



Management Discussion and Analysis

For the second quarter and six months ended June 30, 2018 (Unaudited)

Kiatnakin Bank Public Company Limited

Investor Relations

Email: investor_relations@kiatnakin.co.th

Tel. +66-2841-5925

Website: www.kiatnakin.co.th

Management Discussion and Analysis (MD&A)

For the second quarter and six months ended June 30, 2018 comparing operating performance and financial position for the second quarter and six months ended June 30, 2018 with those of 2017. This report discusses principal changes in the unaudited consolidated financial statements.

Overall market environment

Growth continued for the Thai economy during the second quarter of 2018 with further expansion in the external sectors namely exports and tourism in line with the expansion of the global economy. For domestic sector, private consumption and private investment also showed positive signs with private consumption recovering strongly in the durable goods segment (especially in vehicles) and service sector from tourism related. Non-durable and semi-durable goods also showing signs of recovery supported by the increase in farm incomes. Meanwhile, private investment also started to improve for the construction segment while solid expansions still continue for investments in machinery and equipment segment especially for export related industries. Public spending also continued to increase after a decline during the end of 2017. With the economic expansions for the first quarter of 2018 growing at a faster rate than expected at 4.8% together with positive signs of recovery across various segments, the Bank in-house research has revised the Thai economic expansion for the year 2018 to be 4.2% from earlier projection of 3.8%.

Despite the improving economy, there are challenges ahead namely 1) Structural changes in Thai economy, particularly high level of household debt, that leads to low level of consumption 2) Escalating trade tension between US and the rest of the world, which could negatively impact export and investment 3) Less surplus of Thailand's current account due to rising oil price from geopolitical risk especially in the Middle East and 4) Normalizing of interest rates, reflected from the Bank of Thailand (BOT) signal in considering the possibility of increasing the policy rate, as well as rising financial market rates. However, the Bank in-house research still expects that the BOT will maintain the policy rate at 1.5% until the end of this year.

For the auto industry, expansion for the second quarter continued especially in the small passenger car segment from the new car purchase as a result of the end of the first car scheme. The number of new car sales for the first five months of 2018 expanded by 18.0% yoy with the growth for the passenger car segment (including SUV) and the commercial vehicle segment growing at 22.4% and 14.4% respectively. The Bank in-house research projected the new car sales for the year 2018 to be around 925,000 units, a growth of 6.0%.

In the equity market, the average daily turnover (SET and mai) for 2Q18 decreased from Baht 71,182 million in 1Q18 to Baht 59,853 million, a 15.9% decreased. The SET index at the end of 2Q18 closed at 1,595.58 points, also decreasing by 10.2% from 1,776.26 points at the end of 1Q18.

Overall Business Operations

The Bank's loan portfolio further expanded during 2Q18 with growth of 4.3% from the end of 1Q18, with overall loan growth for the first half of 2018 to expand by 10.2%. The Bank loan portfolio registered growth across all segments with hire-purchase portfolio continuing to expand by 2.8% from the end of 2017. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio at the end of 2Q18 further declined to 4.5% from 5.0% at the end of 2017. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 413 million and had gain of Baht 195 million. In the Financial Market business, the Bank generated revenue of Baht 64 million. The market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) for 2Q18 was at 4.2%, declining from 4.7% from 1Q18, ranking 8th from total 38 brokers. For products and services during 2Q18, the Bank opened the third Financial Hub at Yaowarat branch offering comprehensive financial services under the concept of "When a Bank is more than a Bank". Financial Hub services are now available at three locations, Central World, Thong Lor and Yaowarat branch.

The consolidated net profit for 2Q18 totaled Baht 1,551 million, an increase of 30.9% from Baht 1,185 million yoy. When comparing to previous quarter, the net income for 2Q18 increased by 2.5% comparing to net profit for 1Q18 of Baht 1,513 million.

