



Management Discussion and Analysis

For the first quarter ended March 31, 2019 (Unreviewed)

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Management Discussion and Analysis (MD&A)

For the first quarter ended March 31, 2019 comparing operating performance and financial position for the first quarter ended March 31, 2019 with those of 2018. This report discusses principal changes in the unreviewed consolidated financial statements.

Overall market environment

The Thai economy for the first quarter of 2019 continued to expand driven mainly by domestic demands. Private consumption expanded in all categories supported by the improvement in purchasing power from the rise in farm and non-farm income. Public spending also increased from spending on goods and services and compensation expenses while capital spending declined from the high base effect of last year from the disbursement of provincial budgets. Meanwhile, private investment contracted in the investment in construction while investment in machinery and equipment still expanded as exhibited by the increased in domestic equipment sales and increased in number of registered vehicles for investment purposes. Exports during the first 2 months of 2019 registered a slight increase of 0.2% yoy, decelerating from the same period last year as a result of declining global demand from the slow economic growth of trading partners, the protectionist trade policies between the US and China and the down-cycle of electronic products. In the tourism sector, the number of tourist arrivals for the first 2 months of 2019 expanded by 2.5% yoy, however, the number of Chinese tourists which contribute almost 30% of total tourist arrivals still exhibit a decline of 2.2%. Although the economy is showing signs of recovery in many areas, factors that still need to be monitored include 1) the continuing trade tensions between the US and trading partners, particularly China which may impose risks to the growth in exports 2) political uncertainties which may inhibit investments and consumptions and 3) high level of household debts still limiting consumptions.

For the auto industry, expansion continued during the first 2 months of 2019 with total number of car sales at 160,385 units, growth of 12.9%. The passenger vehicle and commercial vehicle segment expanded by 13.0% and 12.9% yoy respectively with growth stemming from the increase in consumer confidence from the improvement in both farm income and non-farm income.

In the equity market, the average daily turnover (SET and mai) declined by 20.7% from Baht 57,674 million in 2018 to Baht 45,739 million during the first quarter of 2019. The SET index at the end of the first quarter of 2019 closed at 1,638.65 points, increased by 4.8% from 1,563.88 points at the end of 2018.

Overall Business Operations

The Bank's loan portfolio during 1Q19 grew 1.9% with growth driven by corporate banking loans, real estate development loans and housing loans while hire purchase loans declined slightly from the end of 2018. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio for 1Q19 remained stable at 4.1% from the end of 2018. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 171 million and had gain of Baht 64 million. Financial Market business generated revenue of Baht 70 million during 1Q19.

For Capital market business, the market share (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 7.32%, increased from 4.55% in 2018, ranking 1st from total 38 brokers. During 1Q19, the Investment Banking business generated total revenue of Baht 191 million. Fees from Asset

Management business also totaled Baht 191 million. Meanwhile, the Investment business recorded revenue, when including comprehensive gain, had total gain of Baht 114 million.

The consolidated net profit for 1Q19 totaled Baht 1,228 million, a decline of 13.9% from Baht 1,427 million from the previous quarter of 4Q18. When comparing yoy, the net income for 1Q19 declined by 18.8% comparing to net profit of Baht 1,513 million during 1Q18. The consolidated comprehensive income for 1Q19 totaled Baht 1,369 million, increased by 32.5% comparing to Baht 1,033 million in 4Q18. When comparing with 1Q18, the comprehensive income declined by 7.3% comparing to Baht 1,476 million in 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	1Q18	2Q18	3Q18	4Q18	2018	1Q19
Loan growth	5.7	4.3	3.5	3.8	18.5	1.9
NPLs/ Total Loans (excluding interbank)	4.7	4.5	4.2	4.1	4.1	4.1
Total loan loss reserve/ Total NPLs (coverage ratio)	110.9	113.8	115.6	114.8	114.8	114.1
Total loan loss reserve/ Total mandatory reserve	186.1	183.0	184.9	186.3	186.3	184.4

