



## **Management Discussion and Analysis**

For the second quarter and six-month ended June 30, 2019

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Kiatnakin Bank Public Company Limited

Investor Relations

Email: [investor\\_relations@kiatnakin.co.th](mailto:investor_relations@kiatnakin.co.th)

Tel. +66-2495-1366

Website: [www.kiatnakin.co.th](http://www.kiatnakin.co.th)

## **Management Discussion and Analysis (MD&A)**

For the second quarter and six-month ended June 30, 2019 comparing operating performance and financial position for the second quarter and six-month ended June 30, 2019 with those of 2018. This report discusses principal changes in the audited consolidated financial statements.

### **Overall market environment**

During the second quarter of 2019, the growth momentum for the Thai economy slowed down from both the domestic and external demand. Private investment contracted both in investment in construction as well as investment in machinery and equipment as exhibited by the decreased in domestic equipment sales and decreased in number of registered vehicles for investment purposes, the decline is also partly due to the high base of last year. Public spending excluding transfers also declined from acceleration in disbursement during last year. Nevertheless, private consumption remains the key driver with continued growth across all categories supported by the increased in farm income both in productions and prices. Exports during the first half of 2019 contracted 2.9% from the same period last year as a result of the continuing decline in 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 half of 2019 increased 1.5% yoy while the number of Chinese tourists which contribute about 29% of total tourist arrivals still exhibited a continuing decline of 4.7%. For the second half of 2019, the Thai economy is projected to remain subdued stemming from 4 risk factors 1) the continuing trade tensions between the US and trading partners, particularly China which may impose risks to exports growth 2) political uncertainties which may impact investments and consumptions 3) risks of drought which may lower farm income and 4) on going high level of household debt limiting household consumptions.

Meanwhile, in the auto industry, the total number of car sales for the first six months of 2019 still showed an expansion with sales for the first six months totaled 523,770 units, growth of 7.1%. The passenger vehicle and commercial vehicle segment expanded by 8.5% and 6.2% yoy respectively with growth supported by the improvement in farm income. Nevertheless, signs are pointing to the slowing momentum of car sales, with sales for the month of June declining by 2.1% yoy, the first decline in 30 months, which could be indications of market saturation and could potentially lead to price competitions by manufacturers in the second half of the year.

In the equity market, the average daily turnover (SET and mai) for 2Q19 increased by 17.6% from Baht 45,739 million in 1Q19 to Baht 53,799 million during 2Q19. The SET index at the end of 2Q19 closed at 1,730.34 points, also increasing by 5.6% from 1,638.65 points at the end of 1Q19.

### **Overall Business Operations**

During 2Q19, the overall Bank's loan portfolio grew by 2.1% from the end of 2018 with growth driven across almost all segments but with contractions in the hire purchase and SME loans segment. The hire purchase portfolio declined by 2.7% from the end of 2018. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio for 2Q19 increased to 4.2% from 4.1% at the end of 2018. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 472 million and had gain of Baht 190 million. Financial Markets business generated revenue of Baht 110 million during 2Q19.

For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 8.89%, increased from 7.32% in 1Q19, ranking 1st from total 38 brokers.

Additionally, during 2Q19, TRIS Rating has upgraded the company rating for the Bank and Phatra Securities to “A” from “A-”.

The consolidated net profit for 2Q19 totaled Baht 1,471 million, an increase of 19.7% from Baht 1,228 million from the previous quarter of 1Q19. When comparing yoy, the net income for 2Q19 declined by 5.2% comparing to net profit of Baht 1,551 million during 2Q18. The consolidated comprehensive income for 2Q19 totaled Baht 1,126 million, a decline of 17.7% comparing to Baht 1,369 million in 1Q19. When comparing yoy, the comprehensive income increased by 0.1% comparing to Baht 1,125 million in 2Q18. 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	2Q18	1H18	2018	1Q19	2Q19	1H19
Loan growth	4.3	10.2	18.5	1.9	0.2	2.1
NPLs/ Total Loans (excluding interbank)	4.5	4.5	4.1	4.1	4.2	4.2
Total loan loss reserve/ Total NPLs (coverage ratio)	113.8	113.8	114.8	114.1	113.2	113.2
Total loan loss reserve/ Total mandatory reserve	183.0	183.0	186.3	184.4	182.4	182.4