The consolidated comprehensive income for 2Q18 totaled Baht 1,125 million, a decline of 20.6% yoy comparing to Baht 1,416 million in 2Q17. When comparing to 1Q18, the comprehensive income declined by 23.8% comparing to comprehensive income of Baht 1,476 million for 1Q18. 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	2Q17	1H17	2017	1Q18	2Q18	1H18
Loan growth	2.8	4.1	9.3	5.7	4.3	10.2
NPLs/ Total Loans (excluding interbank)	5.8	5.8	5.0	4.7	4.5	4.5
Total loan loss reserve/ Total NPLs (coverage ratio)	104.6	104.6	109.8	110.9	113.8	113.8
Total loan loss reserve/ Total mandatory reserve	185.1	185.1	188.6	186.1	183.0	183.0

Profit and Loss Transaction

For the three month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	3,974,188	3,677,566	296,622	8.1
Interest expenses	1,223,771	1,029,550	194,221	18.9
Interest income, net	2,750,417	2,648,016	102,401	3.9
Fees and services income	1,177,729	1,015,779	161,950	15.9
Fees and services expenses	114,723	84,968	29,755	35.0
Fees and services income, net	1,063,006	930,811	132,195	14.2
Gain (Loss) on trading and foreign exchange transactions, net	87,750	(21,274)	109,024	512.5
Gain on financial liabilities designated at fair value through profit or loss, net	73,883	0	73,883	n.a.
Gain (Loss) on investments, net	45,324	51,277	(5,953)	(11.6)
Dividend income and profit sharing	315,019	207,619	107,400	51.7
Other operating income	89,141	136,605	(47,464)	(34.7)
Total operating income	4,424,540	3,953,054	471,486	11.9
Other operating expenses				
Employee's expenses	1,378,748	1,161,050	217,698	18.8
Directors' remuneration	11,763	11,175	588	5.3
Premises and equipment expenses	272,695	254,794	17,901	7.0
Taxes and duties	101,092	70,087	31,005	44.2
Loss from revaluation of foreclosed assets (Reversal)	(35,840)	162,910	(198,750)	(122.0)
Loss (Gain) from sale of foreclosed assets	(4,387)	47,562	(51,949)	(109.2)
Other expenses	431,394	406,899	24,495	6.0
Total other operating expenses	2,155,465	2,114,477	40,988	1.9
Impairment loss on loans and debt securities	488,548	455,582	32,966	7.2
Profit from operating before income tax expenses	1,780,527	1,382,995	397,532	28.7
Income tax expenses	226,562	177,320	49,242	27.8
Net profit	1,553,965	1,205,675	348,290	28.9
Net profit attributable to:				
Equity holders of the Bank	1,550,891	1,185,153	365,738	30.9
Non-controlling interests	3,074	20,522	(17,448)	(85.0)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,124,814	1,416,416	(291,602)	(20.6)
Non-controlling interests	2,979	20,772	(17,793)	(85.7)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	1.83	1.40	0.43	30.7

Operating results of the Bank and subsidiaries for 2Q18 comparing with 2Q17

The consolidated net profit for 2Q18 totaled Baht 1,551 million, an increase of 30.9% yoy, of which Baht 413 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 2Q18 totaled Baht 1,125 million, decreased by 20.6% yoy. The Capital Market business comprehensive income was Baht 61 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 3,974 million, increased by 8.1% yoy from the growth in loan portfolio. Interest income on loans increased by 18.8% yoy with interest income from hire purchase and financial lease also increasing slightly by 2.1% yoy.

For the three month period ended	Consolidated		Change	
	Jun 30, 2018	Jun 30, 2017	Baht million	%
Interest income	3,974	3,678	297	8.1
Interest on loans	1,471	1,238	233	18.8
Interest on interbank and money market items	54	32	22	67.6
Hire purchase and financial lease income	2,247	2,200	47	2.1
Interest on securities	107	95	12	13.1
Interest on investment in loans	90	111	(21)	(18.9)
Others	5	1	4	351.6

Interest expenses totaled Baht 1,224 million, an increase of 18.9% yoy mainly from the growth in deposit and borrowings amount consistent with the overall expansion in loan portfolio. Cost of fund for 2Q18 remained stable at 2.3% yoy .

