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January 19, 2018

Subject: Management Discussion and Analysis for the year ended December 31, 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 year ended December 31, 2017, comparing operating performance and financial position for the year 2017 with those of 2016. This report discusses principal changes in the unaudited consolidated financial statements.

### **Overall market environment**

The Thai economy in 2017 showed clear signs of recovery especially in 4Q17 as evident by the more broad-based recovery from the external sectors to the domestic sectors. With exports registering a growth of 10.0% for the first 11 months of the year, it was in line with the recovery of the overall global demand. Tourism also showed continuous growth with the number of foreign visitor arrivals for the first 11 months of 2017 totaling 31.8 million, an increase of 7.8%. For domestic sectors, consumption and investment started to recover, though not yet at broad-based level. This was reflected from durable goods consumption that showed sign of recovery whereas non-durable and semi-durable goods namely food and apparels still contracted, pointing to a still weak grass-root economy. Private investment also showed signs of recovery that is consistent with the recovery in the manufacturing sector especially for export related products such as electronics. Manufacturing for domestic demands was still at the early stage of recovery.

For 2018, the Thai economic conditions is expected to continue to grow, but with three headwinds namely 1) the economy which has not been sufficiently broad-based from weak domestic demand. If factors namely rising inflation, an increase in agricultural prices and the increase in overall wage especially in the low income segment are met, these might help the recovery to become sufficiently broad-based. 2) Public and private investment growth, reflected from the annual budget disbursement has been below target. Expediting public investment and also key infrastructure projects will assist in crowding-in of private investment. 3) Easing of the financial conditions – although the policy rate and interest rates have been at a low level but liquidity in the business sector is still at the low level especially for SMEs business. This is attributed by the slow economic recovery and credit quality issue. If the economic recovery becomes more broad-based, the quality of credit should improve which will create opportunity for loan expansions. The tightening policies of major central banks – US, Europe, Japan, China - could also impact the Thai financial conditions.

For the auto industry, the first 11 months showed continuous recovery with growth higher than the Bank in-house research forecasted of 8.0%. The number of new car sales for the first 11 months of 2017 totaled 767,345 units, a growth of 12.5% with the growth for the commercial vehicle segment and the

passenger car segment growing at 7.2% and 21.7% respectively when compared to the same period last year. The high increase in the passenger car segment is still from the results of the low base in the previous year, the launch of new car models, new car purchase from the end of the first car scheme, overall growth in the economy and the marketing promotions of car manufacturers. Based on the Bank in-house research, new car sales for the year 2018 is projected to grow at 6.0%.

In the equity market, the average daily turnover (SET and mai) for the year 2017 decreased 4.6% from Baht 52,526 million in 2016 to Baht 50,114 million in 2017. The SET index at the end of 2017 closed at 1,753.71 points, increasing by 13.7% from 1,542.94 points at the end of 2016.

### **Overall Business Operations for the year 2017**

The Bank's loan portfolio for the year 2017 expanded at 9.3% from the end of 2016, a considerable growth comparing to contractions during the past 3 years from 2014 – 2016. The Bank loan portfolio registered growth in all segment except for hire-purchase which still contracted during 2017. Housing loans increased by 204.8%, micro SMEs including SME Car3x loans expanded at 83.9%, personal loans increased by 35.5%, corporate lending loans expanded by 129.7%, Lombard loans expanded by 62.2% with real estate development loans also registering a growth of 10.4% in 2017. Hire purchase loans contracted at 8.1% from the end of 2016. For asset quality, the amount of Non-Performing Loans (NPLs) showed considerable improvement with the Non-Performing Loans (NPLs) to total loans ratio at the end of 2017 declining to 5.0% from 5.6% at the end of 2016. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 987 million and had gain of Baht 481 million. In the Financial Market business, the Bank generated revenue of Baht 273 million. For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 4.69% decreasing from 4.81% in 2016, ranking 5th from total 38 brokers.