**Profit and Loss Transaction**

For the three-month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2019	2018	Amount	%
Interest income	4,342,733	3,974,188	368,545	9.3
Interest expenses	1,426,426	1,223,771	202,655	16.6
<b>Interest income, net</b>	<b>2,916,307</b>	<b>2,750,417</b>	<b>165,890</b>	<b>6.0</b>
Fees and services income	1,153,470	1,177,729	(24,259)	(2.1)
Fees and services expenses	138,115	114,723	23,392	20.4
<b>Fees and services income, net</b>	<b>1,015,355</b>	<b>1,063,006</b>	<b>(47,651)</b>	<b>(4.5)</b>
Gain on trading and foreign exchange transactions, net	115,364	87,750	27,614	31.5
Gain (loss) on financial liabilities designated at fair value through profit or loss, net	(36,349)	73,883	(110,232)	(149.2)
Gain (loss) on investments, net	498,805	45,324	453,481	1,000.5
Dividend income and profit sharing	158,979	315,019	(156,040)	(49.5)
Other operating income	66,224	89,141	(22,917)	(25.7)
<b>Total operating income</b>	<b>4,734,685</b>	<b>4,424,540</b>	<b>310,145</b>	<b>7.0</b>
Other operating expenses				
Employee's expenses	1,401,991	1,378,748	23,243	1.7
Directors' remuneration	13,706	11,763	1,943	16.5
Premises and equipment expenses	329,253	272,695	56,558	20.7
Taxes and duties	98,466	101,092	(2,626)	(2.6)
Loss from revaluation of foreclosed assets (reversal)	18,482	(35,840)	54,322	(151.6)
Loss (gain) from sale of foreclosed assets	62,889	(4,387)	67,276	(1,533.5)
Other expenses	462,913	431,394	31,519	7.3
<b>Total other operating expenses</b>	<b>2,387,700</b>	<b>2,155,465</b>	<b>232,235</b>	<b>10.8</b>
Impairment loss on loans and debt securities	610,470	488,548	121,922	25.0
<b>Profit from operating before income tax expenses</b>	<b>1,736,515</b>	<b>1,780,527</b>	<b>(44,012)</b>	<b>(2.5)</b>
Income tax expenses	270,385	226,562	43,823	19.3
<b>Net profit</b>	<b>1,466,130</b>	<b>1,553,965</b>	<b>(87,835)</b>	<b>(5.7)</b>
<b>Net profit attributable to:</b>				
Equity holders of the Bank	1,470,569	1,550,891	(80,322)	(5.2)
Non-controlling interests	(4,439)	3,074	(7,513)	(244.4)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	1,125,890	1,124,814	1,076	0.1
Non-controlling interests	(4,455)	2,979	(7,434)	(249.5)
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	1.74	1.83	(0.09)	(4.9)

### Operating results of the Bank and subsidiaries for 2Q19 comparing with 2Q18

The consolidated net profit for 2Q19 totaled Baht 1,471 million, a decline of 5.2% yoy, of which Baht 142 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra) and subsidiaries. Meanwhile, the consolidated comprehensive income for 2Q19 totaled Baht 1,126 million, increase of 0.1% yoy. The Capital Market business comprehensive income was Baht 136 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 2,916 million, an increase of Baht 166 million or 6.0% yoy from Baht 2,750 million in 2Q18. Interest income was Baht 4,343 million, increased of 9.3% from 2Q18 mainly from the increase in interest income on loans of 21.1% from loan expansions. Interest expense totaled Baht 1,426 million, an increase of 16.6% yoy from the growth in deposit. Yield on loan for 2Q19 declined to 7.0% from 7.2% in 2Q18 while cost of funds for 2Q19 was at 2.4% comparing to 2.3% yoy resulting in loan spread for 2Q19 to decline to 4.6% from 4.9% during 2Q18.

