



## **Management Discussion and Analysis**

For the third quarter and nine-month ended September 30, 2019

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

For the third quarter and nine-month ended September 30, 2019 comparing operating performance and financial position for the third quarter and nine-month ended September 30, 2019 with those of 2018. This report discusses principal changes in the reviewed consolidated financial statements.

### **Overall market environment**

The Thai economy for the first 9 months of 2019 grew at a slower pace from both the domestic and external demands. Private consumption slowed down in almost all categories especially in durable goods which showed significant contractions since the second quarter onwards from the contractions in vehicle sales. Key factors include the weakened household income and tightening of financial institutions in loans approvals due to the deteriorations in asset quality. Private investment contracted in the investment in construction from the decline in permitted construction area and also from the decline in construction material sales in line with the slowed down in the real estate sector. Additionally, investment in machinery and equipment also contracted as exhibited by the decline in import of capital goods and the number of registered vehicles. Public spending excluding transfers contracted yoy from current expenditures while capital expenditures grew from the expenditures of state enterprises.

Exports during the first 9 months of 2019 contracted 2.1% from the same period last year with contractions across all categories. Excluding exports of gold, value of exports contracted 4.0% 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, the down-cycle of electronic products and also from the decline in global oil prices and the high base effect of last year expedited exports before the increase in US import tariffs on Chinese products. In the tourism sector, the number of tourist arrivals exhibited a slow growth, increasing 3.5% from the same period last year resulting from 1) low base effect of last year from the Phuket boat incident 2) exemption of visa on arrival fee and 3) impact from political unrest in Hong Kong created change in plans for some Chinese tourists to visit Thailand instead.

For the last quarter of 2019, the Thai economy is expected to continue to remain subdued stemming from 1) the continuing trade tensions between the US and trading partners, particularly China which may impose risks to exports growth and 2) the continuing high level of household debt including lower household income especially in the non-farm sector limiting household consumptions.

Meanwhile, in the auto industry, the total number of car sales for the first 9 months of 2019 showed a slowing down trend with sales for the first 9 months totaled 761,847 units, growth of 2.0%. The passenger vehicle and commercial vehicle segment expanded by 5.0% and 0.2% yoy. The slow growth is consistent with the economic slowdown and credit tightening of financial institutions after signs of deterioration in loans.

In the equity market, the average daily turnover (SET and mai) for 3Q19 increased by 15.8% from Baht 53,799 million in 2Q19 to Baht 62,275 million during 3Q19. The SET index at the end of 3Q19 closed at 1,637.22 points, decreasing by 5.4% from 1,730.34 points at the end of 2Q19.

### Overall Business Operations

During 3Q19, the overall Bank's loan portfolio grew by 4.2% from the end of 2018 with growth continue to be driven across almost all segments except in the hire purchase segment. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio for 3Q19 remained stable at 4.2% from the end of 2Q19. On Special Asset Management business, the Bank sold non-performing assets (NPAs) totaling Baht 321 million and had gain of Baht 162 million. Financial Markets business generated revenue of Baht 126 million during 3Q19. For Capital market business, the market shares (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) was 10.59%, increased from 8.89% in 2Q19, ranking 1st from total 38 brokers.

During 3Q19, Phatra Capital has made investments in Singapore-based ICHX Tech Pte. Ltd. (ICHX), an operator of a fully integrated platform offering end-to-end digitized securities service under the name iSTOX (www.istox.com). The iSTOX platform will enable issuance and trading of digitized securities and make the capital market more efficient. The platform presents a new way of fundraising and investment not available in conventional capital markets.

