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October 20, 2017

Subject: Management Discussion and Analysis for the third quarter ended September 30, 2017 (Unreviewed)

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 third quarter ended September 30, 2017 comparing operating performance and financial position for the third quarter and the nine months ending September 30, 2017 with those of 2016. This report discusses principal changes in the unreviewed consolidated financial statements.

Overall market environment

The Thai economy continued to expand mainly from 2 key drivers relating to external factors, in line with the recovery of the overall global economic conditions (Global Synchronized Growth). 1) Exports – with growth of 8.9% during the first 8 months of 2017 contributed by the continuing external demand for electronic goods and 2) Tourism - with number of foreign tourists arrivals for the first 8 months of 2017 totaling 23.5 million, an increase of 5.4%. Nevertheless, several domestic factors pending recovery still remain 1) Agricultural sector - with farm income showing contractions for the month of July and August from the decreased in agricultural prices 2) Labour market - with employment rate and wage remain weak with the manufacturing sector not benefiting from the recovery in the export and tourism sectors 3) Low level of inflation - impacting manufacturers ability to determine pricing and 4) Strengthening of the Thai Baht - 6.7% against the US Dollar since the beginning of the year and its impact to exporters.

For the last quarter of 2017, although the Thai economy shows positive signs of improvement in line with the global economic conditions, 3 areas still remain to be cautious upon 1) Crude oil and commodity prices trend - recovering trend will aid Thailand's inflation to rise which in turn will result in rise of farm income and ease Thai Baht appreciation via lower current account 2) Central bank monetary policy - gradual tightening of monetary policy could help ease pressure on Thai Baht. However, over-tightening could lead to rise in Thai money market rates and creating liquidity issue 3) Political and Geopolitical risks from the tensions in the Korean peninsula, US political issues impacting the US government tax reform bill and the wave of trade protectionism if resume will threaten global and also the Thai economic growth.

For the auto industry, the first 8 months showed continuous recovery with the number of new car sales for the first 8 months of 2017 totaled 543,120 units, a growth of 10.2% with the growth for the commercial vehicle segment and the passenger car segment growing at 4.3% and 20.7% respectively comparing to the same period last year. The high increased for the passenger car segment are the results of the low base of previous year, the launch of new car models, new car purchase from the end of the first car scheme and the promotional activities of car manufacturers. Based on the Bank in-house research, new car sales for the year 2017 is projected to increase by 8.0% with total sales of around 830,000 units.

In the equity market, the average daily turnover (SET and mai) increased 16.8% from Baht 42,089 million in 2Q17 to Baht 49,143 million in 3Q17. The SET index at the end of 3Q17 closed at 1,673.16 points, also increasing by 6.2% from 1,574.74 points at the end of 2Q17.

Overall Business Operations for the third quarter of 2017

The Bank's loan portfolio for 3Q17 expanded at 0.2% for the quarter resulting in total loan growth of 4.4% from the end of 2016. Loan growth continues to be from the following areas: housing loans increased by 149.3%, micro SMEs including SME Car3x loans expanded at 73.4%, personal loans increased by 29.9%, corporate banking loans expanded by 73.4%, Lombard loans expanded by 38.3% with real estate development loans also registering a growth of 3.2% YTD. Meanwhile, contractions continue for hire purchase loans with contractions of 7.1% from the end of 2016. For asset quality, the amount of Non-Performing Loans (NPLs) decreased with the Non-Performing Loans (NPLs) to total loans ratio at the end of 3Q17 declining to 5.6% from 5.8% at the end of 2Q17. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 316 million and had gain of Baht 149 million. For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 4.65% decreasing from 4.93% in 2Q17, ranking 5th from total 37 brokers.