For the three-month period ended	Consolidated		Change	
	Jun 30, 2019	Jun 30, 2018	Baht million	%
<b>Interest income</b>	<b>4,343</b>	<b>3,974</b>	<b>369</b>	<b>9.3</b>
Interest on loans	1,782	1,471	311	21.1
Interest on interbank and money market items	73	54	19	34.6
Hire purchase and financial lease income	2,287	2,247	40	1.8
Interest on securities	160	107	53	49.1
Interest on investment in loans	35	90	(54)	(60.7)
Others	5	5	1	12.1

For the three-month period ended	Consolidated		Change	
	Jun 30, 2019	Jun 30, 2018	Baht million	%
<b>Interest expense</b>	<b>1,426</b>	<b>1,224</b>	<b>203</b>	<b>16.6</b>
Interest on deposits	812	609	203	33.4
Interest on interbank and money market items	70	35	34	96.8
Interest on debt issued and borrowings	270	337	(67)	(19.9)
Fees and charges on borrowings	2	2	(1)	(29.3)
FIDF and DPA fees	260	229	31	13.7
Others	12	11	1	13.7

%	2Q18	1H18	2018	1Q19	2Q19	1H19
Yield on loan	7.2	7.2	7.2	7.1	7.0	7.1
Cost of fund	2.3	2.3	2.3	2.3	2.4	2.3
Loan spread	4.9	4.9	5.0	4.8	4.6	4.7

Net fees and services income totaled Baht 1,015 million, a decline of 4.5% from 2Q18 amount of Baht 1,063 million. Bancassurance fee for 2Q19 amounted to Baht 206 million, declining 19.0% yoy from Baht 255 million for 2Q18. For Capital Market business, brokerage business income totaled Baht 388 million increased when comparing to Baht 355 million yoy. Fee from Asset Management business totaled Baht 203 million remaining at stable level comparing to Baht 201 million for 2Q18. Meanwhile, fees generated from investment banking business for 2Q19 totaled Baht 65 million, declining from Baht 94 million in 2Q18.

Total operating income amounted to Baht 4,735 million, increased of Baht 310 million or 7.0% yoy. In addition to net interest income and net fees and services income, gain on trading and foreign exchange transactions totaled Baht 115 million increasing by 31.5% yoy. Additionally, gain on investments totaled Baht 499 million increasing from Baht 45 million during 2Q18 while dividend income and profit sharing declined by 49.5% yoy.

Other operating expenses were Baht 2,388 million, increased by 10.8% yoy from Baht 2,155 million during 2Q18. For 2Q19, the Bank recorded loss on sale of foreclosed assets totaled Baht 63 million comparing to gain of Baht 4 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars amounting to Baht 253 million, with loss increasing from Baht 191 million during 2Q18 and from gain on sale of foreclosed properties totaled Baht 190 million for 2Q19 comparing to Baht 195 million recorded during 2Q18. During 2Q19, the Bank sold foreclosed properties in the amount of Baht 472 million.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 2Q19 totaled Baht 2,306 million, an increase of 5.0% from expenses of Baht 2,196 million during 2Q18 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 46.8% for 2Q19, declining from 47.5% yoy.

Impairment loss on loans and debt securities for 2Q19 totaled Baht 610 million, increasing by 25.0% when comparing to Baht 489 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.48% of average loan for 2Q19. Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 11,085 million with outstanding Baht 4,500 million in general reserve. As of end of 2Q19, the total loan loss reserve to total mandatory reserve ratio stood at 182.4%, slight decline comparing to 183.0% as of end of 2Q18. Meanwhile, total loan loss reserve to total NPLs ratio (coverage ratio) stood at 113.2% for 2Q19, comparing to 113.8% as of end of 2Q18.

Basic earnings per share at Baht 1.74 per share.

