



Management Discussion and Analysis

For the first quarter ended March 31, 2020

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Management Discussion and Analysis (MD&A)

For the first quarter ended March 31, 2020 comparing operating performance and financial position for the first quarter ended March 31, 2020 with those of 2019. This report discusses principal changes in the reviewed consolidated financial statements.

Changes in Financial Reporting Standards

The financial statements for the first quarter ended March 31, 2020 were prepared in accordance with the Thai Financial Reporting Standard No.9 Financial Instruments (TFRS 9) and Thai Financial Reporting Standard No.16 Leases (TFRS 16) guidelines which became effective from January 1, 2020 while the financial statements for the period during 2019 were prepared in accordance with existing guidelines prior to the adoption of TFRS 9 and TFRS 16. The financial statements for the year 2019 have not been restated which is permissible under the guidelines for the implementation of the aforementioned financial reporting standards. The key changes from the adoption of the above financial reporting standards are in the following areas:

- The concept of interest recognition will be changed to recognize at effective interest rate
- Classification and measurements of financial instruments into following categories: Amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVPL)
- Impairment of financial assets based on an expected credit loss (ECL) framework with financial assets classification into 3 stages. Stage 1: financial assets where the credit risk has not increased significantly with loss allowance based on 12 month expected credit loss. Stage 2: financial assets where the credit risk has significantly increased and Stage 3: credit-impaired financial assets with loss allowance for Stage 2 and Stage 3 based on lifetime expected credit loss
- Classification of investment in receivables into Purchased or originated credit-impaired financial assets (POCI) measured at amortised cost
- Adoption of TFRS 16 requires the recognition of right-of-use assets and lease liabilities

Overall market environment

The Thai economy for 1Q20 continued on a declining trend comparing to last year due primarily to the COVID-19 outbreak which started in January in China and has since spread to several countries. Measures to contain the outbreak imposed by several countries have led to widespread slowdown in economic activities. Private consumption slowed down in almost all categories especially in services segment: hotels, restaurants and transportations from the various measures implemented to curb the outbreak. Durable goods segment also declined from the contractions in vehicle sales in line with the weakened household income from lower income, employment and consumer confidence coupled with the already high household debt level. Nevertheless, the non-durable goods increased partly from the rush in purchase of consumers goods due to the concerns on the COVID-19 outbreak. Private investment continued to contract in all investment categories from the slowdown in domestic and external demands and also from the lower business sentiment impacted by the outbreak. Meanwhile, public spending excluding transfers also contracted in both current and capital expenditures partly due to the delay of FY2020 budget.

Exports for 1Q20 grew slightly at 0.9% compared to the same period last year. When excluding exports of gold, value of exports declined by 3.5% mainly from the slow economic growth of trading partners including

the shutdown measures imposed by several countries with the COVID-19 outbreak. In the tourism sector, the number of tourist arrivals for 1Q20 contracted by 38.0% yoy across almost all nationalities with high contractions in the number of Chinese tourists which declined 46.1% yoy due to the measures imposed by the Chinese government to curb the outbreak in China. The impact to tourism segment is expected to be more pronounced for March and for the second quarter with the number of tourist arrivals through Suvarnabhumi Airport for March registering a decline of 80% yoy. For the monetary policy, at the meeting on March 20, 2020, the Monetary Policy Committee (MPC) held a special meeting to assess the impact of the COVID-19 on the economy and the Thai financial markets and voted to cut the policy rate further by 0.25% from 1.00% to 0.75% to ease the debt burden of SME and consumers and increase liquidity in the markets and to further support the fiscal measures that have already been introduced earlier.

For 2020, the Thai economy is projected to contract significantly due to (1) the COVID-19 outbreak and the measures imposed internally and externally which would limit the economic activities (2) unemployment is projected to increase especially in sectors directly impacted by the outbreak: hotels and restaurants, trading and transportations further impacting private consumption and household debt repayments (3) public and private investments also likely to slow down due to economic uncertainties and the delay in public investment.

Meanwhile, in the auto industry, the total number of car sales for 1Q20 stood at 200,064 units, contracting by 24.1% both in passenger vehicle segment and commercial vehicle segment by 23.6% and 24.4% yoy respectively. In the equity market, the average daily turnover (SET and mai) for 1Q20 increased by 25.8% from Baht 53,192 million in 2019 to Baht 66,901 million during 1Q20. The SET index at the end of 1Q20 closed at 1,125.86 points, decreasing by 28.7% from 1,579.84 points at the end of 2019.