The consolidated net profit for the year 2017 totaled Baht 5,737 million, an increase of 3.4% from Baht 5,547 million for the year 2016. The consolidated comprehensive income for 2017 totaled Baht 6,115 million, an increase of 6.2% comparing to Baht 5,756 million in 2016. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility. For the 4Q17, consolidated net profit totaled Baht 1,305 million, a decrease of 10.2% from Baht 1,452 million for 4Q16 while the consolidated comprehensive income for 4Q17 totaled Baht 1,340 million, an increase of 6.8% comparing to Baht 1,255 million in 4Q16.

### **Summary of Performance of the Bank and subsidiaries**

<b>Percentage</b>	<b>4Q16</b>	<b>2016</b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17</b>	<b>4Q17</b>	<b>2017</b>
Loan growth	0.6	(0.8)	1.3	2.8	0.2	4.8	9.3
NPLs/ Total Loans (excluding interbank)	5.6	5.6	5.6	5.8	5.6	5.0	5.0
Total loan loss reserve/ Total NPLs (coverage ratio)	110.1	110.1	110.0	104.6	105.6	109.8	109.8
Total loan loss reserve/ Total mandatory reserve	187.8	187.8	188.1	185.1	185.4	188.6	188.6

## Operating Performance for the year 2017

### Profit and Loss Transaction

For the year ended December 31, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	14,844,465	14,869,138	(24,673)	(0.2)
Interest expenses	4,216,027	4,436,088	(220,061)	(5.0)
Interest income, net	10,628,438	10,433,050	195,388	1.9
Fees and services income	4,448,116	4,174,296	273,820	6.6
Fees and services expenses	392,980	467,747	(74,767)	(16.0)
Fees and services income, net	4,055,136	3,706,549	348,587	9.4
Gain on trading and foreign exchange transactions, net	268,337	577,240	(308,903)	(53.5)
Gain (Loss) on investments, net	177,943	203,326	(25,383)	(12.5)
Dividend income and profit sharing	673,584	442,456	231,128	52.2
Other operating income	494,417	792,921	(298,504)	(37.6)
Total operating income	16,297,855	16,155,542	142,313	0.9
Other operating expenses				
Employee's expenses	4,967,514	4,767,079	200,435	4.2
Directors' remuneration	67,367	31,982	35,385	110.6
Premises and equipment expenses	988,137	968,748	19,389	2.0
Taxes and duties	332,325	334,831	(2,506)	(0.7)
Loss from revaluation of foreclosed assets	276,330	25,898	250,432	967.0
Loss (Gain) from sale of foreclosed assets	209,155	(545,112)	754,267	(138.4)
Other expenses	1,737,545	1,768,984	(31,439)	(1.8)
Total other operating expenses	8,578,373	7,352,410	1,225,963	16.7
Impairment loss on loans and debt securities	763,224	2,313,121	(1,549,897)	(67.0)
Profit from operating before income tax expenses	6,956,258	6,490,011	466,247	7.2
Income tax expenses	1,190,205	878,896	311,309	35.4
Net profit	5,766,053	5,611,115	154,938	2.8
<b>Net profit attributable to:</b>				
Equity holders of the Bank	5,736,869	5,546,725	190,144	3.4
Non-controlling interests	29,184	64,390	(35,206)	(54.7)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	6,114,527	5,756,452	358,075	6.2
Non-controlling interests	26,523	54,789	(28,266)	(51.6)
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	6.78	6.55	0.23	3.5

### Operating results of the Bank and subsidiaries for the year 2017 comparing with 2016

The consolidated net profit for the year 2017 totaled Baht 5,737 million, an increase of 3.4% yoy, of which Baht 895 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 year 2017 totaled Baht 6,115 million, increased by 6.2% yoy. The Capital Market business comprehensive income was Baht 1,334 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 14,844 million, declining slightly by 0.2% yoy mainly from the decrease in interest income on investment in loans by 51.3%, due to a high base in 2016 from loan restructuring progress of large accounts. Interest income from hire purchase and financial lease declined by 1.4% due to the decelerated hire purchase portfolio. Meanwhile, other loan segments excluding hire purchase registered growth in all areas resulting in interest income on loans to increase by 13.7% in line with the growth in loan portfolio.