Annualized Ratios	2Q18	1H18	2018	1Q19	2Q19	1H19
<b>Net Profit (Baht million)</b>	<b>1,551</b>	<b>3,064</b>	<b>6,042</b>	<b>1,228</b>	<b>1,471</b>	<b>2,699</b>
ROAE (%)	14.7	14.8	14.5	11.5	13.8	12.8
ROE (%)	14.5	14.8	14.6	11.6	13.5	12.8
ROAA (%)	2.2	2.2	2.1	1.6	1.9	1.7
<b>Comprehensive income (Baht million)</b>	<b>1,125</b>	<b>2,601</b>	<b>5,123</b>	<b>1,369</b>	<b>1,126</b>	<b>2,494</b>
ROAE (%)	10.7	12.6	12.3	12.8	10.5	11.8
ROE (%)	10.5	12.6	12.4	13.0	10.4	11.8
ROAA (%)	1.6	1.9	1.8	1.8	1.4	1.6

### **Operating results of the Bank and subsidiaries for the first half of 2019 comparing with the first half of 2018**

The consolidated net profit for the first half of 2019 totaled Baht 2,699 million, declining by 11.9% comparing to the same period last year, of which Baht 327 million was the net profit from Capital Market business operated by Phatra Capital Plc. (Phatra), and subsidiaries. Meanwhile, the consolidated comprehensive income totaled Baht 2,494 million, decreased of 4.1% with Capital Market business's comprehensive income at Baht 336 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 5,971 million, up 10.6% mainly from the increased in interest income on loan from loan expansions. Yield on loan declined from 7.2% to 7.1% yoy while cost of fund remained stable at 2.3% for the first half of 2019 comparing with the same period last year resulting in the decline of loan spread from 4.9% during the first half of 2018 to 4.7% for the first half of 2019.

Net fee and service income totaled Baht 2,146 million, declining 2.7% yoy from the decline in bancassurance fee during the first half of 2019 comparing to the same period last year. Fee from brokerage business also declined from the overall decline in market trading volume comparing to the same period last year while fees from investment banking business increased comparing to the first half of 2018.

Total operating income amounted to Baht 9,176 million, an increase of 4.7% from the same period last year from the changes in net interest income and net fee and services income as aforementioned. Additionally, the Bank recorded gain on investments totaling Baht 480 million, increasing when comparing to Baht 44 million during the first half of 2018. Meanwhile, dividend income and profit sharing declined by 42.6% from the same period last year.

Other operating expenses were Baht 4,850 million, increased by 15.0%. If excluding loss from sale and revaluations of foreclosed assets, operating expenses totaled Baht 4,484 million or an increase of 3.2% comparing to the first half of 2018 mainly from the increase in premises and equipment expenses from the renovations of KKP Tower. Cost-to-income ratio excluding loss from sale and revaluations of foreclosed assets for the first half of 2019 stood at 47.6% remaining at same level when comparing to the same period last year.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 1,095 million, increasing 18.7% from Baht 922 million yoy. Loan loss provisions (excluding general reserve) and including loss from sale of repossessed cars stood at 1.42% of average loan for the first half of 2019.