The consolidated net profit for 3Q17 totaled Baht 1,723 million, an increase of 45.4% from Baht 1,185 million during 2Q17. The consolidated comprehensive income for 3Q17 totaled Baht 1,796 million, an increase of 26.8% comparing to Baht 1,416 million in 2Q17. 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	3Q16	9M16	1Q17	2Q17	3Q17	9M17
Loan growth	0.2	(1.4)	1.3	2.8	0.2	4.4
NPLs/ Total Loans (excluding interbank)	5.9	5.9	5.6	5.8	5.6	5.6
Total loan loss reserve/ Total NPLs (coverage ratio)	105.4	105.4	110.0	104.6	105.6	105.6
Total loan loss reserve/ Total mandatory reserve	181.6	181.6	188.1	185.1	185.4	185.4

Operating Performance for the third quarter of 2017

Profit and Loss Transaction

For the three month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	3,820,103	4,041,272	(221,169)	(5.5)
Interest expenses	1,043,324	1,081,990	(38,666)	(3.6)
Interest income, net	2,776,779	2,959,282	(182,503)	(6.2)
Fees and services income	1,126,870	1,009,220	117,650	11.7
Fees and services expenses	99,298	120,977	(21,679)	(17.9)
Fees and services income, net	1,027,572	888,243	139,329	15.7
Gain on trading and foreign exchange transactions, net	44,771	143,765	(98,994)	(68.9)
Gain on investments, net	124,227	114,478	9,749	8.5
Dividend income and profit sharing	220,661	142,664	77,997	54.7
Other operating income	99,789	146,382	(46,593)	(31.8)
Total operating income	4,293,799	4,394,814	(101,015)	(2.3)
Other operating expenses				
Employee's expenses	1,311,691	1,175,755	135,936	11.6
Directors' remuneration	12,075	5,220	6,855	131.3
Premises and equipment expenses	250,255	232,781	17,474	7.5
Taxes and duties	93,534	119,513	(25,979)	(21.7)
Loss from revaluation of foreclosed assets	45,835	138,594	(92,759)	(66.9)
Loss (Gain) from sale of foreclosed assets	37,404	(661,355)	698,759	(105.7)
Other expenses	372,154	405,396	(33,242)	(8.2)
Total other operating expenses	2,122,948	1,415,904	707,044	49.9
Impairment loss on loans and debt securities	75,482	1,010,589	(935,107)	(92.5)
Profit from operating before income tax expenses	2,095,369	1,968,321	127,048	6.5
Income tax expenses	372,757	252,889	119,868	47.4
Net profit	1,722,612	1,715,432	7,180	0.4
Net profit attributable to:				
Equity holders of the Bank	1,723,182	1,691,015	32,167	1.9
Non-controlling interests	(570)	24,417	(24,987)	(102.3)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,795,576	1,660,974	134,602	8.1
Non-controlling interests	(1,121)	22,037	(23,158)	(105.1)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	2.04	2.00	0.04	2.0

Operating results of the Bank and subsidiaries for 3Q17 comparing with 3Q16

The consolidated net profit for the third quarter of 2017 totaled Baht 1,723 million, an increase of 1.9% yoy, of which Baht 300 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 third quarter of 2017 totaled Baht 1,796 million, increased by 8.1% yoy. The Capital Market business comprehensive income was Baht 289 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 3,820 million, declining by 5.5% yoy mainly from the decrease in interest income on investment in loans by 73.0%, due to a high base during 3Q16 from loan restructuring progress of large accounts. Interest income from hire purchase and financial lease also declined by 2.4% due to the decelerated hire purchase portfolio. Meanwhile, interest income on loans increased by 23.0% due to the growth in loan portfolio and also from the cash-basis interest income received from non-performing loans in the real estate development sector.

For the three month period	Consolidated		Change	
	Sept 30, 2017	Sept 30, 2016	Baht million	%
Interest income	3,820	4,041	(221)	(5.5)
Interest on loans	1,370	1,114	256	23.0
Interest on interbank and money market items	34	35	(1)	(1.7)
Hire purchase and financial lease income	2,168	2,221	(53)	(2.4)
Interest on securities	93	103	(9)	(9.2)
Interest on investment in loans	154	569	(415)	(73.0)
Others	1	0	1	n.a.