For the three month period ended	Consolidated		Change	
	Jun 30, 2018	Jun 30, 2017	Baht million	%
Interest expense	1,224	1,030	194	18.9
Interest on deposits	609	582	28	4.8
Interest on interbank and money market items	35	30	6	19.3
Interest on debt issued and borrowings	337	223	114	50.9
Fees and charges on borrowings	2	1	1	81.9
FIDF and DPA fees	229	185	44	23.7
Others	11	9	2	24.7

Net interest income amounted to Baht 2,750 million, an increase of Baht 102 million or 3.9% yoy from Baht 2,648 million in 2Q17. Yield on loan for 2Q18 declined from 7.6% to 7.2% yoy due to the high growth of loan portfolio in the low yield segment – housing loans, corporate lending and real estate

development loans. Meanwhile, cost of fund for 2Q18 remained stable at 2.3% yoy resulting in declining loan spread from 5.3% in 2Q17 to 4.9% in 2Q18.

%	2Q17	1H17	2017	1Q18	2Q18	1H18
Yield on loan	7.6	7.6	7.5	7.2	7.2	7.2
Cost of fund	2.3	2.3	2.3	2.3	2.3	2.3
Loan spread	5.3	5.3	5.2	4.9	4.9	4.9

Net fees and services income totaled Baht 1,063 million, increasing by Baht 132 million or 14.2% from 2Q17. Bancassurance fee amounted to Baht 255 million, increasing 7.7% yoy. For Capital Market business, Fee from Asset Management business totaled Baht 201 million, an increase of 74.2% yoy from Baht 115 million from the continued growth in Asset under Management. Brokerage income totaled Baht 355 million, increasing by 9.2% yoy from Baht 325 million from the increased in market trading volume. Meanwhile, financial advisory and underwriting fees totaled Baht 94 million, declining 11.9% from Baht 107 million in 2Q17.

Total operating income amounted to Baht 4,425 million, increased by Baht 471 million or growth of 11.9% 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 88 million, comparing to loss of Baht 21 million in 2Q17. The Bank also recorded dividend income of Baht 315 million, also increasing by 51.7% from Baht 208 million yoy.

Other operating expenses were Baht 2,155 million, increasing slightly by 1.9% yoy. For 2Q18, the Bank recorded gain on sale of foreclosed assets totaled Baht 4 million comparing to loss of Baht 48 million yoy. Gain on sale of foreclosed assets comprised of loss from sale of repossessed cars totaled Baht 191 million, with loss increasing from Baht 122 million in 2Q17 and from gain on sale of foreclosed properties totaled Baht 195 million, increasing from Baht 74 million yoy. During 2Q18, the Bank sold foreclosed properties in the amount of Baht 413 million comparing to Baht 142 million sold in 2Q17.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 2Q18 totaled Baht 2,196 million, increasing by 15.3% from expenses of Baht 1,904 million yoy with increase mainly due to personnel expenses. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 47.5% for 2Q18 comparing to 47.3% yoy.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 489 million, increased from Baht 456 million in 2Q17. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.31% of average loan for 2Q18. Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,853 million with outstanding Baht 4,500 million in general reserve. The total loan loss reserve to total mandatory reserve ratio stood at 183.0% comparing to 185.1% yoy. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) is at 113.8% for 2Q18 increasing from 104.6% for 2Q17.

Corporate Income Tax totaled Baht 227 million or 12.7% tax rate. Basic earnings per share at Baht 1.83 per share.