Overall Business Operations

The consolidated net profit of the Bank and subsidiaries for 1Q20 totaled Baht 1,484 million, an increase of 20.8% from Baht 1,228 million in 1Q19. The consolidated comprehensive income for 1Q20 totaled Baht 799 million, a decrease of 41.6% comparing to Baht 1,369 million in 1Q19. The comprehensive income included revaluation of available-for-sale securities as a result of the capital market volatility. Operating income amounted to Baht 5,594 million, an increase of 26.0% driven by the increase in net interest income of 15.9% with non-interest income also increasing by 48.3% from the increase in both net fees and services income and other income.

During 1Q20, the overall Bank's loan portfolio grew by 3.8%¹ from the end of 2019 with growth across almost all segments including hire purchase segment which recorded strong growth during 1Q20 while SME segment exhibited a slight decline. For asset quality, the Non-Performing Loans (NPLs) to total loans ratio for 1Q20 declined further to 3.7%¹ from 4.0% at the end of 2019. For Capital market business, the market share (SET and mai excluding proprietary trading) of Phatra Securities Plc. (PSEC) increased to 10.30% from 9.61% in 2019, ranking 1st from total 38 brokers.

Summary of Performance of the Bank and subsidiaries

Percentage	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Loan growth	1.9	0.2	2.0	0.0	4.2	3.8
NPLs/ Total loans (excluding interbank and POCl)	4.1	4.2	4.2	4.0	4.0	3.7
NPLs/ Total loans (excluding interbank)						4.0
Allowance for expected credit loss/ Total NPLs (coverage ratio) ¹	114.1	113.2	110.1	111.2	111.2	115.9

¹ Excluding loans classified as Purchased or originated credit-impaired (POCI)

Profit and Loss Transaction

For the three-month period ended March 31, (BAHT'000)	CONSOLIDATED		Change	
	2020	2019	Amount	%
Interest income	4,840,262	4,440,556	399,706	9.0
Interest expenses	1,301,235	1,385,827	(84,592)	(6.1)
Interest income, net	3,539,027	3,054,729	484,298	15.9
Fees and services income	1,487,963	1,248,412	239,551	19.2
Fees and services expenses	212,386	117,670	94,716	80.5
Fees and services income, net	1,275,577	1,130,742	144,835	12.8
Gain on financial instruments measured at fair value through profit or loss	459,381	0	459,381	n.a.
Gain on trading and foreign exchange transactions, net	0	106,785	(106,785)	n.a.
Loss on financial liabilities designated at fair value	0	(87,923)	87,923	n.a.
Gain (loss) on investments, net	77,696	(19,132)	96,828	(506.1)
Dividend income and profit sharing	186,326	180,015	6,311	3.5
Other operating income	56,129	75,658	(19,529)	(25.8)
Total operating income	5,594,136	4,440,874	1,153,262	26.0
Other operating expenses				
Employee's expenses	1,421,741	1,343,023	78,718	5.9
Directors' remuneration	6,627	8,631	(2,004)	(23.2)
Premises and equipment expenses	303,490	333,021	(29,531)	(8.9)
Taxes and duties	139,678	92,527	47,151	51.0
Loss from revaluation of foreclosed assets	692,720	52,979	639,741	1,207.5
Loss from sale of foreclosed assets	391,849	231,174	160,675	69.5
Other expenses	398,618	400,848	(2,230)	(0.6)
Total other operating expenses	3,354,723	2,462,203	892,520	36.2
Expected credit loss	256,160	0	256,160	n.a.
Impairment loss on loans and debt securities	0	484,520	(484,520)	n.a.
Profit from operating before income tax expenses	1,983,253	1,494,151	489,102	32.7
Income tax expenses	496,842	266,037	230,805	86.8
Net profit	1,486,411	1,228,114	258,297	21.0
Net profit attributable to:				
Equity holders of the Bank	1,484,065	1,228,160	255,905	20.8
Non-controlling interests	2,346	(46)	2,392	5,200.0
Total comprehensive income attributable to:				
Equity holders of the Bank	798,873	1,368,507	(569,634)	(41.6)
Non-controlling interests	2,211	(1,288)	3,499	271.7