Profit and Loss Transaction

For the three-month period ended March 31, (BAHT'000)	CONSOLIDATED		Change	
	2019	2018	Amount	%
Interest income	4,440,556	3,789,635	650,921	17.2
Interest expenses	1,385,827	1,143,392	242,435	21.2
Interest income, net	3,054,729	2,646,243	408,486	15.4
Fees and services income	1,248,412	1,249,562	(1,150)	(0.1)
Fees and services expenses	117,670	106,479	11,191	10.5
Fees and services income, net	1,130,742	1,143,083	(12,341)	(1.1)
Gain on trading and foreign exchange transactions, net	106,785	162,815	(56,030)	(34.4)
Gain (loss) on financial liabilities designated at fair value through profit or loss, net	(87,923)	15,923	(103,846)	(652.2)
Gain (loss) on investments, net	(19,132)	(1,173)	(17,959)	1,531.0
Dividend income and profit sharing	180,015	275,156	(95,141)	(34.6)
Other operating income	75,658	96,520	(20,862)	(21.6)
Total operating income	4,440,874	4,338,567	102,307	2.4
Other operating expenses				
Employee's expenses	1,343,023	1,374,024	(31,001)	(2.3)
Directors' remuneration	8,631	11,153	(2,522)	(22.6)
Premises and equipment expenses	333,021	238,457	94,564	39.7
Taxes and duties	92,527	90,224	2,303	2.6
Loss from revaluation of foreclosed assets (reversal)	52,979	(78,310)	131,289	(167.7)
Loss (gain) from sale of foreclosed assets	231,174	(10,799)	241,973	(2,240.7)
Other expenses	400,848	435,315	(34,467)	(7.9)
Total other operating expenses	2,462,203	2,060,064	402,139	19.5
Impairment loss on loans and debt securities	484,520	433,670	50,850	11.7
Profit from operating before income tax expenses	1,494,151	1,844,833	(350,682)	(19.0)
Income tax expenses	266,037	326,851	(60,814)	(18.6)
Net profit	1,228,114	1,517,982	(289,868)	(19.1)
Net profit attributable to:				
Equity holders of the Bank	1,228,160	1,513,060	(284,900)	(18.8)
Non-controlling interests	(46)	4,922	(4,968)	(100.9)
Total comprehensive income attributable to:				
Equity holders of the Bank	1,368,507	1,476,178	(107,671)	(7.3)
Non-controlling interests	(1,288)	4,845	(6,133)	(126.6)
Earnings per share of Equity holders of the Bank				
Basic earnings per share (Baht)	1.45	1.79	(0.34)	(19.0)

Operating results of the Bank and subsidiaries for 1Q19 comparing with 1Q18

The consolidated net profit for 1Q19 totaled Baht 1,228 million, a decrease of 18.8% yoy, of which Baht 186 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra) and subsidiaries. Meanwhile, the consolidated comprehensive income for 1Q19 totaled Baht 1,369 million, decreased by 7.3% yoy. The Capital Market business comprehensive income was Baht 200 million. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility.

Interest income was Baht 4,441 million, increased 17.2% from 1Q18 mainly from loan expansions. Interest income on loans increased by 27.8% yoy. Interest income from hire purchase and financial lease and interest on investment in loans also increased by 6.1% and 77.4% yoy respectively.

For the three-month period ended	Consolidated		Change	
	Mar 31, 2019	Mar 31, 2018	Baht million	%
Interest income	4,441	3,790	651	17.2
Interest on loans	1,742	1,364	379	27.8
Interest on interbank and money market items	102	46	56	120.2
Hire purchase and financial lease income	2,328	2,194	134	6.1
Interest on securities	122	101	22	21.3
Interest on investment in loans	141	80	62	77.4
Others	5	5	(0)	(1.8)

Interest expenses totaled Baht 1,386 million, an increase of 21.2% yoy from the growth in deposit consistent with the overall expansion in loan portfolio. Cost of funds for 1Q19 remained stable at 2.3% comparing to 1Q18.

For the three-month period ended	Consolidated		Change	
	Mar 31, 2019	Mar 31, 2018	Baht million	%
Interest expense	1,386	1,143	242	21.2
Interest on deposits	811	578	233	40.2
Interest on interbank and money market items	56	40	16	38.9
Interest on debt issued and borrowings	245	299	(54)	(18.0)
Fees and charges on borrowings	2	4	(2)	(44.0)
FIDF and DPA fees	257	210	47	22.5
Others	14	12	2	19.4

Net interest income amounted to Baht 3,055 million, an increase of Baht 408 million or 15.4% yoy from Baht 2,646 million in 1Q18. Yield on loan for 1Q19 declined slightly from 7.2% in 1Q18 to 7.1%. Meanwhile, cost of funds for 1Q19 was maintained at 2.3% resulting in loan spread for 1Q19 at 4.8%, a slight decline from 4.9% during 1Q18.