Annualized Ratios	2Q17	1H17	2017	1Q18	2Q18	1H18
Net Profit (Baht million)	1,185	2,709	5,737	1,513	1,551	3,064
ROAE (%)	11.6	13.5	14.1	14.4	14.7	14.8
ROE (%)	11.3	13.4	14.2	14.6	14.5	14.8
ROAA (%)	1.9	2.2	2.3	2.3	2.2	2.2
Comprehensive income (Baht million)	1,416	2,979	6,115	1,476	1,125	2,601
ROAE (%)	13.9	14.9	15.0	14.0	10.7	12.6
ROE (%)	13.5	14.8	15.2	14.3	10.5	12.6
ROAA (%)	2.2	2.4	2.5	2.2	1.6	1.9

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

The consolidated net profit for the first half of 2018 totaled Baht 3,064 million, increased by 13.1% comparing to the same period last year, of which Baht 824 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 2,601 million, decreased by 12.7% with Capital Market business's comprehensive income at Baht 355 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 5,397 million, up 3.9% from the growth in loan amount. Loan spread declined from 5.3% during the first half of 2017 to 4.9% for the first half of 2018 due to the high growth in loan portfolio in the low yield segment with yield on loan declining from 7.6% to 7.2% yoy while cost of fund remained stable at 2.3% for the first half of 2018 comparing with the same period last year.

Net fee and service income totaled Baht 2,206 million, increasing 18.7% yoy from the increased in fee from Asset Management business which totaled Baht 396 million for the first half of 2018, an increase of 83.4% from Baht 216 million yoy. Brokerage fee for the first half of 2018 totaled Baht 838 million, also increasing 23.4% from Baht 679 million yoy. Bancassurance fee amounted to Baht 505 million, increasing 5.2% from Baht 480 million yoy. Meanwhile, financial advisory and underwriting fee amounted to Baht 160 million for the first half of 2018 declining 14.4% from Baht 187 million during the first half of 2017.

Total operating income amounted to Baht 8,763 million, an increase of 13.0% from the same period last year from the increase in net interest income and net fee and services income.

Additionally, gain on trading and foreign exchange transactions totaled Baht 251 million, increasing by 497.0%. Dividend income and profit sharing amounted to Baht 590 million, also increasing by 69.2% from the same period last year.

Other operating expenses were Baht 4,216 million, increased by 8.6% mainly from the increase in personnel expenses. Cost-to-income ratio excluding loss from sale and revaluations of foreclosed assets for the first half of 2018 stood at 47.6% comparing to 47.2% for the same period last year.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 922 million, increasing from Baht 623 million, an increase of 48.1% yoy.

Statement of Comprehensive Income

For the six month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2018	2017	Amount	%
Interest income	7,763,823	7,268,478	495,345	6.8
Interest expenses	2,367,163	2,074,405	292,758	14.1
Interest income, net	5,396,660	5,194,073	202,587	3.9
Fees and services income	2,427,291	2,038,575	388,716	19.1
Fees and services expenses	221,202	179,967	41,235	22.9
Fees and services income, net	2,206,089	1,858,608	347,481	18.7
Gain on trading and foreign exchange transactions, net	250,565	41,969	208,596	497.0
Gain on financial liabilities designated at fair value through profit or loss, net	89,806	0	89,806	n.a.
Gain (Loss) on investments, net	44,151	51,277	(7,126)	(13.9)
Dividend income and profit sharing	590,175	348,816	241,359	69.2
Other operating income	185,661	261,265	(75,604)	(28.9)
Total operating income	8,763,107	7,756,008	1,007,099	13.0
Other operating expenses				
Employee's expenses	2,752,772	2,281,732	471,040	20.6
Directors' remuneration	22,916	42,992	(20,076)	(46.7)
Premises and equipment expenses	511,152	496,726	14,426	2.9
Taxes and duties	191,316	152,615	38,701	25.4
Loss from revaluation of foreclosed assets (Reversal)	(114,150)	99,513	(213,663)	(214.7)
Loss (Gain) from sale of foreclosed assets	(15,186)	(2,015)	(13,171)	653.6
Other expenses	866,709	810,651	56,058	6.9
Total other operating expenses	4,215,529	3,882,214	333,315	8.6
Impairment loss on loans and debt securities	922,218	622,675	299,543	48.1
Profit from operating before income tax expenses	3,625,360	3,251,119	374,241	11.5
Income tax expenses	553,413	514,480	38,933	7.6
Net profit	3,071,947	2,736,639	335,308	12.3
Net profit attributable to:				
Equity holders of the Bank	3,063,951	2,709,105	354,846	13.1
Non-controlling interests	7,996	27,534	(19,538)	(71.0)
Total comprehensive income attributable to:				
Equity holders of the Bank	2,600,992	2,979,097	(378,105)	(12.7)
Non-controlling interests	7,824	26,271	(18,447)	(70.2)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	3.62	3.20	0.42	13.1