For the year ended	Consolidated		Change	
	Dec 31, 2017	Dec 31, 2016	Baht million	%
<b>Interest income</b>	<b>14,844</b>	<b>14,869</b>	<b>(25)</b>	<b>(0.2)</b>
Interest on loans	5,023	4,419	605	13.7
Interest on interbank and money market items	155	135	21	15.3
Hire purchase and financial lease income	8,805	8,928	(123)	(1.4)
Interest on securities	378	403	(25)	(6.3)
Interest on investment in loans	480	985	(505)	(51.3)
Others	3	0	3	n.a.

Interest expenses totaled Baht 4,216 million, a decline of 5.0% yoy mainly from the reduction in interest expense on debt issued and borrowings by 29.4% from the decline in issuance of new debentures. Meanwhile, interest expense on deposits increased by 7.5% from the increased in deposit amount by 20.9% yoy consistent with the growth in overall loan portfolio. The cost of fund for the year 2017 decreased to 2.3% from 2.5% yoy attributed by the Bank's continued effort on cost management.

For the year ended	Consolidated		Change	
	Dec 31, 2017	Dec 31, 2016	Baht million	%
<b>Interest expense</b>	<b>4,216</b>	<b>4,436</b>	<b>(220)</b>	<b>(5.0)</b>
Interest on deposits	2,270	2,111	158	7.5
Interest on interbank and money market items	118	89	29	32.0
Interest on debt issued and borrowings	1,031	1,462	(430)	(29.4)
Fees and charges on borrowings	6	3	2	69.3
FIDF and DPA fees	754	726	28	3.9
Others	38	45	(7)	(15.9)

Net interest income amounted to Baht 10,628 million, an increase of Baht 195 million or 1.9% yoy from Baht 10,433 million in 2016. Yield on loan for the year 2017 remained stable at 7.5% yoy from the increased in diversifications in the Bank loan portfolio into both high yield segment – personnel loans, SME Car3x, used car segment and low yield segment – housing loans, corporate lending loans, Lombard loans. Meanwhile, cost of fund for 2017 dropped further yoy from 2.5% to 2.3% resulting in improvement in loan spread from 4.9% in 2016 to 5.2% in 2017.

%	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
Yield on loan	7.9	7.5	7.6	7.6	7.7	7.4	7.5
Cost of fund	2.4	2.5	2.4	2.3	2.1	2.3	2.3
Loan spread	5.5	4.9	5.2	5.3	5.6	5.1	5.2

Net fees and services income totaled Baht 4,055 million, increasing by Baht 349 million or 9.4% from 2016. For Capital Market business, fee from Asset Management business totaled Baht 535 million, an increase of Baht 204 million or 61.7% yoy from Baht 331 million. During the year 2016, Asset under Management grew by 68%. Financial advisory and underwriting fees totaled Baht 433 million, increasing significantly by 152.7% from Baht 171 million in year 2016. Brokerage income totaled Baht 1,545 million, declining Baht 146 million or 8.6% yoy from the decreased in market trading volume for 2017 comparing to 2016. Bancassurance fee amounted to Baht 957 million, increasing slightly by 0.5% from 2016.

Total operating income amounted to Baht 16,298 million, increased by 0.9% 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 268 million, declining 53.5% comparing to gain of Baht 577 million in 2016. Additionally, the Bank also recorded gain on investments of Baht 178 million, also decreasing by 12.5% from Baht 203 million during 2016.