Interest expenses totaled Baht 1,043 million, a decline of 3.6% yoy. Interest expense on debt issued and borrowings reduced by 34.8% from the decline in issuance of new debentures. The cost of fund for 3Q17 decreased to 2.1% from 2.5% yoy attributed by the Bank's continued effort on cost management.

For the three month period	Consolidated		Change	
	Sept 30, 2017	Sept 30, 2016	Baht million	%
Interest expense	1,043	1,082	(39)	(3.6)
Interest on deposits	586	518	68	13.1
Interest on interbank and money market items	29	23	6	27.8
Interest on debt issued and borrowings	229	351	(122)	(34.8)
Fees and charges on borrowings	2	1	1	116.5
FIDF and DPA fees	188	180	8	4.3
Others	10	9	0	4.9

Net interest income amounted to Baht 2,777 million, a decline of Baht 183 million or 6.2% yoy from Baht 2,959 million in 3Q16 mainly attributed by the decline in interest income from investment in loans. Meanwhile, yield on loan increased for 3Q17 to 7.7% from 7.5% in 3Q16 partly from the increase in yield on hire purchase loans from the higher portion of used cars mix in portfolio. Cost of fund dropped further yoy from 2.5% to 2.1% resulting in improvement in loan spread from 5.0% in 3Q16 to 5.6% in 3Q17.

%	3Q16	9M16	1Q17	2Q17	3Q17	9M17
Yield on loan	7.5	7.4	7.6	7.6	7.7	7.6
Cost of fund	2.5	2.6	2.4	2.3	2.1	2.3
Loan spread	5.0	4.8	5.2	5.3	5.6	5.3

Net fees and services income totaled Baht 1,028 million, increasing by Baht 139 million or 15.7% from 3Q16. For Capital Market business, fee from Asset Management business totaled Baht 127 million in 3Q17, an increase of Baht 44 million or 52.4% yoy from Baht 84 million during 3Q16 due to the growth in Asset under Management. Brokerage income totaled Baht 422 million, increasing slightly by 1.0% yoy. Financial advisory and underwriting fees totaled Baht 73 million, increasing significantly from Baht 8 million during 3Q16. Bancassurance fee amounted to Baht 246 million, also increasing by 7.1% comparing to Baht 230 million during same period last year.

Total operating income amounted to Baht 4,294 million, decreased by 2.3% yoy. In addition to net interest income and net fees and services income, the Bank recorded gain on trading and foreign exchange transactions in the amount of Baht 45 million, declining comparing to gain of Baht 144 million in 3Q16. Additionally, the Bank also recorded gain on investments of Baht 124 million, a slight increase from Baht 114 million during 3Q16.

Other operating expenses were Baht 2,123 million, increased by 49.9% yoy. The increase is attributed by the gain/loss from sale of foreclosed assets of prior year which during 3Q17 had a loss of Baht 37 million, comparing to gain of Baht 661 million during 3Q16 resulting in an increase of Baht 699 million comparing to the same period last year.

The loss on sale of foreclosed assets of Baht 37 million for 3Q17 comprised of loss from sale of repossessed cars totaled Baht 187 million, increased by Baht 33 million from loss of Baht 153 million in 3Q16 and from gain on sale of foreclosed properties which in 3Q17, totaled Baht 149 million, a decrease of 81.7% comparing to gain of Baht 815 million during 3Q16. During 3Q17, the Bank sold foreclosed properties in the amount of Baht 316 million comparing to a high base of Baht 1,546 million sold during 3Q16.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 3Q17 totaled Baht 2,040 million, increasing by 5.2% comparing to expenses of

Baht 1,939 million for 3Q16 with increased largely from personnel expenses. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 45.9% for 3Q17.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 75 million, declining considerably from Baht 1,011 million in 3Q16, which during 3Q16 the Bank had set up a general reserve in the amount of Baht 750 million. Additionally, the low level of loan loss provisions is due to the improvement in asset quality with the decline in Non-Performing Loans (NPLs) and special mention loans also exhibiting a positive improvement together with the current level of slow loan growth.

Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,892 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio increased to 185.4% comparing to 181.6% at the end of 3Q16. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) is at 105.6%, increased slightly from 105.4% at the end of 3Q16.

Corporate Income Tax totaled Baht 373 million or 17.8% tax rate. Basic earnings per share at Baht 2.04 per share.

Annualized Ratios	3Q16	9M16	1Q17	2Q17	3Q17	9M17
Net Profit (Baht million)	1,691	4,095	1,524	1,185	1,723	4,432
ROAE (%)	17.3	14.2	14.8	11.6	17.3	14.7
ROE (%)	17.3	14.4	15.1	11.3	17.3	14.7
ROAA (%)	2.9	2.3	2.6	1.9	2.7	2.5
Comprehensive income (Baht million)	1,661	4,502	1,563	1,416	1,796	4,775
ROAE (%)	17.0	15.6	15.2	13.9	18.0	15.9
ROE (%)	17.0	15.8	15.5	13.5	18.0	15.8
ROAA (%)	2.8	2.5	2.6	2.2	2.8	2.7

Operating results of the Bank and subsidiaries for the nine months of 2017 comparing with the nine months of 2016. The consolidated net profit for the nine months of 2017 totaled Baht 4,432 million, increased by 8.2% comparing to Baht 4,095 million from the same period last year, of which Baht 624 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 4,775 million, increased by 6.1% with Capital Market business's comprehensive income at Baht 957 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 7,971 million, an increase of 1.8% with improving loan spread from 4.8% to 5.3%. Yield on loan also slightly increased from 7.4% to 7.6% while cost of fund declined from 2.6% to 2.3% for the nine months of 2017 comparing with the same period last year.

Net fee and service income totaled Baht 2,886 million, increasing 7.2% from the same period last year mainly from the increased in financial advisory and underwriting fee which amounted to Baht 260 million, increasing significantly from Baht 39 million from the same period last year. Fee from Asset Management business totaled Baht 343 million, also increased 41.5%, while brokerage fee declined 14.8% yoy due to the decline in market trading volume.

Total operating income amounted to Baht 12,050 million, a slight increase of 0.5% from the same period last year with gain on trading and foreign exchange transactions declining by 79.2%. Gain on investments from Capital Market business declined by 22.9%, the decline is due to the 3Q16 inclusion of gain on investments resulting from the gain on sale of kktrade during 3Q16.

Other operating expenses were Baht 6,005 million, increased by 22.0% due largely from the Gain/Loss from sale of foreclosed assets of prior year which during the nine months of 2017 had a total loss of Baht 35 million, comparing to gain of Baht 718 million during the same period last year. This resulted in an increase of Baht 753 million in expense comparing to the same period last year.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for the nine months of 2017 totaled Baht 5,824 million, increasing slightly by 2.9% comparing to expenses of Baht 5,658 million for same period last year mainly from the increased in personnel expenses. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 46.7% for 3Q17.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 698 million, decreasing from Baht 2,213 million, a decline of 68.5% yoy, which during the nine months of 2016, the Bank had set up a general reserve of Baht 1,400 million. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 0.85% of average loan for the nine months of 2017.