The consolidated net profit for 3Q19 totaled Baht 1,610 million, an increase of 9.5% from Baht 1,471 million from the previous quarter of 2Q19. When comparing yoy, the net income for 3Q19 increased by 3.8% comparing to net profit of Baht 1,551 million during 3Q18. The consolidated comprehensive income for 3Q19 totaled Baht 1,766 million, an increase of 56.8% comparing to Baht 1,126 million in 2Q19. When comparing yoy, the comprehensive income increased by 18.5% from Baht 1,489 million in 3Q18. 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	3Q18	9M18	1Q19	2Q19	3Q19	9M19
Loan growth	3.5	14.1	1.9	0.2	2.0	4.2
NPLs/ Total loans (excluding interbank)	4.2	4.2	4.1	4.2	4.2	4.2
Total loan loss reserve/ Total NPLs (coverage ratio)	115.6	115.6	114.1	113.2	110.1	110.1
Total loan loss reserve/ Total mandatory reserve	184.9	184.9	184.4	182.4	167.0	167.0

**Profit and Loss Transaction**

For the three-month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2019	2018	Amount	%
Interest income	4,696,115	4,200,604	495,511	11.8
Interest expenses	1,469,129	1,289,834	179,295	13.9
<b>Interest income, net</b>	<b>3,226,986</b>	<b>2,910,770</b>	<b>316,216</b>	<b>10.9</b>
Fees and services income	1,386,307	1,165,317	220,990	19.0
Fees and services expenses	178,540	105,999	72,541	68.4
<b>Fees and services income, net</b>	<b>1,207,767</b>	<b>1,059,318</b>	<b>148,449</b>	<b>14.0</b>
Gain on trading and foreign exchange transactions, net	7,842	30,383	(22,541)	(74.2)
Gain (loss) on financial liabilities designated at fair value through profit or loss, net	283,803	(80,769)	364,572	(451.4)
Gain on investments, net	50,457	141,843	(91,386)	(64.4)
Dividend income and profit sharing	141,023	257,775	(116,752)	(45.3)
Other operating income	64,576	90,278	(25,702)	(28.5)
<b>Total operating income</b>	<b>4,982,454</b>	<b>4,409,598</b>	<b>572,856</b>	<b>13.0</b>
<b>Other operating expenses</b>				
Employee's expenses	1,439,971	1,303,510	136,461	10.5
Directors' remuneration	12,111	12,156	(45)	(0.4)
Premises and equipment expenses	314,409	256,883	57,526	22.4
Taxes and duties	107,021	105,056	1,965	1.9
Loss from revaluation of foreclosed assets (reversal)	(10,015)	154,458	(164,473)	(106.5)
Loss from sale of foreclosed assets	271,846	77,783	194,063	249.5
Other expenses	477,149	435,310	41,839	9.6
<b>Total other operating expenses</b>	<b>2,612,492</b>	<b>2,345,156</b>	<b>267,336</b>	<b>11.4</b>
Impairment loss on loans and debt securities	373,309	30,022	343,287	1,143.5
<b>Profit from operating before income tax expenses</b>	<b>1,996,653</b>	<b>2,034,420</b>	<b>(37,767)</b>	<b>(1.9)</b>
Income tax expenses	379,916	481,514	(101,598)	(21.1)
<b>Net profit</b>	<b>1,616,737</b>	<b>1,552,906</b>	<b>63,831</b>	<b>4.1</b>
<b>Net profit attributable to:</b>				
Equity holders of the Bank	1,609,887	1,551,019	58,868	3.8
Non-controlling interests	6,850	1,887	4,963	263.0
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	1,765,690	1,489,439	276,251	18.5
Non-controlling interests	6,819	1,855	4,964	267.6
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	1.90	1.83	0.07	3.8

### Operating results of the Bank and subsidiaries for 3Q19 comparing with 3Q18

The consolidated net profit for 3Q19 totaled Baht 1,610 million, an increase of 3.8% yoy, of which Baht 402 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra) and subsidiaries. Meanwhile, the consolidated comprehensive income for 3Q19 totaled Baht 1,766 million, increase of 18.5% yoy. The Capital Market business comprehensive income was Baht 485 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 3,227 million, an increase of Baht 316 million or 10.9% yoy from Baht 2,911 million in 3Q18. Interest income was Baht 4,696 million, increased of 11.8% from 3Q18 mainly from the increase in interest income on loans of 13.2% from loan expansions. Interest on investment in loans also increased 350.8%. Interest expense totaled Baht 1,469 million, an increase of 13.9% yoy from the growth in deposit. Yield on loan for 3Q19 at 7.0% while cost of funds was at 2.4% resulting in loan spread for 3Q19 to decline to 4.6% from 5.1% during 3Q18.