**Statement of Comprehensive Income**

For the six-month period ended June 30, (BAHT'000)	CONSOLIDATED		Change	
	2019	2018	Amount	%
Interest income	8,783,289	7,763,823	1,019,466	13.1
Interest expenses	2,812,253	2,367,163	445,090	18.8
<b>Interest income, net</b>	<b>5,971,036</b>	<b>5,396,660</b>	<b>574,376</b>	<b>10.6</b>
Fees and services income	2,401,882	2,427,291	(25,409)	(1.0)
Fees and services expenses	255,785	221,202	34,583	15.6
<b>Fees and services income, net</b>	<b>2,146,097</b>	<b>2,206,089</b>	<b>(59,992)</b>	<b>(2.7)</b>
Gain on trading and foreign exchange transactions, net	222,149	250,565	(28,416)	(11.3)
Gain (loss) on financial liabilities designated at fair value through profit or loss, net	(124,272)	89,806	(214,078)	(238.4)
Gain (loss) on investments, net	479,673	44,151	435,522	986.4
Dividend income and profit sharing	338,994	590,175	(251,181)	(42.6)
Other operating income	141,882	185,661	(43,779)	(23.6)
<b>Total operating income</b>	<b>9,175,559</b>	<b>8,763,107</b>	<b>412,452</b>	<b>4.7</b>
Other operating expenses				
Employee's expenses	2,745,014	2,752,772	(7,758)	(0.3)
Directors' remuneration	22,337	22,916	(579)	(2.5)
Premises and equipment expenses	662,274	511,152	151,122	29.6
Taxes and duties	190,993	191,316	(323)	(0.2)
Loss from revaluation of foreclosed assets (reversal)	71,461	(114,150)	185,611	(162.6)
Loss (gain) from sale of foreclosed assets	294,063	(15,186)	309,249	(2,036.4)
Other expenses	863,761	866,709	(2,948)	(0.3)
<b>Total other operating expenses</b>	<b>4,849,903</b>	<b>4,215,529</b>	<b>634,374</b>	<b>15.0</b>
Impairment loss on loans and debt securities	1,094,990	922,218	172,772	18.7
<b>Profit from operating before income tax expenses</b>	<b>3,230,666</b>	<b>3,625,360</b>	<b>(394,694)</b>	<b>(10.9)</b>
Income tax expenses	536,422	553,413	(16,991)	(3.1)
<b>Net profit</b>	<b>2,694,244</b>	<b>3,071,947</b>	<b>(377,703)</b>	<b>(12.3)</b>
<b>Net profit attributable to:</b>				
Equity holders of the Bank	2,698,729	3,063,951	(365,222)	(11.9)
Non-controlling interests	(4,485)	7,996	(12,481)	(156.1)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	2,494,397	2,600,992	(106,595)	(4.1)
Non-controlling interests	(5,743)	7,824	(13,567)	(173.4)
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	3.19	3.62	(0.43)	(11.9)



### Statements of Financial Position

Assets, as of June 30, 2019, totaled Baht 313,550 million, increased of Baht 7,221 million or 2.4% from the end of 2018.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Jun 30, 2019</u>	<u>Dec 31, 2018</u>	<u>Amount</u>	<u>%</u>
Cash	1,097,806	1,335,668	(237,862)	(17.8)
Interbank and money market items, net	4,940,598	28,199,589	(23,258,991)	(82.5)
Derivatives assets	4,395,893	3,315,858	1,080,035	32.6
Investments in securities, net	51,089,668	29,780,567	21,309,101	71.6
Investments in receivables, net	1,717,224	1,769,505	(52,281)	(3.0)
Investments in properties, net	22,000	22,132	(132)	(0.6)
Loans to customers and accrued interest receivables, net				
Loans to customers	254,165,390	249,982,184	4,183,206	1.7
Accrued interest receivables	1,158,933	1,170,011	(11,078)	(0.9)
Total loans to customers and accrued interest receivables	255,324,323	251,152,195	4,172,128	1.7
<u>Less</u> Deferred revenue	(21,378,356)	(22,086,038)	707,682	(3.2)
<u>Less</u> Allowance for doubtful accounts	(11,084,546)	(10,759,343)	(325,203)	3.0
<u>Less</u> Allowance for troubled debt restructuring	(750)	(432)	(318)	73.6
Total loans to customers and accrued interest receivables, net	222,860,671	218,306,382	4,554,289	2.1
Properties foreclosed, net	3,534,290	3,724,922	(190,632)	(5.1)
Land, premises and equipment, net	2,916,172	2,772,514	143,658	5.2
Other intangible assets, net	1,123,549	1,117,889	5,660	0.5
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,972,631	1,861,740	110,891	6.0
Accounts receivable from clearing house and broker - dealers	179,784	3,411,791	(3,232,007)	(94.7)
Securities and derivative business receivables	9,088,431	4,212,723	4,875,708	115.7
Other assets, net	5,545,472	3,432,183	2,113,289	61.6
<b>Total assets</b>	<b>313,550,224</b>	<b>306,329,498</b>	<b>7,220,726</b>	<b>2.4</b>

Liabilities amounted to Baht 271,404 million, increasing 2.8% from the end of 2018. Deposits were Baht 177,610 million, declining by 2.2%. Deposits comprised of 66.4% of term deposits and 33.6% of current and saving accounts (CASA). Meanwhile, debts and borrowings were Baht 47,704 million, declining by 2.7% from the end of 2018. Loan to deposits and borrowings ratio stood at 103.6%, comparing to 99.1% at the end of 2018.