Operating results of the Bank and subsidiaries for 1Q 2020 comparing with 1Q 2019

The consolidated net profit for 1Q20 totaled Baht 1,484 million, an increase of 20.8% yoy, of which Baht 587 million was the net profit from Capital Market Business operated by Phatra Capital Plc. (Phatra) and subsidiaries. Meanwhile, the consolidated comprehensive income for 1Q20 totaled Baht 799 million, a decline of 41.6% yoy. The Capital Market business comprehensive income recorded a loss of Baht 26 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 3,539 million, an increase of Baht 484 million or 15.9% yoy from Baht 3,055 million in 1Q19. Interest income was Baht 4,840 million, increased of 9.0% from 1Q19 mainly from the increase in interest income on loans and hire purchase and financial lease income from loan expansions and partly from the change due to TFRS 9 interest income calculation based on effective interest method and also from the recognition of interest income from non-performing loans. Yield on loan for 1Q20 increased to 7.7% from 7.2% in 1Q19. Additionally, the Bank has lowered the lending rates during 1Q20.

Interest expense totaled Baht 1,301 million, a decline of 6.1% yoy, with cost of funds declining to 2.0% for 1Q20 comparing to 2.3% for 1Q19 from effective cost management in line with the decline in policy rate and deposit rates in the market and also from the temporary reduction in FIDF fee from 0.46% to 0.23% effective from Jan 1, 2020 onwards, resulting in loan spread for 1Q20 to increase to 5.7% from 4.9% yoy.

For the three-month period ended (unit: Baht million)	Consolidated		Change	
	Mar 31, 2020	Mar 31, 2019	Baht million	%
Interest income	4,840	4,441	400	9.0
Interest on loans	2,099	1,742	357	20.5
Hire purchase and financial lease income	2,442	2,328	114	4.9
Interest on investment in loans	93	141	(48)	(34.2)
Interest on interbank and money market items	77	102	(24)	(23.9)
Interest on securities	122	122	(0)	(0.3)
Others	7	5	2	31.0
Interest expense	1,301	1,386	(85)	(6.1)
Interest on deposits	799	811	(12)	(1.5)
Interest on interbank and money market items	57	56	1	1.1
Interest on debt issued and borrowings	291	245	46	18.7
Fees and charges on borrowings	2	2	(0)	(0.4)
FIDF and DPA fees	139	257	(118)	(46.0)
Others	13	14	(1)	(5.0)
Net Interest Income	3,539	3,055	484	15.9

%	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Yield on loan	7.2	7.0	7.0	7.2	7.1	7.7
Cost of fund	2.3	2.4	2.4	2.3	2.3	2.0
Loan spread	4.9	4.7	4.6	4.9	4.8	5.7

Net fees and services income totaled Baht 1,276 million, an increase of 12.8% from 1Q19 amount of Baht 1,131 million with increases attributed mainly to the increase in Brokerage business income which totaled Baht 569 million increasing 67.9% yoy due to the increase in market trading volume during 1Q20 and also from the increase in market share of Phatra Securities to 10.30% in 1Q20 from 7.32% in 1Q19. Bancassurance fee amounted to Baht 261 million, also increasing 10.5% yoy. Fee from Asset Management business totaled Baht 178 million declining slightly by 6.8% from 1Q19. Meanwhile, fee generated from investment banking business for 1Q20 totaled Baht 167 million.²

Total operating income amounted to Baht 5,594 million, increased of Baht 1,153 million or 26.0% yoy due to the increase in net interest income and net fees and services income as mentioned above. Additionally, during 1Q20, the Bank recorded net gain on financial liabilities designated at fair value through profit or loss totaling Baht 459 million mainly from the Equity and Derivatives Trading Business and Financial Markets Business, a considerable increase comparing to Baht 19 million recorded yoy.