%	1Q18	2Q18	3Q18	4Q18	2018	1Q19
Yield on loan	7.2	7.2	7.3	7.3	7.2	7.1
Cost of fund	2.3	2.3	2.2	2.3	2.3	2.3
Loan spread	4.9	4.9	5.1	5.0	5.0	4.8

Net fees and services income totaled Baht 1,131 million, almost at the same level as 1Q18 of Baht 1,143 million. Bancassurance fee for 1Q19 amounted to Baht 236 million, declining 5.5% yoy from Baht 250 million for 1Q18. For Capital Market business, fee from Asset Management business totaled Baht 191 million comparing to Baht 195 million yoy. Financial advisory and underwriting fees totaled Baht 191 million, an increase of 187.1% from Baht 66 million in 1Q18. Meanwhile, brokerage business income totaled Baht 339 million, declining 29.8% from Baht 483 million yoy mainly from the decreased in market trading volume.

Total operating income amounted to Baht 4,441 million, increased by Baht 102 million or 2.4% from 1Q18. In addition to net interest income and net fees and services income, gain on trading and foreign exchange transactions totaled Baht 107 million declining by 34.4% yoy. Dividend income and profit sharing amounted to Baht 180 million, also declining by 34.6% from 1Q18.

Other operating expenses were Baht 2,462 million, increased by 19.5% yoy from Baht 2,060 million during 1Q18. For 1Q19, the Bank recorded loss on sale of foreclosed assets totaled Baht 231 million comparing to gain of Baht 11 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars amounting to Baht 296 million, with loss increasing from Baht 150 million during 1Q18 and from gain on sale of foreclosed properties totaled Baht 64 million, declining from gain of Baht 160 million recorded during 1Q18. During 1Q19, the Bank sold foreclosed properties in the amount of Baht 171 million, declining from Baht 317 million sold during 1Q18.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 1Q19 totaled Baht 2,178 million, a slight increase of 1.3% from expenses of Baht 2,149 million during 1Q18 mainly from the increase in premises and equipment expenses from the renovations of KKP Tower. Cost-to-income ratio excluding loss from sale of foreclosed assets and loss from revaluations stood at 48.3% for 1Q19, a slight increase from 47.8% yoy.

Impairment loss on loans and debt securities for 1Q19 totaled Baht 485 million, increasing by 11.7% when comparing to Baht 434 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.35% of average loan for 1Q19. Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 10,919 million with outstanding Baht 4,500 million in general reserve. As of end of 1Q19, the total loan loss reserve to total mandatory reserve ratio stood at 184.4% comparing to 186.1% as of end of 1Q18. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) stood at 114.1% for 1Q19, increased from 110.9% as of end of 1Q18.

Corporate Income Tax totaled Baht 266 million or 17.8% tax rate.

Basic earnings per share at Baht 1.45 per share.

Annualized Ratios	1Q18	2Q18	3Q18	4Q18	2018	1Q19
Net Profit (Baht million)	1,513	1,551	1,551	1,427	6,042	1,228
ROAE (%)	14.4	14.7	15.0	13.7	14.5	11.5
ROE (%)	14.6	14.5	15.0	13.9	14.6	11.6
ROAA (%)	2.3	2.2	2.1	1.9	2.1	1.6
Comprehensive income (Baht million)	1,476	1,125	1,489	1,033	5,123	1,369
ROAE (%)	14.0	10.7	14.4	9.9	12.3	12.8
ROE (%)	14.3	10.5	14.4	10.0	12.4	13.0
ROAA (%)	2.2	1.6	2.0	1.4	1.8	1.8

Statements of Financial Position

Assets, as of March 31, 2019, totaled Baht 308,996 million, increased by Baht 2,666 million or 0.9% from the end of 2018.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Mar 31, 2019</u>	<u>Dec 31, 2018</u>	<u>Amount</u>	<u>%</u>
Cash	1,161,557	1,335,668	(174,111)	(13.0)
Interbank and money market items, net	18,339,977	28,199,589	(9,859,612)	(35.0)
Derivatives assets	3,367,374	3,315,858	51,516	1.6
Investments in securities, net	34,142,049	29,780,567	4,361,482	14.6
Investments in receivables, net	1,752,768	1,769,505	(16,737)	(0.9)
Investments in properties, net	22,064	22,132	(68)	(0.3)
Loans to customers and accrued interest receivables, net				
Loans to customers	253,871,686	249,982,184	3,889,502	1.6
Accrued interest receivables	1,161,868	1,170,011	(8,143)	(0.7)
Total loans to customers and accrued interest receivables	255,033,554	251,152,195	3,881,359	1.5
<u>Less</u> Deferred revenue	(21,623,457)	(22,086,038)	462,581	(2.1)
<u>Less</u> Allowance for doubtful accounts	(10,918,363)	(10,759,343)	(159,020)	1.5
<u>Less</u> Allowance for troubled debt restructuring	(341)	(432)	91	(21.1)
Total loans to customers and accrued interest receivables, net	222,491,393	218,306,382	4,185,011	1.9
Properties foreclosed, net	3,673,487	3,724,922	(51,435)	(1.4)
Land, premises and equipment, net	2,746,420	2,772,514	(26,094)	(0.9)
Other intangible assets, net	1,115,755	1,117,889	(2,134)	(0.2)
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,904,637	1,861,740	42,897	2.3
Accounts receivable from clearing house and broker - dealers	592,753	3,411,791	(2,819,038)	(82.6)
Securities and derivative business receivables	9,085,334	4,212,723	4,872,611	115.7
Other assets, net	5,534,088	3,432,183	2,101,905	61.2
Total assets	308,995,691	306,329,498	2,666,193	0.9