Statement of Comprehensive Income

For the nine month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	11,088,581	11,202,744	(114,163)	(1.0)
Interest expenses	3,117,729	3,371,553	(253,824)	(7.5)
Interest income, net	7,970,852	7,831,191	139,661	1.8
Fees and services income	3,165,445	3,041,643	123,802	4.1
Fees and services expenses	279,265	348,833	(69,568)	(19.9)
Fees and services income, net	2,886,180	2,692,810	193,370	7.2
Gain on trading and foreign exchange transactions, net	86,740	417,663	(330,923)	(79.2)
Gain (Loss) on investments, net	175,504	227,727	(52,223)	(22.9)
Dividend income and profit sharing	569,477	371,332	198,145	53.4
Other operating income	361,054	453,877	(92,823)	(20.5)
Total operating income	12,049,807	11,994,600	55,207	0.5
Other operating expenses				
Employee's expenses	3,593,423	3,407,259	186,164	5.5
Directors' remuneration	55,067	24,490	30,577	124.9
Premises and equipment expenses	746,981	736,777	10,204	1.4
Taxes and duties	246,149	261,013	(14,864)	(5.7)
Loss from revaluation of foreclosed assets (reversal)	145,348	(17,219)	162,567	(944.1)
Loss (Gain) from sale of foreclosed assets	35,389	(717,798)	753,187	(104.9)
Other expenses	1,182,805	1,228,060	(45,255)	(3.7)
Total other operating expenses	6,005,162	4,922,582	1,082,580	22.0
Impairment loss on loans and debt securities	698,157	2,213,027	(1,514,870)	(68.5)
Profit from operating before income tax expenses	5,346,488	4,858,991	487,497	10.0
Income tax expenses	887,237	706,693	180,544	25.5
Net profit	4,459,251	4,152,298	306,953	7.4
Net profit attributable to:				
Equity holders of the Bank	4,432,287	4,094,574	337,713	8.2
Non-controlling interests	26,964	57,724	(30,760)	(53.3)
Total comprehensive income attributable to:				
Equity holders of the Bank	4,774,673	4,501,910	272,763	6.1
Non-controlling interests	25,150	55,951	(30,801)	(55.0)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	5.23	4.84	0.39	8.1

Statements of Financial Position

Assets, as of September 30, 2017, totaled Baht 245,724 million, increased by Baht 11,948 million or 5.1% from the end of 2016. Total loans net deferred revenue amounted to Baht 183,814 million, a 4.2% increase from Baht 176,354 million at the end of 2016.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Sept 30, 2017</u>	<u>Dec 31, 2016</u>	<u>Amount</u>	<u>%</u>
Cash	1,189,521	1,167,425	22,096	1.9
Interbank and money market items, net	8,379,262	11,484,482	(3,105,220)	(27.0)
Derivatives assets	2,678,857	1,353,345	1,325,512	97.9
Investments in securities, net	32,931,499	28,365,336	4,566,163	16.1
Investments in receivables, net	2,339,511	2,553,786	(214,275)	(8.4)
Investments in properties, net	741,130	851,094	(109,964)	(12.9)
Loans to customers and accrued interest receivables, net				
Loans to customers	203,232,919	196,487,830	6,745,089	3.4
Accrued interest receivables	982,950	922,666	60,284	6.5
Total loans to customers and accrued interest receivables	204,215,869	197,410,496	6,805,373	3.4
<u>Less</u> Deferred revenue	(19,418,612)	(20,133,733)	715,121	(3.6)
<u>Less</u> Allowance for doubtful accounts	(10,890,726)	(10,964,711)	73,985	(0.7)
<u>Less</u> Allowance for troubled debt restructuring	(1,745)	(1,135)	(610)	53.7
Total loans to customers and accrued interest receivables, net	173,904,786	166,310,917	7,593,869	4.6
Properties foreclosed, net	3,677,031	3,728,384	(51,353)	(1.4)
Land, premises and equipment, net	2,131,312	2,091,799	39,513	1.9
Other intangible assets, net	812,563	733,724	78,839	10.7
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,731,405	1,680,935	50,470	3.0
Accounts receivable from clearing house and broker - dealers	2,465,034	629,469	1,835,565	291.6
Securities and derivative business receivables	7,123,864	7,602,021	(478,157)	(6.3)
Other assets, net	2,552,321	2,157,627	394,694	18.3
Total assets	245,724,131	233,776,379	11,947,752	5.1

Liabilities amounted to Baht 205,517 million, increasing 6.3% from the end of 2016. Deposits were Baht 130,734 million, increasing by 18.9%. Deposits comprised of 51.6% of term deposits and 48.4% of current and saving accounts (CASA), compared with CASA of 53.7 % at the end of 2016.