Other operating expenses were Baht 3,355 million, increased by 36.2% yoy from Baht 2,462 million during 1Q19. The Bank recorded loss on sale of foreclosed assets totaled Baht 392 million for 1Q20 comparing to loss of Baht 231 million yoy. Loss on sale of foreclosed assets comprised of loss from sale of repossessed cars amounting to Baht 439 million, with loss increasing from Baht 296 million yoy and also from gain on sale of foreclosed properties which totaled Baht 47 million for 1Q20, slight decline from Baht 64 million during 1Q19. Also, during 1Q20 as a prudent measure, the Bank recorded additional impairment on revaluation of foreclosed assets in the amount of Baht 665 million on foreclosed properties that are deemed to require a long period of time to dispose.

When excluding loss from sale of foreclosed assets and impairment from revaluation of foreclosed assets, cost-to-income ratio stood at 40.2% for 1Q20, declining from 48.3% yoy. Operating expenses excluding loss from sale of foreclosed assets and impairment from revaluations for 1Q20 totaled Baht 2,270 million, a slight increase of 4.2% from 1Q19 expenses of Baht 2,178 million mainly from the increase in personnel expenses.

Expected Credit Loss (ECL) from 1 January 2020 onwards, the expected credit loss (ECL) will be based on impairment requirement under Thai Financial Reporting Standard No. 9 (TFRS 9). Financial instruments under TFRS 9 are classified into 3 stages. For stage 1, TFRS 9 requires ECL allowances based on 12 month expected losses. For Stage 2 and Stage 3, the standard requires ECL allowances based on lifetime expected losses. Moreover, ECL also incorporates forward-looking economic scenarios into loss allowances.

For 1Q20, expected credit losses totaled Baht 256 million, a decline of 47.1% comparing to Baht 485 million for 1Q19. The excess loan loss reserve after allowance for expected credit losses based on TFRS 9 at the

² For 1Q20, total revenue generated from the Investment Banking business totaled Baht 209 million which included Financial Advisory Fee of Baht 43 million, Underwriting Fee of Baht 124 million, Brokerage revenue and Other fee of Baht 43 million

initial date of TFRS 9 adoption was Baht 2,552 million which the Bank has partially released as additional provisions for the impairment from revaluation of foreclosed assets as aforementioned resulting in remaining excess loan loss reserve of Baht 1,887 million which the Bank plan to release within 5 years on a straight line method.

As of end of 1Q20, allowance for expected credit losses under TFRS 9 amounted to Baht 8,658 million with remaining excess loan loss reserve totaled Baht 1,793 million at the end of 1Q20. Total allowance for expected credit losses to total NPLs ratio (coverage ratio) stood at 115.9% for 1Q20. Provisions for expected credit losses including loss from sale of repossessed cars (credit cost) stood at 1.15% of average loan for 1Q20. When excluding the release of excess loan loss reserve, credit cost amounted to 2.40% of average loan with increase partly due to the provisions for loan commitments and financial guarantee based on TFRS 9.

Basic earnings per share at Baht 1.75 per share.

Annualized Ratios	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Net Profit (Baht million)	1,228	1,471	1,610	1,680	5,988	1,484
ROAE (%)	11.5	13.8	15.2	15.5	13.9	13.8
ROE (%)	11.6	13.5	15.3	15.8	14.2	13.5
ROAA (%)	1.6	1.9	2.0	2.1	1.9	1.7
Comprehensive income (Baht million)	1,369	1,126	1,766	1,365	5,625	799
ROAE (%)	12.8	10.5	16.7	12.6	13.1	7.4
ROE (%)	13.0	10.4	16.8	12.8	13.3	7.3
ROAA (%)	1.8	1.4	2.2	1.7	1.8	0.9

Statements of Financial Position

Assets, as of March 31, 2020, totaled Baht 367,734 million, increased of Baht 56,044 million or 18.0% from the end of 2019.