Statements of Financial Position

Assets, as of June 30, 2018, totaled Baht 289,084 million, increased by Baht 29,749 million or 11.5% from the end of 2017.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Jun 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Amount</u>	<u>%</u>
Cash	1,140,657	1,424,564	(283,907)	(19.9)
Interbank and money market items, net	20,043,460	11,510,827	8,532,633	74.1
Derivatives assets	6,844,772	3,373,938	3,470,834	102.9
Investments in securities, net	34,071,139	34,048,463	22,676	0.1
Investments in receivables, net	2,121,744	2,170,438	(48,694)	(2.2)
Investments in properties, net	22,363	148,233	(125,870)	(84.9)
Loans to customers and accrued interest receivables, net				
Loans to customers	233,282,292	211,741,726	21,540,566	10.2
Accrued interest receivables	1,039,104	980,205	58,899	6.0
Total loans to customers and accrued interest receivables	234,321,396	212,721,931	21,599,465	10.2
<u>Less</u> Deferred revenue	(21,370,545)	(19,634,968)	(1,735,577)	8.8
<u>Less</u> Allowance for doubtful accounts	(10,851,109)	(10,573,666)	(277,443)	2.6
<u>Less</u> Allowance for troubled debt restructuring	(1,681)	(2,294)	613	(26.7)
Total loans to customers and accrued interest receivables, net	202,098,061	182,511,003	19,587,058	10.7
Properties foreclosed, net	3,995,882	4,094,492	(98,610)	(2.4)
Land, premises and equipment, net	2,825,953	2,744,165	81,788	3.0
Other intangible assets, net	833,452	795,761	37,691	4.7
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,551,220	1,703,440	(152,220)	(8.9)
Accounts receivable from clearing house and broker - dealers	1,747,713	3,992,555	(2,244,842)	(56.2)
Securities and derivative business receivables	5,079,867	4,741,374	338,493	7.1
Other assets, net	3,641,437	3,009,956	631,481	21.0
Total assets	289,083,755	259,335,244	29,748,511	11.5

Liabilities amounted to Baht 247,483 million, increasing 13.6% from the end of 2017. Deposits were Baht 147,006 million, increasing by 10.6%. Deposits comprised of 56.8% of term deposits and 43.2% of current and saving accounts (CASA), an increase comparing with CASA of 40.6 % at the end of 2017.

Meanwhile, debts and borrowings were Baht 65,734 million, increased by 16.0% from the end of 2017. During 2Q18, the Bank issued debentures totaling Baht 20,032 million of which Baht 1,400 million are subordinated debentures classified as Tier 2 capital. Loan to deposits and borrowings ratio stood at 100.0%, comparing to 101.8% at the end of 2017.