Liabilities amounted to Baht 265,425 million, increasing 0.5% from the end of 2018. Deposits were Baht 185,200 million, increasing by 1.9%. Deposits comprised of 61.2% of term deposits and 38.8% of current and saving accounts (CASA). Meanwhile, debts and borrowings were Baht 40,359 million, declining by 17.6% from the end of 2018. Loan to deposits and borrowings ratio stood at 103.3%, comparing to 99.1% at the end of 2018.

<u>LIABILITIES</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Mar 31, 2019</u>	<u>Dec 31, 2018</u>	<u>Amount</u>	<u>%</u>
Deposits	185,200,344	181,693,821	3,506,523	1.9
Current Account	469,190	352,967	116,223	32.9
Saving Account	71,298,817	69,345,929	1,952,888	2.8
Term Deposit	112,873,540	111,396,122	1,477,418	1.3
Certificate of Deposit	558,797	598,803	(40,006)	(6.7)
Interbank and money market items, net	14,029,526	13,156,615	872,911	6.6
Liabilities payable on demand	683,808	503,487	180,321	35.8
Financial liabilities designated at fair value through profit or loss	2,926,719	1,193,144	1,733,575	145.3
Derivatives liabilities	3,832,721	3,438,329	394,392	11.5
Debt issued and borrowings	40,359,378	49,008,059	(8,648,681)	(17.6)
Senior securities	31,572,032	40,222,972	(8,650,940)	(21.5)
Subordinated bond	8,290,000	8,290,000	0	0.0
Bills of Exchange	497,346	495,088	2,259	0.5
Provisions	802,451	779,584	22,867	2.9
Deferred tax liabilities	19,608	20,457	(849)	(4.2)
Accounts payable to clearing house and broker - dealers	828,308	120,194	708,114	589.1
Securities and derivative business payables	5,471,947	5,297,794	174,153	3.3
Accrued interest expenses	898,507	692,732	205,775	29.7
Other accounts payable	5,547,301	2,232,379	3,314,922	148.5
Income tax payable and specific business tax payable	1,158,971	854,568	304,403	35.6
Other liabilities	3,665,885	4,997,775	(1,331,890)	(26.6)
Total liabilities	265,425,474	263,988,938	1,436,536	0.5

Shareholders' equity was Baht 43,570 million, increased by 2.9% from the end of 2018. Total issued and paid-up capital totaled Baht 8,468 million. Share premium totaled Baht 9,356 million. Unappropriated retained earnings at Baht 24,163 million.

The Dividend payment

The Board of Directors' Meeting No. 2/2019, held on February 21, 2019, agreed to propose to the Annual General Meeting of shareholders on April 23, 2019 to approve the annual dividend payment for 2018 at the rate of Baht 5.00 per share. The interim dividend was paid on September 21, 2018 at the rate of Baht 2.00 per share with the remaining Baht 3.00 per share to be paid on May 21, 2019. The record date of dividend payout will be on May 2, 2019.

Capital Adequacy Ratio (BIS ratio)

As of March 31, 2019, the Capital Adequacy Ratio (BIS ratio) under Basel III, which included profit for the first half of 2018 after deducting dividend payment, was at 16.21% while Tier-1 ratio was at 12.42%.

When including profit up to end of 1Q19, the BIS ratio will increase to 17.81% while Tier-1 ratio will be 14.01%.