For the three-month period ended	Consolidated		Change	
	Sept 30, 2019	Sept 30, 2018	Baht million	%
<b>Interest income</b>	<b>4,696</b>	<b>4,201</b>	<b>496</b>	<b>11.8</b>
Interest on loans	1,855	1,640	216	13.2
Interest on interbank and money market items	45	67	(22)	(33.0)
Hire purchase and financial lease income	2,296	2,296	(0)	(0.0)
Interest on securities	183	122	61	49.8
Interest on investment in loans	312	69	243	350.8
Others	5	6	(1)	(18.4)

For the three-month period ended	Consolidated		Change	
	Sept 30, 2019	Sept 30, 2018	Baht million	%
<b>Interest expense</b>	<b>1,469</b>	<b>1,290</b>	<b>179</b>	<b>13.9</b>
Interest on deposits	797	694	103	14.8
Interest on interbank and money market items	68	36	33	92.1
Interest on debt issued and borrowings	324	304	20	6.6
Fees and charges on borrowings	5	3	2	48.3
FIDF and DPA fees	263	239	23	9.8
Others	12	13	(1)	(10.6)

%	3Q18	9M18	1Q19	2Q19	3Q19	9M19
<b>Yield on loan</b>	7.3	7.2	7.1	7.0	7.0	7.0
<b>Cost of fund</b>	2.2	2.3	2.3	2.4	2.4	2.3
<b>Loan spread</b>	5.1	5.0	4.8	4.6	4.6	4.7

Net fees and services income totaled Baht 1,208 million, an increase of 14.0% from 3Q18 amount of Baht 1,059 million mainly from the increase in brokerage business income which totaled Baht 500 million increased when comparing to Baht 377 million yoy, fee from Asset Management business totaled Baht 213 million increasing from Baht 198 million in 3Q18 while fee generated from investment banking business for 3Q19 totaled Baht 107 million also increasing. Meanwhile, bancassurance fee for 3Q19 amounted to Baht 237 million, declining 10.0% yoy from Baht 263 million for 3Q18.

Total operating income amounted to Baht 4,982 million, increased of Baht 573 million or 13.0% yoy. In addition to the increase in net interest income and net fees and services income, total gain on trading and foreign exchange transactions and gain on financial liabilities designated at fair value also increased yoy. Meanwhile, gain on investments and dividend income and profit sharing declined when comparing to 3Q18.

Other operating expenses were Baht 2,612 million, increased by 11.4% yoy from Baht 2,345 million during 3Q18. For 3Q19, the Bank recorded loss on sale of foreclosed assets totaled Baht 272 million comparing to loss of Baht 78 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars amounting to Baht 434 million, with loss increasing from Baht 221 million during 3Q18 and from gain on sale of foreclosed properties totaled Baht 162 million for 3Q19 increasing from Baht 144 million recorded during 3Q18. During 3Q19, the Bank sold foreclosed properties in the amount of Baht 321 million.

When excluding loss from sale of foreclosed assets and loss from revaluation of foreclosed assets, operating expenses for 3Q19 totaled Baht 2,351 million, an increase of 11.3% from expenses of Baht 2,113 million during 3Q18 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 45.7% for 3Q19, declining from 46.4% yoy.

Impairment loss on loans and debt securities for 3Q19 totaled Baht 373 million comparing to Baht 30 million yoy. The increase is partly due to the reversal of loss on impairment of investments in receivables in the amount of Baht 268 million which the Bank recorded during 3Q18. Loan loss provisions including loss from sale of repossessed cars (credit cost) stood at 1.37% of average loan for 3Q19.

Allowance for doubtful accounts and allowance for troubled debt restructuring amounted to Baht 11,027 million. As of end of 3Q19, the total loan loss reserve to total mandatory reserve ratio stood at 167.0% while total loan loss reserve to total NPLs ratio (coverage ratio) stood at 110.1%.