Other operating expenses were Baht 8,578 million, increased by 16.7% yoy. The increase is attributed mainly by the gain/loss from sale of foreclosed assets which for the year 2017 had a loss of Baht 209 million, comparing to gain of Baht 545 million in 2016 resulting in an increase in expense of Baht 754 million comparing to the same period last year. The loss on sale of foreclosed assets of Baht 209 million for 2017 comprised of loss from sale of repossessed cars totaled Baht 713 million, increased by Baht 69 million from loss of Baht 644 million in 2016 and from gain on sale of foreclosed properties totaled Baht 504 million, a decrease of Baht 685 million comparing to gain of Baht 1,189 million in 2016 from the high amount of properties sold during 2016. For the year 2017, the Bank sold foreclosed properties in the amount of Baht 987 million comparing to a high base of Baht 2,633 million sold during 2016. Additionally, the Bank recorded loss from revaluation of foreclosed assets in the amount of Baht 276 million comparing to loss of Baht 26 million for 2016.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 2017 totaled Baht 8,093 million, increasing by 2.8% comparing to expenses of Baht

7,872 million for 2016 with increased largely from personnel expenses. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 48.2% for the year 2017.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 763 million, a considerable decline from Baht 2,313 million in 2016, which during 2016 the Bank had set up a general reserve in the amount of Baht 1,650 million. During 2017, the overall asset quality of the Bank improved with the decline in Non-Performing Loans (NPLs) and special mention loans also exhibiting a positive improvement. Additionally, during 2017, the Bank had made progress in resolving NPLs of real estate development sector resulting in a decline in NPLs for this segment. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 0.80% of average loan for total year 2017.

Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,576 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio increased to 188.6% comparing to 187.8% at the end of 2016. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) is at 109.8%, almost at same level of 110.1% at the end of 2016.

Corporate Income Tax totaled Baht 1,190 million or 17.1% tax rate. Basic earnings per share at Baht 6.78 per share.

<b>Annualized Ratios</b>	<b>4Q16</b>	<b>2016</b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17</b>	<b>4Q17</b>	<b>2017</b>
<b>Net Profit (Baht million)</b>	<b>1,452</b>	<b>5,547</b>	<b>1,524</b>	<b>1,185</b>	<b>1,723</b>	<b>1,305</b>	<b>5,737</b>
ROAE (%)	14.6	14.2	14.8	11.6	17.3	12.8	14.1
ROE (%)	14.9	14.6	15.1	11.3	17.3	13.0	14.2
ROAA (%)	2.5	2.4	2.6	1.9	2.7	2.1	2.3
<b>Comprehensive income (Baht million)</b>	<b>1,255</b>	<b>5,756</b>	<b>1,563</b>	<b>1,416</b>	<b>1,796</b>	<b>1,340</b>	<b>6,115</b>
ROAE (%)	12.6	14.7	15.2	13.9	18.0	13.2	15.0
ROE (%)	12.9	15.2	15.5	13.5	18.0	13.4	15.2
ROAA (%)	2.1	2.4	2.6	2.2	2.8	2.1	2.5

#### **Operating results of the Bank and subsidiaries for 4Q17 comparing with 4Q16**

The consolidated net profit for 4Q17 totaled Baht 1,305 million, decreased by 10.2% comparing to Baht 1,452 million from the same period last year, of which Baht 271 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 1,340 million, increased by 6.8% with Capital Market business's comprehensive income at Baht 377 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 2,658 million, an increase of Baht 56 million or 2.1%. Interest income for 4Q17 totaled Baht 3,756 million, increased by 2.4% mainly from the increased in interest on loans and interest on investment in loans while interest income on hire purchase and financial lease declined from

the same period last year. Interest expense amounted to Baht 1,098 million, an increase of 3.2% from the increased in deposit amount.

Net fee and service income totaled Baht 1,169 million, increasing 15.3% from the same period last year. Brokerage fee totaled Baht 444 million, an increase of 11.3% from the increased in market trading volume during 4Q17. Fee from Asset Management business totaled Baht 192 million, an increase of 117.0% from the growth in asset under management. Financial advisory and underwriting fee amounted to Baht 173 million, increasing 30.5% yoy. Meanwhile, bancassurance fee declined by 5.4% to Baht 231 million in 4Q17.

