

**Part 1: Business Operations****1. Policy and Business Overview****1.1 The Bank's vision, target and strategy****1.1.1 Background**

TMB Bank Public Company Limited. ("TMB" or "the Bank") was established on November 5, 1957 at Mansion 2, Rajdamnern Avenue, Bangkok. At that time, Field Marshal Saridi Dhanarajata was Chairman of the Board of Directors, Mr. Chote Guna-Kasem was the Bank's President, and the Bank had a total workforce of 26. TMB's initial registered capital was THB 10 million, divided into 100,000 shares, each with THB 100 par value. Most of the shareholders in the initial stage were military personnel both in-service and out-of-service.

The year 1982 marked a milestone for the Bank as His Majesty King Bhumibol Adulyadej graciously bestowed the Royal Garuda Emblem to TMB and its registered capital had its first increase, from THB 10 million to THB 100 million. To expand the fund raising capability, the Bank was listed on the Stock Exchange of Thailand (SET) on December 23, 1983 and transformed into a public company limited in 1994. As of December 31, 2013, the Bank's registered capital was THB 41,903,301,555 of which THB 41,426,006,153 was paid up and 43,606,322,266 from common stock with par value of THB 0.95 per share.

Thai Military Bank Pcl., DBS Thai Danu Bank Pcl. and the Industrial Finance Corporation of Thailand legally merged to become TMB Bank Pcl. on September 1, 2004. This merger enabled the Bank to operate as a universal bank, with total assets of THB 673 billion as of December 31, 2004.

In December 2007, TMB underwent a share capital increase of THB 37,622 million by forming a new business partnership with ING Group, a leading financial institution from The Netherlands. After recapitalization, the Ministry of Finance held 26.1% and ING Group held 25.2% of the entire issued and offered shares of the Bank. ING Group also held NVDRs (Non-Voting Depository Receipts) representing rights to TMB's securities and/or ordinary shares for 4.92% of the entire issued and offered shares of the Bank.

Currently, TMB is the seventh largest bank in Thailand in term of total assets, deposits and loans. The Bank has total assets of THB 842.9billion, deposits of THB 611.5billion and net loans of THB 643.4billion as of December 31, 2017 (Bank only statements).

**1.1.2 The Bank's vision and strategy in business operations for the next 5 years****• TMB Strategy**

The Bank has formulated 7 Strategic Intents which will drive TMB to achieve the targets, which are derived from deposit-led strategy introduced since 2008:

**1. Strong Customer Understanding**

TMB places emphasis on the importance to understand customers at both individual and community levels (including cross-segment) so that the Bank can develop innovative products and services that match with customers' needs.

**2. Grow Quality Deposits**

TMB aims to acquire quality deposits while managing the cost of deposits to be in line with leading banking peers. This will help TMB establish new relationships with customers while the quality deposits can in turn be redeployed into assets that provide the bank with profitable returns.

**3. Build Transactional Banking Excellence**

TMB prioritises Transactional Banking since it serves the basic banking needs of all customers and therefore allows the Bank to become 'closer' to and understand customers better. Better visibility of customers' transactions also provide the Bank with better liquidity management, better risk management and lower funding cost. For TMB, excellent transactional banking also means serving customers in the most efficient and effective way which will result in TMB became main bank of the customers.

**4. Recurring Non-interest Income**

TMB continued to emphasise on building sustainable non-interest income capability. Building non-interest income capability allows the Bank to effectively manage capital because of the minimal capital requirement compare to credit-related income. Moreover, non-interest income will help ensure sustainable bottom line through business cycles.

**5. Optimise Capital Utilisation**

TMB is strongly committed to delivering the level of profit expected by investors and has set the target to earn same level ROE with top bank performers within the next 3-5 years. To achieve this the Bank focused on growing in customer segments with higher risk-adjusted return such as SME segment and also plans to increase share of wallet by cross-selling value-added products and services to existing customers.

**6. Ensure Cost Efficiency**

As TMB grows, the Bank must ensure that it takes actions to ensure greater levels of efficiency in terms of business model and operational processes. Efficiency will be driven forwards in every part of the organisation through Lean Organisation and Lean Six Sigma initiatives to support the strong growth of sales and servicing transactions.