Basic earnings per share at Baht 1.90 per share.

<b>Annualized Ratios</b>	<b>3Q18</b>	<b>9M18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>9M19</b>
<b>Net Profit (Baht million)</b>	<b>1,551</b>	<b>4,615</b>	<b>1,228</b>	<b>1,471</b>	<b>1,610</b>	<b>4,309</b>
ROAE (%)	15.0	14.9	11.5	13.8	15.2	13.6
ROE (%)	15.0	14.9	11.6	13.5	15.3	13.6
ROAA (%)	2.1	2.2	1.6	1.9	2.0	1.8
<b>Comprehensive income (Baht million)</b>	<b>1,489</b>	<b>4,090</b>	<b>1,369</b>	<b>1,126</b>	<b>1,766</b>	<b>4,260</b>
ROAE (%)	14.4	13.2	12.8	10.5	16.7	13.4
ROE (%)	14.4	13.2	13.0	10.4	16.8	13.5
ROAA (%)	2.0	2.0	1.8	1.4	2.2	1.8

**Operating results of the Bank and subsidiaries for the nine months of 2019 comparing with the nine months of 2018**

The consolidated net profit for the nine months of 2019 totaled Baht 4,309 million, declining by 6.6% comparing to the same period last year, of which Baht 730 million was the net profit from Capital Market business operated by Phatra Capital Plc. (Phatra) and subsidiaries. Meanwhile, the consolidated comprehensive income totaled Baht 4,260 million, increased of 4.1% with Capital Market business's comprehensive income at Baht 821 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 9,198 million, up 10.7%. Interest income increased 12.7% mainly from the increased in interest income on loan of 20.2% from loan expansions while interest on investment in loans increased 104.8%. Meanwhile, interest expenses also increased 17.1% from the increase in deposits. Loan spread for the nine months of 2019 declined to 4.7% comparing to 5.0% for the same period last year.

Net fee and service income totaled Baht 3,354 million, increasing 2.7% yoy mainly from the increase in fee from brokerage business and also from the increase in fee from investment banking business while bancassurance fee declined.

Total operating income amounted to Baht 14,158 million, an increase of 7.5% from the same period last year mainly from the increased in net interest income and net fee and services income. Additionally, gain on investments increased 185.0% yoy while dividend income and profit sharing declined by 43.4% from the same period last year.

Other operating expenses were Baht 7,462 million, increased by 13.7% yoy. If excluding loss from sale and revaluations of foreclosed assets, operating expenses totaled Baht 6,835 million, an increase of 5.8% yoy 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 nine months of 2019 stood at 46.9% declining from 47.2% from the same period last year.

Bad debts and doubtful accounts and loss on debt restructuring totaled Baht 1,468 million increasing from Baht 952 million yoy. During 3Q18, the Bank has recorded a reversal on loss on impairment of investments in receivables in the amount of Baht 268 million. Loan loss provisions including loss from sale of repossessed cars (credit cost) stood at 1.40% of average loan for the first nine months of 2019.