<u>ASSETS</u> (BAHT'000)	<u>CONSOLIDATED</u>		<u>Change</u>	
	<u>Mar 31, 2020</u>	<u>Dec 31, 2019</u>	<u>Amount</u>	<u>%</u>
Cash	1,350,450	1,109,658	240,792	21.7
Interbank and money market items, net	49,094,489	11,981,838	37,112,651	309.7
Financial assets measured at fair value through profit or loss	11,796,702	0	11,796,702	n.a.
Derivatives assets	13,791,035	4,298,538	9,492,497	220.8
Investment, net	23,057,479	39,201,003	(16,143,524)	(41.2)
Investments in receivables, net	0	1,619,449	(1,619,449)	n.a.
Investments in properties, net	21,806	21,870	(64)	(0.3)
Loans to customers and accrued interest receivables, net	238,612,981	227,677,310	10,935,671	4.8
Properties foreclosed, net	2,965,114	3,585,530	(620,416)	(17.3)
Land, premises and equipment, net	3,082,079	3,038,243	43,836	1.4
Right-of-use assets	315,213	0	315,213	n.a.
Other intangible assets, net	1,143,527	1,151,041	(7,514)	(0.7)
Goodwill	3,066,035	3,066,035	0	0.0
Deferred tax assets	1,610,826	1,846,295	(235,469)	(12.8)
Accounts receivable from clearing house and broker - dealers	415,474	4,056,938	(3,641,464)	(89.8)
Securities and derivative business receivables	9,133,751	4,620,082	4,513,669	97.7
Other assets, net	8,276,795	4,416,176	3,860,619	87.4
Total assets	367,733,756	311,690,006	56,043,750	18.0

Liabilities amounted to Baht 325,731 million, increasing 21.7% from the end of 2019. Deposits were Baht 223,815 million, increasing by 30.0%. Deposits comprised of 48.4% of term deposits and 51.6% of current and saving accounts (CASA). Meanwhile, debts and borrowings were Baht 52,709 million, declining by 4.9% from the end of 2019. Loan to deposits and borrowings ratio stood at 89.4%, comparing to 104.6% at the end of 2019.

<u>LIABILITIES</u> (BAHT'000)	CONSOLIDATED		Change	
	Mar 31, 2020	Dec 31, 2019	Amount	%
Deposits	223,814,985	172,173,559	51,641,426	30.0
Current Account	482,029	535,014	(52,985)	(9.9)
Saving Account	114,983,461	64,093,363	50,890,098	79.4
Term Deposit	107,894,088	107,049,290	844,798	0.8
Certificate of Deposit	455,407	495,892	(40,484)	(8.2)
Interbank and money market items, net	14,701,587	17,339,111	(2,637,524)	(15.2)
Liabilities payable on demand	396,636	377,326	19,310	5.1
Financial liabilities measured at fair value through profit or loss	1,750,744	3,498,702	(1,747,958)	(50.0)
Derivatives liabilities	12,335,049	4,038,272	8,296,777	205.5
Debt issued and borrowings	52,708,592	55,415,433	(2,706,841)	(4.9)
Lease liabilities	260,194	0	260,194	n.a.
Provisions	1,152,931	844,037	308,894	36.6
Deferred tax liabilities	181,074	26,703	154,371	578.1
Accounts payable to clearing house and broker - dealers	152,425	614,271	(461,846)	(75.2)
Securities and derivative business payables	8,604,981	3,868,461	4,736,520	122.4
Accrued interest expenses	913,937	745,793	168,144	22.5
Other accounts payable	2,860,229	3,141,943	(281,714)	(9.0)
Income tax payable and specific business tax payable	505,718	559,255	(53,537)	(9.6)
Other liabilities	5,391,848	5,035,881	355,967	7.1
Total liabilities	325,730,930	267,678,747	58,052,183	21.7

Shareholders' equity was Baht 42,003 million, decreased by 4.6% from the end of 2019. Unappropriated retained earnings at Baht 24,284 million.

The Dividend payment

Due to the spread of the coronavirus (COVID-19), the Board of Directors' Meeting No. 4/2020, held on March 30, 2020, has passed resolutions as following: postponed the 2020 AGM and cancelled the record date on which shareholders had the right to attend the 2020 AGM, cancelled the record date on which shareholders had the right to receive dividend which was previously set on May 5, 2020 and approved the payment of interim dividend for the six-month period ended December 31, 2019 at the rate of Baht 2.75 per share which is equaled to the rate previously proposed for the 2020 AGM with the record date for the interim dividend on April 13, 2020 and dividend payment date on April 28, 2020. This was to replace the annual dividend payment which the Bank planned to propose to the 2020 AGM for approval.

When combined with the interim dividend from the Bank's operating results of the first six-month period of 2019 at the rate of Baht 1.50 per share paid to shareholders on September 20, 2019, the total dividend

payment from the operating results of the year 2019 will be Baht 4.25 per share. Full detail will be according to the letter submitted to SET on March 30, 2020.