<u>LIABILITIES</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Jun 30, 2019</u>	<u>Dec 31, 2018</u>	<u>Amount</u>	<u>%</u>
Deposits	177,609,634	181,693,821	(4,084,187)	(2.2)
Current Account	490,372	352,967	137,405	38.9
Saving Account	59,248,594	69,345,929	(10,097,336)	(14.6)
Term Deposit	117,309,371	111,396,122	5,913,249	5.3
Certificate of Deposit	561,297	598,803	(37,506)	(6.3)
Interbank and money market items, net	16,932,983	13,156,615	3,776,368	28.7
Liabilities payable on demand	577,447	503,487	73,960	14.7
Financial liabilities designated at fair value through profit or loss	4,399,553	1,193,144	3,206,409	268.7
Derivatives liabilities	4,247,533	3,438,329	809,204	23.5
Debt issued and borrowings	47,704,091	49,008,059	(1,303,968)	(2.7)
Senior securities	39,314,531	40,222,972	(908,440)	(2.3)
Subordinated bond	8,290,000	8,290,000	0	0.0
Bills of Exchange	99,559	495,088	(395,528)	(79.9)
Provisions	824,626	779,584	45,042	5.8
Deferred tax liabilities	18,749	20,457	(1,708)	(8.3)
Accounts payable to clearing house and broker - dealers	575,391	120,194	455,197	378.7
Securities and derivative business payables	7,110,261	5,297,794	1,812,467	34.2
Accrued interest expenses	686,896	692,732	(5,836)	(0.8)
Other accounts payable	5,546,582	2,232,379	3,314,203	148.5
Income tax payable and specific business tax payable	607,467	854,568	(247,101)	(28.9)
Other liabilities	4,562,612	4,997,775	(435,163)	(8.7)
<b>Total liabilities</b>	<b>271,403,825</b>	<b>263,988,938</b>	<b>7,414,887</b>	<b>2.8</b>

Shareholders' equity was Baht 42,146 million, decreased by 0.5% 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 23,094 million.

#### The Dividend payment

The Annual General Meeting of shareholders on April 23, 2019 approved 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 paid on May 21, 2019.

#### Capital Adequacy Ratio (BIS ratio)

As of June 30, 2019, the Capital Adequacy Ratio (BIS ratio) under Basel III, which included profit for the year 2018 after deducting dividend payment, was at 16.13% while Tier-1 ratio was at 12.37%. When including profit up to end of 2Q19, the BIS ratio will increase to 17.29% while Tier-1 ratio will be 13.53%.

### 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	Jun 30, 2019		Dec 31, 2018		Change (%)
	Baht million	%	Baht million	%	
<b>Retail Lending</b>	<b>140,477</b>	<b>60.2</b>	<b>140,402</b>	<b>61.4</b>	<b>0.1</b>
Hire Purchase	105,279	45.1	108,191	47.3	(2.7)
Personal loan	7,055	3.0	6,528	2.9	8.1
Micro SMEs loan	7,627	3.3	7,040	3.1	8.3
Housing loan	20,516	8.8	18,642	8.2	10.1
<b>Commercial Lending</b>	<b>56,151</b>	<b>24.1</b>	<b>55,813</b>	<b>24.4</b>	<b>0.6</b>
Real Estate Development loan	30,682	13.1	29,052	12.7	5.6
SMEs loan	25,470	10.9	26,760	11.7	(4.8)
<b>Corporate Lending</b>	<b>27,937</b>	<b>12.0</b>	<b>23,873</b>	<b>10.4</b>	<b>17.0</b>
<b>Special Asset Management loan</b>	<b>582</b>	<b>0.2</b>	<b>565</b>	<b>0.2</b>	<b>3.0</b>
<b>Lombard loan</b>	<b>8,255</b>	<b>3.5</b>	<b>7,947</b>	<b>3.5</b>	<b>3.9</b>
<b>Total loans and account receivables</b>	<b>233,402</b>	<b>100.0</b>	<b>228,599</b>	<b>100.0</b>	<b>2.1</b>

**Retail Lending** totaled Baht 140,477 million, increasing slightly by 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 105,279 million, contraction of 2.7% from the end of 2018. New hire purchase business volume booked during 2Q19 totaled Baht 9,080 million, declining 27.9% from same quarter of previous year. The portion of hire purchase loan to total Bank loan portfolio stood at 45.1% with the portion of new cars to used cars at 37:63. Domestic new car sales for the first 6 months of 2019 totaled 523,770

units, increasing by 7.1% 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 6 months of 2019 was at 1.8%, remaining at same level comparing to the end of 1Q19.