**Statement of Comprehensive Income**

For the nine-month period ended September 30, (BAHT'000)	CONSOLIDATED		Change	
	2019	2018	Amount	%
Interest income	13,479,404	11,964,427	1,514,977	12.7
Interest expenses	4,281,382	3,656,997	624,385	17.1
<b>Interest income, net</b>	<b>9,198,022</b>	<b>8,307,430</b>	<b>890,592</b>	<b>10.7</b>
Fees and services income	3,788,189	3,592,608	195,581	5.4
Fees and services expenses	434,325	327,201	107,124	32.7
<b>Fees and services income, net</b>	<b>3,353,864</b>	<b>3,265,407</b>	<b>88,457</b>	<b>2.7</b>
Gain on trading and foreign exchange transactions, net	229,991	280,948	(50,957)	(18.1)
Gain on financial liabilities designated at fair value through profit or loss, net	159,531	9,037	150,494	1,665.3
Gain (loss) on investments, net	530,130	185,994	344,136	185.0
Dividend income and profit sharing	480,017	847,950	(367,933)	(43.4)
Other operating income	206,458	275,939	(69,481)	(25.2)
<b>Total operating income</b>	<b>14,158,013</b>	<b>13,172,705</b>	<b>985,308</b>	<b>7.5</b>
<b>Other operating expenses</b>				
Employee's expenses	4,184,985	4,056,282	128,703	3.2
Directors' remuneration	34,448	35,072	(624)	(1.8)
Premises and equipment expenses	976,683	768,035	208,648	27.2
Taxes and duties	298,014	296,372	1,642	0.6
Loss from revaluation of foreclosed assets	61,446	40,308	21,138	52.4
Loss from sale of foreclosed assets	565,909	62,597	503,312	804.1
Other expenses	1,340,910	1,302,019	38,891	3.0
<b>Total other operating expenses</b>	<b>7,462,395</b>	<b>6,560,685</b>	<b>901,710</b>	<b>13.7</b>
Impairment loss on loans and debt securities	1,468,299	952,240	516,059	54.2
<b>Profit from operating before income tax expenses</b>	<b>5,227,319</b>	<b>5,659,780</b>	<b>(432,461)</b>	<b>(7.6)</b>
Income tax expenses	916,338	1,034,927	(118,589)	(11.5)
<b>Net profit</b>	<b>4,310,981</b>	<b>4,624,853</b>	<b>(313,872)</b>	<b>(6.8)</b>
<b>Net profit attributable to:</b>				
Equity holders of the Bank	4,308,616	4,614,970	(306,354)	(6.6)
Non-controlling interests	2,365	9,883	(7,518)	(76.1)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	4,260,087	4,090,431	169,656	4.1
Non-controlling interests	1,076	9,679	(8,603)	(88.9)
<b>Earnings per share of Equity holders of the Bank</b>				
Basic earnings per share (Baht)	5.09	5.45	(0.36)	(6.6)



### Statements of Financial Position

Assets, as of September 30, 2019, totaled Baht 320,263 million, increased of Baht 13,934 million or 4.5% from the end of 2018.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Sept 30, 2019</u>	<u>Dec 31, 2018</u>	<u>Amount</u>	<u>%</u>
Cash	1,053,824	1,335,668	(281,844)	(21.1)
Interbank and money market items, net	7,201,505	28,199,589	(20,998,084)	(74.5)
Derivatives assets	4,073,862	3,315,858	758,004	22.9
Investments in securities, net	49,052,032	29,780,567	19,271,465	64.7
Investments in receivables, net	1,668,799	1,769,505	(100,706)	(5.7)
Investments in properties, net	21,935	22,132	(197)	(0.9)
Loans to customers and accrued interest receivables, net				
Loans to customers	259,107,606	249,982,184	9,125,422	3.7
Accrued interest receivables	1,171,140	1,170,011	1,129	0.1
Total loans to customers and accrued interest receivables	260,278,746	251,152,195	9,126,551	3.6
<u>Less</u> Deferred revenue	(21,537,012)	(22,086,038)	549,026	(2.5)
<u>Less</u> Allowance for doubtful accounts	(11,026,402)	(10,759,343)	(267,059)	2.5
<u>Less</u> Allowance for troubled debt restructuring	(338)	(432)	94	(21.8)
Total loans to customers and accrued interest receivables, net	227,714,994	218,306,382	9,408,612	4.3
Properties foreclosed, net	3,489,541	3,724,922	(235,381)	(6.3)
Land, premises and equipment, net	3,008,079	2,772,514	235,565	8.5
Other intangible assets, net	1,131,339	1,117,889	13,450	1.2
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,829,474	1,861,740	(32,266)	(1.7)
Accounts receivable from clearing house and broker - dealers	392,700	3,411,791	(3,019,091)	(88.5)
Securities and derivative business receivables	9,869,840	4,212,723	5,657,117	134.3
Other assets, net	6,689,203	3,432,183	3,257,020	94.9
<b>Total assets</b>	<b>320,263,162</b>	<b>306,329,498</b>	<b>13,933,664</b>	<b>4.5</b>

Liabilities amounted to Baht 277,615 million, increasing 5.2% from the end of 2018. Deposits were Baht 172,906 million, declining by 4.8%. Deposits comprised of 66.9% of term deposits and 33.1% of current and saving accounts (CASA). Meanwhile, debts and borrowings were Baht 56,140 million, increasing by 14.6% from the end of 2018. Loan to deposits and borrowings ratio stood at 104.0%, comparing to 99.1% at the end of 2018.

