by the Bank's direct sales team. Personal loans amounted to Baht 5,035 million, an increase of 18.7% from the end of 2016, Micro SMEs loans including SME Car3x loans totaled Baht 4,150 million, expanded by 51.7% with housing loans expanded to Baht 7,130 million, an increase of 93.2% from the end of 2016.

Commercial Lending business amounted to Baht 40,914 million, a contraction of 1.0% from the end of 2016. Commercial Lending includes real estate development loans and SMEs loans, details are as follows:

Real estate development loans (RE) were Baht 19,375 million, expanded slightly by 0.5% from the end of 2016.

SMEs loans were Baht 21,539 million. 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 14,233 million, expanded by 106.8% from the end of 2016.

Special asset management (SAM) is responsible for distressed asset management business and sale of foreclosed assets. Current outstanding financial claim loans totaled Baht 617 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 4,457 million, an increase of 15.3% from the end of 2016.

NPLs distribution by loan type (consolidated)

Type of loans	Jun 30, 2017			Dec 31, 2016		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	2,951	27.8	2.4	2,602	26.1	2.1
Hire Purchase	2,324	21.9	2.2	2,133	21.4	1.9
Personal loan	140	1.3	2.8	98	1.0	2.3
Micro SMEs loan	358	3.4	8.6	296	3.0	10.8
Housing loan	129	1.2	1.8	75	0.8	2.0
Commercial Lending	7,068	66.6	17.3	6,721	67.4	16.3
Real Estate Development	5,446	51.3	28.1	5,248	52.6	27.2
SMEs loan	1,623	15.3	7.5	1,473	14.8	6.7
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	597	5.6	96.8	645	6.5	97.0
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	10,616	100.0	5.8	9,968	100.0	5.6

The consolidated NPLs amounted to Baht 10,616 million or 5.8% of total loans, increasing from Baht 9,968 million at the end of 2016. NPLs of hire purchase loans increased due to the higher mix of used cars in portfolio. NPLs of commercial lending business for both the real estate development loans and SME loans segment also increased during 2Q17 to 17.3% from 16.3% at the end of 2016.

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 2Q17, the market share¹ of PSEC was 4.93%, ranking 5th from total 37 brokers. PSEC generated brokerage revenue totaling Baht 270 million comprising of equity brokerage revenue of Baht 247 million and derivatives brokerage revenue of Baht 23 million.

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 2Q17, the revenue was Baht 107 million, contributed to financial advisory fee amounting Baht 70 million and underwriting fee amounting Baht 37 million.

¹ Including SET and mai but excluding proprietary trading

- **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 2Q17, DI focusing on long-term investment with value based investment philosophy recorded gain on investment including gain on re-measuring available-for-sale securities totaling Baht 365 million. HF, in the period of the financial model could not make profits, posted loss of Baht 71 million for the quarter.² Meanwhile, EDT had gain on investment totaling Baht 120 million.³ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment income of Baht 435 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. As of 30 June 2017, PASSET’s mutual fund AUM was Baht 56,784 million with total 30 funds under management consisting of 27 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.18%. In 2Q17, PASSET’s fee income from mutual fund business totaled Baht 75 million.

As of 30 June 2017, asset under management from private fund was Baht 15,637 million with fee income from private fund business totaled Baht 42 million.

Please be informed accordingly.

Yours sincerely,

Mr. Aphinant Klewpatinond
Chief Executive Officer and President

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² In addition to the investment revenue, HF also had foreign exchange loss and advisory fee revenue totaling loss Baht 1 million and hedging cost of Baht 10 million. In summary, total HF loss after cost of hedging was Baht 82 million

³ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 118 million