LIABILITIES (BAHT'000)	CONSOLIDATED		Change	
	Jun 30, 2018	Dec 31, 2017	Amount	%
Deposits	147,006,249	132,878,106	14,128,143	10.6
Current Account	359,424	414,598	(55,174)	(13.3)
Saving Account	63,130,123	53,472,240	9,657,882	18.1
Term Deposit	82,737,382	78,238,356	4,499,025	5.8
Certificate of Deposit	779,321	752,912	26,409	3.5
Interbank and money market items, net	9,496,777	8,289,723	1,207,054	14.6
Liabilities payable on demand	571,648	557,819	13,829	2.5
Financial liabilities designated at fair value through profit or loss	478,979	0	478,979	n.a.
Derivatives liabilities	7,544,282	4,303,925	3,240,357	75.3
Debt issued and borrowings	65,734,318	56,657,584	9,076,734	16.0
Senior securities	56,642,717	50,657,584	5,985,132	11.8
Subordinated bond	7,400,000	6,000,000	1,400,000	23.3
Bills of Exchange	1,691,602	0	1,691,602	n.a.
Provisions	672,625	632,129	40,496	6.4
Deferred tax liabilities	75,658	160,138	(84,480)	(52.8)
Accounts payable to clearing house and broker - dealers	2,121,925	422,323	1,699,602	402.4
Securities and derivative business payables	4,334,497	4,514,754	(180,257)	(4.0)
Accrued interest expenses	585,545	499,498	86,047	17.2
Other accounts payable	4,387,062	2,924,233	1,462,829	50.0
Legal Execution Department payable	0	575,380	(575,380)	(100.0)
Income tax payable and specific business tax payable	316,344	558,172	(241,828)	(43.3)
Other liabilities	4,157,524	4,813,228	(655,704)	(13.6)
Total liabilities	247,483,433	217,787,012	29,696,421	13.6

Shareholders' equity was Baht 41,600 million, increased 0.1% from the end of 2017. Total issued and paid-up capital totaled Baht 8,468 million. Share premium totaled Baht 9,356 million. Unappropriated retained earnings at Baht 21,648 million.

The Dividend payment

The Annual General Meeting of shareholders on April 24, 2018 approved the annual dividend payment for 2017 at the rate of Baht 5.00 per share. The interim dividend was paid on September 22, 2017 at the rate of Baht 2.00 per share with the remaining Baht 3.00 per share paid on May 21, 2018.

Capital Adequacy Ratio (BIS ratio)

As at June 30, 2018, the Capital Adequacy Ratio (BIS ratio) under Basel III which included profit for the year 2017 was at 16.27% while Tier-1 ratio was at 12.72%. When including profit up to end of 2Q18, the BIS ratio will increase to 17.35% while Tier-1 ratio will be 13.80%.

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	Jun 30, 2018		Dec 31, 2017		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	134,150	63.1	125,954	65.3	6.5
Hire Purchase	106,862	50.2	103,926	53.9	2.8
Personal loan	6,191	2.9	5,745	3.0	7.8
Micro SMEs loan	6,107	2.9	5,031	2.6	21.4
Housing loan	14,990	7.0	11,252	5.8	33.2
Commercial Lending	49,707	23.4	44,283	23.0	12.2
Real Estate Development loan	25,079	11.8	21,276	11.0	17.9
SMEs loan	24,629	11.6	23,007	11.9	7.0
Corporate Lending	21,948	10.3	15,807	8.2	38.9
Special Asset Management loan	601	0.3	607	0.3	(0.9)
Lombard loan	6,279	3.0	6,273	3.3	0.1
Total loans and account receivables	212,686	100.0	192,924	100.0	10.2

Retail Lending totaled Baht 134,150 million, increased by 6.5% from the end of 2017. Retail loans include hire purchase loans, personal loans, Micro SMEs loans and housing loans.

Hire purchase loans amounted to Baht 106,862 million, expanded 2.8% from the end of 2017. New hire purchase business volume booked during 2Q18 totaled Baht 12,658 million, an increase of 64.4% from the same period last year. The portion of new cars to used cars is currently at 40:60 with the hire purchase loan portion to total Bank loan portfolio at 50.2%. Domestic new car sales for the first five months of 2018 totaled 401,264 units, increasing by 18.0% 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 five months of 2018 was at 2.7%, at the same level as of end of 2017.