<u>LIABILITIES</u> (BAHT'000)	CONSOLIDATED		Change	
	Sept 30, 2019	Dec 31, 2018	Amount	%
Deposits	172,906,339	181,693,821	(8,787,482)	(4.8)
Current Account	556,564	352,967	203,597	57.7
Saving Account	56,646,364	69,345,929	(12,699,565)	(18.3)
Term Deposit	115,174,250	111,396,122	3,778,128	3.4
Certificate of Deposit	529,162	598,803	(69,641)	(11.6)
Interbank and money market items, net	16,855,745	13,156,615	3,699,130	28.1
Liabilities payable on demand	454,164	503,487	(49,323)	(9.8)
Financial liabilities designated at fair value through profit or loss	4,507,897	1,193,144	3,314,753	277.8
Derivatives liabilities	4,331,548	3,438,329	893,219	26.0
Debt issued and borrowings	56,139,831	49,008,059	7,131,772	14.6
Senior securities	47,849,831	40,222,972	7,626,860	19.0
Subordinated bond	8,290,000	8,290,000	0	0.0
Bills of Exchange	0	495,088	(495,088)	(100.0)
Provisions	849,745	779,584	70,161	9.0
Deferred tax liabilities	64,550	20,457	44,093	215.5
Accounts payable to clearing house and broker - dealers	2,212,109	120,194	2,091,915	1,740.4
Securities and derivative business payables	8,137,286	5,297,794	2,839,492	53.6
Accrued interest expenses	998,288	692,732	305,556	44.1
Other accounts payable	5,323,585	2,232,379	3,091,206	138.5
Income tax payable and specific business tax payable	228,643	854,568	(625,925)	(73.2)
Other liabilities	4,605,608	4,997,775	(392,167)	(7.8)
<b>Total liabilities</b>	<b>277,615,338</b>	<b>263,988,938</b>	<b>13,626,400</b>	<b>5.2</b>

Shareholders' equity was Baht 42,648 million, increased by 0.7% 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 23,433 million.

#### The Dividend payment

In accordance with the resolution of the Board of Directors' meeting No.8/2019 held on August 22, 2019 which approved the interim dividend payment for the January 1 – June 30, 2019 operations at the rate of Baht 1.50 per share. The interim dividend was paid on September 20, 2019.

#### Capital Adequacy Ratio (BIS ratio)

As of September 30, 2019, the Capital Adequacy Ratio (BIS ratio) under Basel III, which included profit for the first half of 2019 after deducting dividend payment, was at 16.77% while Tier-1 ratio was at 13.03%. When including profit up to end of 3Q19, the BIS ratio will increase to 17.53% while Tier-1 ratio will be 13.78%.

### 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	Sept 30, 2019		Dec 31, 2018		Change (%)
	Baht million	%	Baht million	%	
<b>Retail Lending</b>	<b>142,334</b>	<b>59.8</b>	<b>140,402</b>	<b>61.4</b>	<b>1.4</b>
Hire Purchase	105,760	44.4	108,191	47.3	(2.2)
Personal loan	7,639	3.2	6,528	2.9	17.0
Micro SMEs loan	7,827	3.3	7,040	3.1	11.2
Housing loan	21,108	8.9	18,642	8.2	13.2
<b>Commercial Lending</b>	<b>58,116</b>	<b>24.4</b>	<b>55,813</b>	<b>24.4</b>	<b>4.1</b>
Real Estate Development loan	31,240	13.1	29,052	12.7	7.5
SMEs loan	26,876	11.3	26,760	11.7	0.4
<b>Corporate Lending</b>	<b>28,915</b>	<b>12.1</b>	<b>23,873</b>	<b>10.4</b>	<b>21.1</b>
<b>Special Asset Management loan</b>	<b>580</b>	<b>0.2</b>	<b>565</b>	<b>0.2</b>	<b>2.6</b>
<b>Lombard loan</b>	<b>8,238</b>	<b>3.5</b>	<b>7,947</b>	<b>3.5</b>	<b>3.7</b>
<b>Total loans and account receivables</b>	<b>238,182</b>	<b>100.0</b>	<b>228,599</b>	<b>100.0</b>	<b>4.2</b>