Total operating income amounted to Baht 4,248 million, an increase of 2.1% yoy. In addition to net interest income and net fees and services income, the Bank recorded gain on trading and foreign exchange transactions for 4Q17 in the amount of Baht 182 million, increasing 13.8% comparing to gain of Baht 160 million in 4Q16. Additionally, the Bank also recorded gain on investments of Baht 2 million, comparing to loss of Baht 24 million yoy.

Other operating expenses were Baht 2,573 million, increased by 5.9% due largely from the loss from revaluation of foreclosed assets transferred in 4Q17 with loss amounted to Baht 131 million for 4Q17, increased from Baht 43 million yoy. Gain/loss on sale of foreclosed assets for 4Q17 remained stable at Baht 174 million comparing to Baht 173 million for 4Q16. The loss on sale of foreclosed assets of Baht 174 million for 4Q17 comprised of loss from sale of repossessed car of Baht 269 million and gain from sale of foreclosed properties of Baht 95 million. When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 4Q17 totaled Baht 2,268 million, increasing by 2.5% comparing to expenses of Baht 2,214 million for same period last year partly from the increased in personnel expenses. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 52.2% for 4Q17.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 65 million for 4Q17, decreasing from Baht 100 million yoy, which during 4Q16, the Bank had set up a general reserve of Baht 250 million.

Statement of Comprehensive Income

For the three month period ended December 31, (BAHT'000)	CONSOLIDATED		Change	
	2017	2016	Amount	%
Interest income	3,755,884	3,666,394	89,490	2.4
Interest expenses	1,098,298	1,064,535	33,763	3.2
Interest income, net	2,657,586	2,601,859	55,727	2.1
Fees and services income	1,282,671	1,132,653	150,018	13.2
Fees and services expenses	113,715	118,914	(5,199)	(4.4)
Fees and services income, net	1,168,956	1,013,739	155,217	15.3
Gain (Loss) on trading and foreign exchange transactions, net	181,597	159,577	22,020	13.8
Gain (Loss) on investments, net	2,439	(24,401)	26,840	(110.0)
Dividend income and profit sharing	104,107	71,124	32,983	46.4
Other operating income	133,363	339,044	(205,681)	(60.7)
Total operating income	4,248,048	4,160,942	87,106	2.1
Other operating expenses				
Employee's expenses	1,374,091	1,359,820	14,271	1.0
Directors' remuneration	12,300	7,492	4,808	64.2
Premises and equipment expenses	241,156	231,971	9,185	4.0
Taxes and duties	86,176	73,818	12,358	16.7
Loss from revaluation of foreclosed assets	130,982	43,117	87,865	203.8
Loss from sale of foreclosed assets	173,766	172,686	1,080	0.6
Other expenses	554,740	540,924	13,816	2.6
Total other operating expenses	2,573,211	2,429,828	143,383	5.9
Impairment loss on loans and debt securities	65,067	100,094	(35,027)	(35.0)
Profit from operating before income tax expenses	1,609,770	1,631,020	(21,250)	(1.3)
Income tax expenses	302,968	172,203	130,765	75.9
Net profit	1,306,802	1,458,817	(152,015)	(10.4)
<b>Net profit attributable to:</b>				
Equity holders of the Bank	1,304,582	1,452,151	(147,569)	(10.2)
Non-controlling interests	2,220	6,666	(4,446)	(66.7)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	1,339,854	1,254,542	85,312	6.8
Non-controlling interests	1,373	(1,162)	2,535	(218.2)
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	1.54	1.71	(0.17)	(9.9)