Meanwhile, debts and borrowings were Baht 43,839 million, decreased by 21.8% from the end of 2016. During 3Q17, the Bank issued debentures totaling Baht 15,246 million. Loan to deposits and borrowings ratio stood at 105.5% comparing to 106.3% at the end of 2016.

LIABILITIES (BAHT'000)	CONSOLIDATED		Change	
	Sept 30, 2017	Dec 31, 2016	Amount	%
Deposits	130,734,225	109,922,919	20,811,306	18.9
Current Account	311,224	397,636	(86,412)	(21.7)
Saving Account	63,013,552	58,626,581	4,386,971	7.5
Term Deposit	66,619,802	50,094,639	16,525,163	33.0
Certificate of Deposit	789,647	804,063	(14,416)	(1.8)
Interbank and money market items, net	8,458,570	8,359,651	98,919	1.2
Liabilities payable on demand	474,346	225,390	248,956	110.5
Derivatives liabilities	3,827,296	2,499,389	1,327,907	53.1
Debt issued and borrowings	43,839,483	56,054,619	(12,215,136)	(21.8)
Senior securities	37,839,483	49,964,619	(12,125,136)	(24.3)
Subordinated bond	6,000,000	6,000,000	0	0.0
Bills of Exchange	0	90,000	(90,000)	(100.0)
Provisions	617,229	567,823	49,406	8.7
Deferred tax liabilities	112,719	54,614	58,105	106.4
Accounts payable to clearing house and broker - dealers	594,520	2,885,681	(2,291,161)	(79.4)
Securities and derivative business payables	8,633,979	4,382,762	4,251,217	97.0
Accrued interest expenses	555,959	476,549	79,410	16.7
Other accounts payable	2,497,057	1,876,181	620,876	33.1
Legal Execution Department payable	575,380	575,380	0	0.0
Income tax payable and specific business tax payable	338,655	605,053	(266,398)	(44.0)
Other liabilities	4,257,708	4,773,014	(515,306)	(10.8)
Total liabilities	205,517,126	193,259,025	12,258,101	6.3

Shareholders' equity was Baht 40,207 million, decreased 0.8% 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 19,857 million.

The Interim Dividend payment

In accordance with the resolution of the Board of Directors' meeting No.8/2017 held on August 24, 2017 which approved the interim dividend payment for the January 1 – June 30, 2017 operations at the rate of Baht 2.00 per share. The interim dividend was paid on September 22, 2017.

Capital Adequacy Ratio (BIS ratio)

As at September 30, 2017, the Capital Adequacy Ratio (BIS ratio) under Basel III which included profit for the year 2016 was at 17.12% while Tier-1 ratio was at 13.87%. When including profit up to end of 3Q17 after deducting dividend payment for the first half of 2017 operations, the BIS ratio will increase to 18.19% while Tier-1 ratio will be 14.95%.

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, 2017		Dec 31, 2016		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	124,461	67.6	123,716	70.1	0.6
Hire Purchase	105,004	57.0	113,049	64.1	(7.1)
Personal loan	5,509	3.0	4,240	2.4	29.9
Micro SMEs loan	4,744	2.6	2,735	1.6	73.4
Housing loan	9,204	5.0	3,691	2.1	149.3
Commercial Lending	41,790	22.7	41,337	23.4	1.1
Real Estate Development	19,887	10.8	19,279	10.9	3.2
SMEs loan	21,903	11.9	22,058	12.5	(0.7)
Corporate Lending	11,937	6.5	6,882	3.9	73.4
Special Asset Management loan	612	0.3	665	0.4	(8.0)
Lombard loan	5,349	2.9	3,867	2.2	38.3
Total loans and account receivables	184,148	100.0	176,466	100.0	4.4

Retail Lending totaled Baht 124,461 million, increased slightly by 0.6% 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 105,004 million, declining by 7.1% from end of 2016. New hire purchase business volume booked during 3Q17 totaled Baht 8,764 million, decreasing 15.9% yoy. The portion of new cars to used cars is currently at 45:55. Domestic new car sales for the first 8 months of 2017 totaled 543,120 units, increasing by 10.2% 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 8 months of 2017 was at 2.9%, declining from 3.7% as of end of 2016.