Capital Adequacy Ratio (BIS ratio)

Upon adoption of Thai Financial Reporting Standard No.9 (TFRS 9) and Thai Financial Reporting Standard No.16 (TFRS 16) on January 1, 2020, Capital Adequacy Ratio of the Group has been improved since under TFRS 9, reserve of loans and contingents where the credit risk has not increased significantly (Stage 1 Reserve) and reserve of loans and contingents where the credit risk has increased significantly (Stage 2 Reserve) can be counted as Tier 2 Capital, while only reserve of pass class loans (Class 1 Reserve) is counted as Tier 2 under previous regulation. Although, Risk Weighted Assets are increased due to application of the right-of-use asset in financial position under TFRS 16.

As at March 31, 2020, the Capital Adequacy Ratio (BIS ratio) under Basel III which included profit for the year 2019 after dividend payment was 16.52% while Tier-1 ratio was at 12.47%. When including 1Q20 profit, the BIS ratio will increase to 17.06% while Tier-1 ratio will be 13.01%.

Impact from Coronavirus 2019 (COVID-19)

Due to the outbreak of the Coronavirus 2019 (COVID-19) since the start of the year 2020 where the impact has only become widespread toward the end of the first quarter. As a result, the Group financial performance for the first quarter of 2020 has been largely unaffected by the outbreak situation. For the three-month period ended 31 March 2020, there were some early impact as demonstrated by the rise in financial assets with significant increase in credit risk (Stage 2). The outbreak and its impacts are dependent on many on-going factors and are still uncertain at this point. The Group is currently in process of providing assistance to the Group's customers based on the various relief measures and also assessing the subsequent impacts from the situation.

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 the Credit Business which focuses on loan expansions to retail and Small and Medium Enterprise segments, the goals will be a timely credit process, building efficiencies, creating standards, identifying new alternative channels to reach targeted client segments while maintaining an effective risk management and credit monitoring and control. For Private Banking, the goal is to grow the business by capitalizing on the 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, 2020		Dec 31, 2019		Change (%)
	Amount (Baht million)	%	Amount (Baht million)	%	
Retail Lending	148,568	59.9	145,223	61.0	2.3
Hire Purchase	109,575	44.2	107,612	45.2	1.8
Personal loan	8,282	3.3	7,993	3.4	3.6
Micro SMEs loan	8,080	3.3	7,954	3.3	1.6
Housing loan	22,632	9.1	21,663	9.1	4.5
Commercial Lending	63,469	25.6	60,899	25.6	4.2
Real Estate Development loan	34,492	13.9	31,591	13.3	9.2
SMEs loan	28,977	11.7	29,308	12.3	(1.1)
Corporate Lending	26,349	10.6	23,527	9.9	12.0
Special Asset Management loan	1,249	0.5	509	0.2	143.3
Lombard loan	8,273	3.3	7,987	3.4	3.6
Total loans and account receivables	247,908	100.0	238,144	100.0	4.1
Total loans and account receivables (excluding POCI)	247,103				3.8

Retail Lending totaled Baht 148,568 million, increasing by 2.3% from the end of 2019. Retail loans include hire purchase loans, personal loans, Micro SMEs loans and housing loans.

Hire purchase loans amounted to Baht 109,575 million, expanded by 1.8% from the end of 2019. New hire purchase business volume booked during 1Q20 totaled Baht 11,918 million, increasing by 42.6% yoy. The portion of hire purchase loan to total Bank loan portfolio stood at 44.2% with the portion of new cars to used cars remaining stable at 37:63. Domestic new car sales for 1Q20 totaled 200,064 units, declining by 24.1% comparing to sales for the same period last year. The penetration rate of KK new cars lending to the domestic new car sales for 1Q20 was at 3.6%, increasing from 2.2% at the end of 2019.

For 1Q20, the Bank loan portfolio in other retail loans amounted to Baht 38,993 million, expanded by 3.7% from the end of 2019 with total combined other retail loans portion to total Bank loan portfolio at 15.7% as of end of 1Q20.