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, PSEC 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	Mar 31, 2019		Dec 31, 2018		Change (%)
	Baht million	%	Baht million	%	
Retail Lending	140,295	60.2	140,402	61.4	(0.1)
Hire Purchase	106,420	45.7	108,191	47.3	(1.6)
Personal loan	6,768	2.9	6,528	2.9	3.7
Micro SMEs loan	7,271	3.1	7,040	3.1	3.3
Housing loan	19,837	8.5	18,642	8.2	6.4
Commercial Lending	55,632	23.9	55,813	24.4	(0.3)
Real Estate Development loan	30,508	13.1	29,052	12.7	5.0
SMEs loan	25,124	10.8	26,760	11.7	(6.1)
Corporate Lending	28,338	12.2	23,873	10.4	18.7
Special Asset Management loan	563	0.2	565	0.2	(0.4)
Lombard loan	8,109	3.5	7,947	3.5	2.0
Total loans and account receivables	232,937	100.0	228,599	100.0	1.9

Retail Lending totaled Baht 140,295 million, slight decline of 0.1% from the end of 2018. Retail loans include hire purchase loans, personal loans, Micro SMEs loans and housing loans.

Hire purchase loans amounted to Baht 106,420 million, contracted 1.6% from the end of 2018. New hire purchase business volume booked during 1Q19 totaled Baht 8,355 million, declining 24.6% from 1Q18. The portion of hire purchase loan to total Bank loan portfolio stood at 45.7% with the portion of new cars to used cars at 38:62. Domestic new car sales for the first two months of 2019 totaled 160,385 units, increasing by 12.9% 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 two months of 2019 was at 2.0%, declining from 2.7% at the end of 2018.

For 1Q19, the Bank loan portfolio in other retail loans expanded by 5.2% from the end of 2018 with total combined other retail loans portion to total Bank loan portfolio increasing to 14.5% during 1Q19.

Commercial Lending business amounted to Baht 55,632 million, contracted slightly by 0.3% from the end of 2018. Commercial Lending includes real estate development loans and SMEs loans, details are as follows:

Real estate development loans (RE) totaled Baht 30,508 million, with continuing expansion of 5.0% from the end of 2018.

SMEs loans were Baht 25,124 million, contracted by 6.1%. 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 28,338 million, growth of 18.7% from the end of 2018.

Special asset management (SAM) is responsible for distressed asset management business and sale of foreclosed assets. Current outstanding financial claim loans totaled Baht 563 million.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 8,109 million, increasing by 2.0% from the end of 2018.

NPLs distribution by loan type (consolidated)

Type of loans	Mar 31, 2019			Dec 31, 2018		
	Baht million	%	% of loans	Baht million	%	% of loans
Retail Lending	3,842	40.0	2.7	3,485	37.1	2.5
Hire Purchase	2,623	27.3	2.5	2,443	26.0	2.3
Personal loan	221	2.3	3.3	193	2.1	3.0
Micro SMEs loan	681	7.1	9.4	579	6.2	8.2
Housing loan	317	3.3	1.6	270	2.9	1.4
Commercial Lending	5,194	54.1	9.3	5,353	56.9	9.6
Real Estate Development loan	3,850	40.1	12.6	3,942	41.9	13.6
SMEs loan	1,344	14.0	5.3	1,411	15.0	5.3
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	563	5.9	100.0	565	6.0	100.0
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total	9,599	100.0	4.1	9,403	100.0	4.1

The Non-Performing Loans (NPLs) as of the end of 1Q19 totaled Baht 9,599 million or 4.1% of total loans, with ratio remaining stable from the end of 2018.

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 1Q19, the market share¹ of PSEC was 7.32%, ranking 1st from total 38 brokers. PSEC generated brokerage revenue totaling Baht 286 million comprising of equity brokerage revenue of Baht 255 million and derivatives brokerage revenue of Baht 31 million. Additionally, PSEC also had brokerage revenue from selling agent fees of Baht 99 million.²

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 1Q19, the revenue was Baht 191 million, contributed to financial advisory fee amounting to Baht 178 million and underwriting fee amounting to Baht 13 million.

¹ Including SET and mai but excluding proprietary trading

² Including selling agent fee which receive from subsidiary company

- **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 1Q19, DI focusing on long-term investment with value based investment philosophy recorded loss on investment including gain on re-measuring available-for-sale securities totaling Baht 14 million. HF posted gain of Baht 35 million for the quarter.³ Meanwhile, EDT had gain on investment totaling Baht 59 million.⁴ Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment gain of Baht 114 million.

After considerations on the unfavorable conditions impacting the investment strategy of the Hedge Fund business, the operations of the Hedge Fund business will be ceased from 1Q19 onwards.

- **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 March 2019 was Baht 66,858 million with total 34 funds under management consisting of 31 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.28%. In 1Q19, PASSET’s fee income from mutual fund business totaled Baht 127 million.

As of 31 March 2019, asset under management from private fund was Baht 27,992 million. PASSET’s fee income from private fund business totaled Baht 66 million.

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 2 million. In summary, total HF gain after cost of hedging was Baht 34 million

⁴ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 54 million