## Statements of Financial Position

Assets, as of December 31, 2017, totaled Baht 259,335 million, increased by Baht 25,559 million or 10.9% from the end of 2016. Total loans net deferred revenue amounted to Baht 192,107 million, a 8.9% increase from Baht 176,354 million at the end of 2016.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Dec 31, 2017</u>	<u>Dec 31, 2016</u>	<u>Amount</u>	<u>%</u>
Cash	1,424,564	1,167,425	257,139	22.0
Interbank and money market items, net	11,510,827	11,484,482	26,345	0.2
Derivatives assets	3,373,938	1,353,345	2,020,593	149.3
Investments in securities, net	34,048,463	28,365,336	5,683,127	20.0
Investments in receivables, net	2,170,438	2,553,786	(383,348)	(15.0)
Investments in properties, net	148,233	851,094	(702,861)	(82.6)
Loans to customers and accrued interest receivables, net				
Loans to customers	211,741,726	196,487,830	15,253,896	7.8
Accrued interest receivables	980,205	922,666	57,539	6.2
Total loans to customers and accrued interest receivables	212,721,931	197,410,496	15,311,435	7.8
<u>Less</u> Deferred revenue	(19,634,968)	(20,133,733)	498,765	(2.5)
<u>Less</u> Allowance for doubtful accounts	(10,573,666)	(10,964,711)	391,045	(3.6)
<u>Less</u> Allowance for troubled debt restructuring	(2,294)	(1,135)	(1,159)	102.1
Total loans to customers and accrued interest receivables, net	182,511,003	166,310,917	16,200,086	9.7
Properties foreclosed, net	4,094,492	3,728,384	366,108	9.8
Land, premises and equipment, net	2,744,165	2,091,799	652,366	31.2
Other intangible assets, net	795,761	733,724	62,037	8.5
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,703,440	1,680,935	22,505	1.3
Accounts receivable from clearing house and broker - dealers	3,992,555	629,469	3,363,086	534.3
Securities and derivative business receivables	4,741,374	7,602,021	(2,860,647)	(37.6)
Other assets, net	3,009,956	2,157,627	852,329	39.5
<b>Total assets</b>	<b>259,335,244</b>	<b>233,776,379</b>	<b>25,558,865</b>	<b>10.9</b>

Liabilities amounted to Baht 217,787 million, increasing 12.7% from the end of 2016. Deposits were Baht 132,878 million, increasing by 20.9%. Deposits comprised of 59.4% of term deposits and 40.6% of current and saving accounts (CASA), compared with CASA of 53.7% at the end of 2016.

Meanwhile, debts and borrowings were Baht 56,658 million, increased by 1.1% from the end of 2016. During the year 2017, the Bank issued debentures totaling Baht 67,890 million. Loan to deposits and borrowings ratio stood at 101.8% comparing to 106.3% at the end of 2016.

<b>LIABILITIES</b> (BAHT'000)	<b>CONSOLIDATED</b>		<b>Change</b>	
	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>	<b>Amount</b>	<b>%</b>
Deposits	132,878,106	109,922,919	22,955,187	20.9
Current Account	414,598	397,636	16,962	4.3
Saving Account	53,472,240	58,626,581	(5,154,341)	(8.8)
Term Deposit	78,238,356	50,094,639	28,143,717	56.2
Certificate of Deposit	752,912	804,063	(51,151)	(6.4)
Interbank and money market items, net	8,289,723	8,359,651	(69,928)	(0.8)
Liabilities payable on demand	557,819	225,390	332,429	147.5
Derivatives liabilities	4,303,925	2,499,389	1,804,536	72.2
Debt issued and borrowings	56,657,584	56,054,619	602,965	1.1
Senior securities	50,657,584	49,964,619	692,966	1.4
Subordinated bond	6,000,000	6,000,000	0	0.0
Bills of Exchange	0	90,000	(90,000)	(100.0)
Provisions	632,129	567,823	64,306	11.3
Deferred tax liabilities	160,138	54,614	105,524	193.2
Accounts payable to clearing house and broker - dealers	422,323	2,885,681	(2,463,358)	(85.4)
Securities and derivative business payables	4,514,754	4,382,762	131,992	3.0
Accrued interest expenses	499,498	476,549	22,949	4.8
Other accounts payable	2,924,233	1,876,181	1,048,052	55.9
Legal Execution Department payable	575,380	575,380	0	0.0
Income tax payable and specific business tax payable	558,172	605,053	(46,881)	(7.7)
Other liabilities	4,813,228	4,773,014	40,214	0.8
<b>Total liabilities</b>	<b>217,787,012</b>	<b>193,259,025</b>	<b>24,527,987</b>	<b>12.7</b>

Shareholders' equity was Baht 41,548 million, increased 2.5% 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 21,124 million.