For 2Q19, the Bank loan portfolio in other retail loans expanded by 9.3% from the end of 2018 with total combined other retail loans portion to total Bank loan portfolio increasing to 15.1% during 2Q19.

**Commercial Lending** business amounted to Baht 56,151 million, expanded slightly by 0.6% 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 30,682 million, with continuing expansion of 5.6% from the end of 2018.

SMEs loans were Baht 25,470 million, contracted by 4.8%. 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 27,937 million, growth of 17.0% 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 582 million.

**Lombard Loan**, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 8,255 million, increasing by 3.9% from the end of 2018.

#### NPLs distribution by loan type (consolidated)

Type of loans	Jun 30, 2019			Dec 31, 2018		
	Baht million	%	% of loans	Baht million	%	% of loans
<b>Retail Lending</b>	<b>4,088</b>	<b>41.7</b>	<b>2.9</b>	<b>3,485</b>	<b>37.1</b>	<b>2.5</b>
Hire Purchase	2,712	27.7	2.6	2,443	26.0	2.3
Personal loan	254	2.6	3.6	193	2.1	3.0
Micro SMEs loan	791	8.1	10.4	579	6.2	8.2
Housing loan	331	3.4	1.6	270	2.9	1.4
<b>Commercial Lending</b>	<b>5,148</b>	<b>52.5</b>	<b>9.2</b>	<b>5,353</b>	<b>56.9</b>	<b>9.6</b>
Real Estate Development loan	3,772	38.5	12.3	3,942	41.9	13.6
SMEs loan	1,376	14.0	5.4	1,411	15.0	5.3
<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>562</b>	<b>5.7</b>	<b>96.5</b>	<b>565</b>	<b>6.0</b>	<b>100.0</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>9,798</b>	<b>100.0</b>	<b>4.2</b>	<b>9,403</b>	<b>100.0</b>	<b>4.1</b>

The Non-Performing Loans (NPLs) as of the end of 2Q19 totaled Baht 9,798 million or 4.2% of total loans, increasing from 4.1% at the end of 2018 mainly from the increase in NPLs from retail loans.

**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 local and foreign mutual funds and structured products. For 2Q19, the market share<sup>1</sup> of PSEC was 8.89%, ranking 1<sup>st</sup> from total 38 brokers. PSEC generated brokerage revenue totaling Baht 306 million comprising of equity brokerage revenue of Baht 269 million and derivatives brokerage revenue of Baht 37 million. Additionally, PSEC also had brokerage revenue from selling agent fees of Baht 128 million.<sup>2</sup>

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 2Q19, the revenue was Baht 65 million, contributed to financial advisory fee amounting Baht 10 million, underwriting fee amounting Baht 11 million and revenue from tender offer agent of Baht 44 million.

- **Investment Business**

Investment Business is managed by 2 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 Equity and Derivatives Trading Department (“EDT”). 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.

In 2Q19, DI focusing on long-term investment with value based investment philosophy recorded gain on investment including loss on re-measuring available-for-sale securities totaling Baht 13 million. Meanwhile, EDT had gain on investment totaling Baht 63 million.<sup>3</sup> Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment gain of Baht 114 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 2019 was Baht 69,891 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 1.30%. In 2Q19, PASSET’s fee income from mutual fund business totaled Baht 135 million. As of 30 June 2019, asset under management from private fund was Baht 28,359 million. PASSET’s fee income from private fund business totaled Baht 67 million.

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<sup>1</sup> Including SET and mai but excluding proprietary trading

<sup>2</sup> Including selling agent fee which receive from subsidiary company

<sup>3</sup> Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 56 million