**Retail Lending** totaled Baht 142,334 million, increasing by 1.4% 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 105,760 million, contracted by 2.2% from the end of 2018. New hire purchase business volume booked during 3Q19 totaled Baht 10,956 million, declining 4.2% from same quarter of previous year. The portion of hire purchase loan to total Bank loan portfolio stood at 44.4% with the portion of new cars to used cars at 37:63. Domestic new car sales for the first 9 months of 2019 totaled 761,847

units, increasing by 2.0% 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 9 months of 2019 was at 2.0%, increasing from 1.8% at the end of 2Q19.

For 3Q19, the Bank loan portfolio in other retail loans expanded by 13.5% from the end of 2018 with total combined other retail loans portion to total Bank loan portfolio increasing to 15.4% as of end of 3Q19.

**Commercial Lending** business amounted to Baht 58,116 million, expanded by 4.1% 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 31,240 million, with continuing expansion of 7.5% from the end of 2018.

SMEs loans were Baht 26,876 million, slight growth of 0.4%. 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 28,915 million, growth of 21.1% 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 580 million.

**Lombard Loan**, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 8,238 million, increasing by 3.7% from the end of 2018.

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

Type of loans	Sept 30, 2019			Dec 31, 2018		
	Baht million	%	% of loans	Baht million	%	% of loans
<b>Retail Lending</b>	<b>4,124</b>	<b>41.1</b>	<b>2.9</b>	<b>3,485</b>	<b>37.1</b>	<b>2.5</b>
Hire Purchase	2,640	26.3	2.5	2,443	26.0	2.3
Personal loan	267	2.7	3.5	193	2.1	3.0
Micro SMEs loan	839	8.4	10.7	579	6.2	8.2
Housing loan	378	3.8	1.8	270	2.9	1.4
<b>Commercial Lending</b>	<b>5,340</b>	<b>53.3</b>	<b>9.2</b>	<b>5,353</b>	<b>56.9</b>	<b>9.6</b>
Real Estate Development loan	3,685	36.8	11.8	3,942	41.9	13.6
SMEs loan	1,655	16.5	6.2	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>5.6</b>	<b>97.0</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>10,026</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 3Q19 totaled Baht 10,026 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 3Q19, the market share<sup>1</sup> of PSEC was 10.59%, ranking 1<sup>st</sup> from total 38 brokers. PSEC generated brokerage revenue totaling Baht 365 million comprising of equity brokerage revenue of Baht 321 million and derivatives brokerage revenue of Baht 44 million. Additionally, PSEC also had brokerage revenue from selling agent fees of Baht 182 million.<sup>2</sup>

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 3Q19, the revenue was Baht 109 million, contributed to financial advisory fee amounting Baht 8 million, underwriting fee amounting Baht 54 million and revenue from tender offer agent of Baht 47 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 3Q19, 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 117 million. Meanwhile, EDT had gain on investment totaling Baht 288 million.<sup>3</sup> Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment gain of Baht 437 million.

- **Asset Management Business**

Phatra Asset Management Co., Ltd. (“PASSET”), under mutual fund and private fund management licenses, offers fund management services to individuals and corporate customers. PASSET’s mutual fund AUM as of 30 September 2019 was Baht 68,562 million with total 35 funds under management consisting of 32 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.30%. In 3Q19, PASSET’s fee income from mutual fund business totaled Baht 145 million.

As of 30 September 2019, asset under management from private fund was Baht 26,027 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 271 million