#### The Dividend payment

The Bank paid the remaining dividend for the year 2016 operations at the rate of Baht 4.00 per share on May 23, 2017 and paid the interim dividend payment for the January 1 – June 30, 2017 operations at the rate of Baht 2.00 per share on September 22, 2017.

#### Capital Adequacy Ratio (BIS ratio)

As at December 31, 2017, the Capital Adequacy Ratio (BIS ratio) under Basel III which included profit for the year 2016 was at 16.46% while Tier-1 ratio was at 13.31%. When including profit up to end of 2017, the BIS ratio will increase to 17.95% while Tier-1 ratio will be 14.80%.

### **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, 2017		Dec 31, 2016		Change (%)
	Baht million	%	Baht million	%	
<b>Retail Lending</b>	<b>125,954</b>	<b>65.3</b>	<b>123,716</b>	<b>70.1</b>	<b>1.8</b>
Hire Purchase	103,926	53.9	113,049	64.1	(8.1)
Personal loan	5,745	3.0	4,240	2.4	35.5
Micro SMEs loan	5,031	2.6	2,735	1.6	83.9
Housing loan	11,252	5.8	3,691	2.1	204.8
<b>Commercial Lending</b>	<b>44,283</b>	<b>23.0</b>	<b>41,337</b>	<b>23.4</b>	<b>7.1</b>
Real Estate Development	21,276	11.0	19,279	10.9	10.4
SMEs loan	23,007	11.9	22,058	12.5	4.3
<b>Corporate Lending</b>	<b>15,807</b>	<b>8.2</b>	<b>6,882</b>	<b>3.9</b>	<b>129.7</b>
<b>Special Asset Management loan</b>	<b>607</b>	<b>0.3</b>	<b>665</b>	<b>0.4</b>	<b>(8.7)</b>
<b>Lombard loan</b>	<b>6,273</b>	<b>3.3</b>	<b>3,867</b>	<b>2.2</b>	<b>62.2</b>
<b>Total loans and account receivables</b>	<b>192,924</b>	<b>100.0</b>	<b>176,466</b>	<b>100.0</b>	<b>9.3</b>

**Retail Lending** totaled Baht 125,954 million, increased by 1.8% 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 103,926 million, declining by 8.1% from end of 2016. During the year 2017, the Bank focused has been on hire purchase loan segments that can generate more profitability resulting in the overall increased in the yield for hire purchase loan segment. New hire purchase business

volume booked during the year 2017 totaled Baht 34,309 million, decreasing 16.9% yoy. The portion of new cars to used cars is currently at 44:56 with the hire purchase loan portion to total Bank loan portfolio at 53.9% declining from 64.1% at the end of 2016 from the increased in diversifications to other loan types in the Bank loan portfolio. Domestic new car sales for the first 11 months of 2017 totaled 767,345 units, increasing by 12.5% comparing to sales for the same period last year. The penetration rate of KK new cars lending to the domestic new car sales for the first 11 months of 2017 was at 2.8%, declining from 3.7% as of end of 2016.

Meanwhile, during 2017, the Bank loan portfolio in other retail loans continued to grow considerably contributed by the Bank's direct sales team. Personal loans amounted to Baht 5,745 million, an increase of 35.5% from the end of 2016, Micro SMEs loans including SME Car3x loans totaled Baht 5,031 million, expanded by 83.9% with housing loans expanded to Baht 11,252 million, a significant increase of 204.8% from the end of 2016.