The Bank loan portfolio in other retail loans at the end of 2Q18 expanded by 23.9% from the end of 2017 with total combined other retail loans portion to total Bank loan portfolio at 12.8% as of end of 2Q18.

Commercial Lending business amounted to Baht 49,707 million, an increase of 12.2% from the end of 2017. Commercial Lending includes real estate development loans and SMEs loans, details are as follows:

Real estate development loans (RE) were Baht 25,079 million, expanded by 17.9% from the end of 2017 mainly as a result of the Bank expansion into larger customer segment during the year 2017.

SMEs loans were Baht 24,629 million, an increase of 7.0%. 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 21,948 million, expanded by 38.9% from the end of 2017.

Special asset management (SAM) is responsible for distressed asset management business and sale of foreclosed assets. Current outstanding financial claim loans totaled Baht 601 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 6,279 million, increasing slightly by 0.1% from the end of 2017.

NPLs distribution by loan type (consolidated)

Type of loans	Jun 30, 2018			Dec 31, 2017		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	3,178	33.2	2.4	2,985	30.9	2.4
Hire Purchase	2,176	22.8	2.0	2,223	23.0	2.1
Personal loan	214	2.2	3.5	166	1.7	2.9
Micro SMEs loan	540	5.7	8.9	431	4.5	8.6
Housing loan	247	2.6	1.6	165	1.7	1.5
Commercial Lending	5,781	60.5	11.6	6,075	63.0	13.7
Real Estate Development loan	4,397	46.0	17.5	4,558	47.2	21.4
SMEs loan	1,384	14.5	5.6	1,518	15.7	6.6
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	601	6.3	100.0	587	6.1	96.7
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	9,560	100.0	4.5	9,647	100.0	5.0

The Non-Performing Loans (NPLs) as of the end of 2Q18 amounted to Baht 9,560 million or 4.5% of total loans, declining from 5.0% at the end of 2017 as a result of the Bank continuous close monitoring of asset quality. NPLs for the real estate segment continued to decline further to 17.5% at the end of 2Q18 from 21.4% at the end of 2017

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

- **Equity and Derivatives Brokerage Business**

Phatra Securities Plc. (“PSEC”) operates Agency Business providing both securities and derivatives brokerage services to local and foreign institutional investors, as well as high net worth individuals under Private Wealth Management. For high net worth clients, other wealth management products are provided such as mutual funds and structured products. For 2Q18, the market share¹ of PSEC was 4.2%, ranking 8th from total 38 brokers. PSEC generated brokerage revenue totaling Baht 288 million comprising of equity brokerage revenue of Baht 252 million and derivatives brokerage revenue of Baht 36 million. Additionally, PSEC also had brokerage revenue from selling agent fees of Baht 121 million.²

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 2Q18, the revenue was Baht 95 million, contributed to financial advisory fee amounting Baht 88 million and underwriting fee amounting Baht 7 million.

- **Investment Business**

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

In 2Q18, DI focusing on long-term investment with value based investment philosophy recorded loss on investment including loss on re-measuring available-for-sale securities totaling Baht 359 million. HF posted gain of Baht 12 million for the quarter.³ Meanwhile, EDT had gain on investment totaling Baht 305 million.⁴ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment loss of Baht 25 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 June 2018 was Baht 62,054 million with total 25 funds under

¹ Including SET and mai but excluding proprietary trading

² Including selling agent fee which receive from Subsidiary Company

³ In addition to the investment revenue, HF also had foreign exchange loss and advisory fee revenue totaling gain Baht 1 million and hedging cost of Baht 3 million. In summary, total HF gain after cost of hedging was Baht 10 million

⁴ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 302 million



management consisting of 22 mutual funds and 3 property funds. PASSET's market share in terms of mutual fund was 1.3%. In 2Q18, PASSET's fee income from mutual fund business totaled Baht 123 million. As of 30 June 2018, asset under management from private fund was Baht 25,333 million. PASSET's fee income from private fund business totaled Baht 78 million.