Commercial Lending business amounted to Baht 63,469 million, expanded by 4.2% from the end of 2019. Commercial Lending includes real estate development loans and SMEs loans, details are as follows:

Real estate development loans (RE) totaled Baht 34,492 million, growth of 9.2% from the end of 2019.

SMEs loans were Baht 28,977 million, declined slightly by 1.1% during 1Q20. 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 26,349 million, growth of 12.0% from the end of 2018.

Special asset management (SAM) is responsible for distressed asset management business and sale of foreclosed assets. Current outstanding loans totaled Baht 1,249 million increased when comparing to Baht 509 million from the end of 2019 due to the change in classification from TFRS 9 for financial assets classified as Purchased or originated credit impaired from previous classification of Investments in loans.

Lombard Loan, a multi-purpose credit facility for Wealth Management clients using financial assets as collateral. Current outstanding loans totaled Baht 8,273 million, increasing by 3.6% from the end of 2019.

NPLs distribution by loan type (consolidated)

Type of loans	Mar 31, 2020			Dec 31, 2019		
	Amount (Baht million)	%	% of loans	Amount (Baht million)	%	% of loans
Retail Lending	3,817	38.8	2.6	4,051	42.4	2.8
Hire Purchase	2,450	24.9	2.2	2,651	27.7	2.5
Personal loan	113	1.2	1.4	135	1.4	1.7
Micro SMEs loan	894	9.1	11.1	922	9.6	11.6
Housing loan	359	3.7	1.6	342	3.6	1.6
Commercial Lending	4,775	48.6	7.5	5,016	52.5	8.2
Real Estate Development loan	3,203	32.6	9.3	3,394	35.5	10.7
SMEs loan	1,572	16.0	5.4	1,622	17.0	5.5
Corporate Lending	0	0.0	0.0	0	0.0	0.0
Special Asset Management loan	1,238	12.6	99.1	494	5.2	97.1
Lombard loan	0	0.0	0.0	0	0.0	0.0
Total NPLs	9,830	100.0	4.0	9,560	100.0	4.0
Total NPLs (excluding POCI)	9,025		3.7			

The Non-Performing Loans (NPLs) or Stage 3 loans excluding POCI as of the end of 1Q20 totaled Baht 9,025 million or 3.7% of total loans, decreasing from 4.0% at the end of 2019 from the decline in NPLs from both retail loans segment and commercial lending segment.

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 1Q20, the market share³ of PSEC was 10.30%, ranking 1st from total 38 brokers. PSEC generated brokerage revenue totaling Baht 458 million comprising of equity brokerage revenue of Baht 391 million and derivatives brokerage revenue of Baht 67 million. Additionally, PSEC also had brokerage revenue from selling agent fees of Baht 149 million⁴.

- **Investment Banking Business**

Investment banking business, operated by PSEC, provides financial advisory service as well as underwriting service. In 1Q20, the Investment Banking business revenue was Baht 167 million, contributed to financial advisory fee amounting Baht 43 million and underwriting fee amounting Baht 124 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 Investment and Trading Group, comprising of 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 1Q20, DI focusing on long-term investment with value based investment philosophy recorded loss on investment including loss on re-measuring securities totaling Baht 836 million⁵ due to the market is highly volatile. Meanwhile, EDT had gain on investment totaling Baht 527 million⁶. Additionally, there were other investment incomes from treasury and liquidity management, resulting in overall investment loss of Baht 284 million.

- **Asset Management Business**

Phatra Asset Management Co., Ltd. (“PASSET”), under mutual fund and private fund management licenses, offers fund management services to individuals and corporate customers. PASSET’s mutual fund AUM as of 31 March 2020 was Baht 62,043 million with total 41 funds under management consisting of 38 mutual funds and 3 property funds. PASSET’s market share in terms of mutual fund was 1.36%. In 1Q20, PASSET’s fee income from mutual fund business totaled Baht 129 million.

As of 31 March 2020, asset under management from private fund was Baht 18,230 million. PASSET’s fee income from private fund business totaled Baht 49 million.

³ Including SET and mai but excluding proprietary trading

⁴ Including selling agent fee which receive from Subsidiary Company

⁵ Additional, DI also had foreign exchange gain Baht 15 million. Total DI loss was Baht 821 million

⁶ Income before deducting the cost of hedging, once deducting those costs, net gain was Baht 519 million