**Commercial Lending** business amounted to Baht 44,283 million, an increase of 7.1% 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 21,276 million, expanded by 10.4% from the end of 2016. The increased is partly a result of the Bank expansion into larger customer segment during the year 2017.

SMEs loans were Baht 23,007 million, an increase of 4.3%. 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 15,807 million, expanded by 129.7% 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 607 million.

**Lombard Loan**, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 6,273 million, an increase of 62.2% from the end of 2016.

### NPLs distribution by loan type (consolidated)

Type of loans	Dec 31, 2017			Dec 31, 2016		
	Baht million	%	% of loans	Baht million	%	% of loans
<b>Retail Lending</b>	<b>2,985</b>	<b>30.9</b>	<b>2.4</b>	<b>2,602</b>	<b>26.1</b>	<b>2.1</b>
Hire Purchase	2,223	23.0	2.1	2,133	21.4	1.9
Personal loan	166	1.7	2.9	98	1.0	2.3
Micro SMEs loan	431	4.5	8.6	296	3.0	10.8
Housing loan	165	1.7	1.5	75	0.8	2.0
<b>Commercial Lending</b>	<b>6,075</b>	<b>63.0</b>	<b>13.7</b>	<b>6,721</b>	<b>67.4</b>	<b>16.3</b>
Real Estate Development	4,558	47.2	21.4	5,248	52.6	27.2
SMEs loan	1,518	15.7	6.6	1,473	14.8	6.7
<b>Corporate Lending</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>
<b>Special Asset Management loan</b>	<b>587</b>	<b>6.1</b>	<b>96.7</b>	<b>645</b>	<b>6.5</b>	<b>97.0</b>
<b>Lombard loan</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>9,647</b>	<b>100.0</b>	<b>5.0</b>	<b>9,968</b>	<b>100.0</b>	<b>5.6</b>

The consolidated NPLs amounted to Baht 9,647 million, a decrease of Baht 677 million from Baht 10,324 million at the end of 3Q17 or 5.0% of total loans, decreasing from 5.6% at the end of 2016. NPLs decreased came mainly from the real estate development sector with the NPLs for this segment reducing by Baht 637 million from 3Q17, as a result of the Bank's progress in resolving the NPLs. As part of the resolution, during 4Q17, assets were transferred to the Bank to partly resolve the NPLs. For hire purchase loans, the amount of NPLs also continued to decline from the previous quarter.

**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 2017, the market share<sup>1</sup> of PSEC was 4.69%, ranking 5<sup>th</sup> from total 38 brokers. PSEC generated brokerage revenue totaling Baht 1,262 million comprising of equity brokerage revenue of Baht 1,157 million and derivatives brokerage revenue of Baht 105 million.

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 2017, the revenue was Baht 433 million, contributed to financial advisory fee amounting Baht 337 million and underwriting fee amounting Baht 96 million.

<sup>1</sup> 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 2017, 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 833 million. HF, in the period of the financial model could not make profits, posted loss of Baht 37 million for the year.<sup>2</sup> Meanwhile, EDT had gain on investment totaling Baht 513 million.<sup>3</sup> Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment income of Baht 1,399 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 2017 was Baht 67,238 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 1.34%. In 2017, PASSET’s fee income from mutual fund business totaled Baht 327 million. Asset under management from private fund was Baht 21,170 million as of 31 December 2017. PASSET’s fee income from private fund business totaled Baht 213 million.

Please be informed accordingly.

Yours sincerely,

Mr. Aphinant Klewpatinond  
Chief Executive Officer and President

Investor Relations  
Tel. +66-2-841-5925

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<sup>2</sup> In addition to the investment revenue, HF also had foreign exchange loss and advisory fee revenue totaling loss Baht 28 million and hedging cost of Baht 37 million. In summary, total HF loss after cost of hedging was Baht 102 million

<sup>3</sup> Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 502 million