Meanwhile, growth continued in other retail loans contributed by the Bank's direct sales team. Personal loans amounted to Baht 5,509 million, an increase of 29.9% from the end of 2016, Micro SMEs loans including SME Car3x loans totaled Baht 4,744 million, expanded by 73.4% with housing loans expanded to Baht 9,204 million, a significant increase of 149.3% from the end of 2016. Additionally, to continue with growth in the retail segment and expand the reach to customers, the Bank is now offering a service under the name "KK Money Station", a mobile financial service which includes Mini Booth and mobile loan trucks to offer various retail loan services to customers.

Commercial Lending business amounted to Baht 41,790 million, an increase of 1.1% 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 19,887 million, expanded by 3.2% from the end of 2016.

SMEs loans were Baht 21,903 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 11,937 million, expanded by 73.4% 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 612 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 5,349 million, an increase of 38.3% from the end of 2016.

NPLs distribution by loan type (consolidated)

Type of loans	Sept 30, 2017			Dec 31, 2016		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	2,994	29.0	2.4	2,602	26.1	2.1
Hire Purchase	2,307	22.3	2.2	2,133	21.4	1.9
Personal loan	162	1.6	2.9	98	1.0	2.3
Micro SMEs loan	388	3.8	8.2	296	3.0	10.8
Housing loan	136	1.3	1.5	75	0.8	2.0
Commercial Lending	6,739	65.3	16.1	6,721	67.4	16.3
Real Estate Development	5,195	50.3	26.1	5,248	52.6	27.2
SMEs loan	1,544	15.0	7.0	1,473	14.8	6.7
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	592	5.7	96.7	645	6.5	97.0
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	10,324	100.0	5.6	9,968	100.0	5.6

The consolidated NPLs amounted to Baht 10,324 million, a decreased of Baht 292 million from Baht 10,616 at the end of 2Q17 or 5.6% of total loans, decreasing from 5.8% at the end of 2Q17. The ratio of 5.6% for 3Q17 is at the same level as of end of 2016. NPLs decreased for hire purchase loans and also in the commercial lending business for both the real estate development loans and SME loans segment comparing to end of 2Q17.

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 3Q17, the market share¹ of PSEC was 4.65%, ranking 5th from total 37 brokers. PSEC generated brokerage revenue totaling Baht 328 million comprising of equity brokerage revenue of Baht 300 million and derivatives brokerage revenue of Baht 28 million.

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 3Q17, the revenue was Baht 73 million, contributed to financial advisory fee amounting Baht 8 million and underwriting fee amounting Baht 65 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 3Q17, DI focusing on long-term investment with value based investment philosophy recorded gain on investment including loss on re-measuring available-for-sale securities totaling Baht 127 million. HF, in the period of the financial model could not make profits, posted loss of Baht 4 million for the quarter.² Meanwhile, EDT had gain on investment totaling Baht 107 million.³ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment income of Baht 253 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 30 September 2017 was Baht 58,363 million with total 28 funds under management consisting of 25 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.20%. In 3Q17, PASSET’s fee income from mutual fund business totaled Baht 81 million. As of 30 September 2017, asset under management from private fund was Baht 17,500 million with fee income from private fund business totaled Baht 48 million during 3Q17.

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 7 million and hedging cost of Baht 10 million. In summary, total HF loss after cost of hedging was Baht 21 million

³ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 101 million