**7. High Performance and Empowered Organization**

TMB aims to build highly competent and productive staff who has the mind-set and skillset to collaborate cross-functionally and to make decisions that align with bank's strategies

**1.2 Significant changes and development in the past 5 years****1.2.1 Significant changes and development in the past 5 years**

## 2012

- TMB continued to release new products that matched with customers' needs, such as 'Free Flow Savings', 'ME by TMB', 'One Bank One Account' and 'One Bank One Day'. 'Free Flow Savings' allows customers to make 10 free transactions per month provided they have at least one inflow into the account per month of THB 15,000 or more. This gives the freedom to access their account at any bank ATM nationwide or make transfers cross-bank or inter-region without incurring bank fees. 'ME by TMB' is another core product that challenges the status quo by offering the cost benefits of a pure digital channel to customers by a higher interest rate. In addition, the self-service feature of **ME by TMB** provides customers with a sense of ownership and freedom, building key TMB signature experience. 'One Bank One Account' and 'One Bank One Day' provide similar 'pain-relief' for commercial customers, with waived bank fees for transactions and even same-day inter-region cheque clearing without any charge.

- The Bank cleaned up remaining legacy NPL by selling NPL to speed up reduction and setting extra provisions. As a result, consolidated NPL ratio was reduced to 4.10% while on bank only basis the ratio improved to 3.75% with 118% coverage ratio.

## 2013

- TMB had strongly cooperated with FWD Life Insurance, a former ING Life Insurance under a shared vision in terms of long-term business development and customer-centric strategy.

- HR transformation program were mostly under an 'Empowering Organisation' framework and was introduced to ensure that the Bank has an engaging environment that recognizes competency, rewards performance and offers career development opportunities for the Bank's employees. In this year, TMB launched 'Career by ME'. By providing the tools for staff to align their long-term goals with their current skills and any gaps, employees can plan their 'individual development plan', discuss with their line managers and become more accountable for their career path.

- In 2013, the Bank and its subsidiaries recorded the highest operating profit before provision (PPOP) in the bank's history, reaching THB 14.4 Bn.

- TMB outlook was further upgraded by S&P from BB+ to BBB- based on steady improvement of operating performance and ability to manage asset quality and continued strong liquidity. In addition, TMB for the first time was listed in MSCI Global Standard Indices. Inclusion in MSCI was a coveted position and added more prominence to the stock for global investors.

## 2014

- TMB achieved the target Return on Equity (ROE) of 14.6%. The strong growth is attributed to the successful implementation of the Bank's strategies. Moreover, TMB achieved success in asset quality management shown by the decrease of percentage of non-performing loans (NPL) ratio to 2.85% while the coverage ratio improved to 157%.

- Moody's credit rating agency upgraded TMB's credit rating from Baa3 to Baa2 with "stable" outlook based on steady improvement of operating performance and ability to manage asset quality and continued strong liquidity.

- TMB successfully issued Hybrid Tier 2 with maturity in 2024 amounted THB 15 billion with a 5.50%, where the issuance has the rights to redemption before maturity. The issuance allows TMB's capital adequacy ratio (CAR) to improve to 18.3% in 2014.

- TMB upgraded TMB Internet Banking and introduced TMB Touch, a mobile banking application for both iOS and Android operating system, to help facilitate customers' transactional needs. Customers are able to perform banking activities anytime anywhere. In addition, to provide convenience to customers to make cash deposits, TMB increased number of outlets by 2,400 service areas through the network of Government Saving Bank Branches and Thai Post Offices.

- TMB introduced new credit card products such as TMB So Smart and TMB So Fast. Moreover, TMB improved the benefit and convenience of One Bank account by providing cheque collection to commercial customers.

## 2015

- TMB had strong growth in deposit and loans including 20% increase in PPOP despite economic volatility. In addition, TMB successfully issued Renminbi-denominated bond (Dim Sum Bond) worth RMB 600Mn with three-year maturity, which is the first RMB benchmark bond issued from Thailand. TMB was also awarded "Best Local Currency Bond 2015" from The Asset Triple A Country Awards.

- TMB officially launched TMB Touch, a mobile banking application designed to help make daily banking easier, more convenient and is highly secured. Moreover, TMB further enhanced the commercial internet banking platform or TMB Business Click with the additions of the SMART and BAHTNET fund transfer to provide greater convenience for commercial customers to manage their accounts. Additionally, TMB introduced TMB e-Guarantee, which is a tool for business owners who would like to participate in the governmental auction. Business owners can easily and conveniently request the letter of guarantee without the need to contact the branch.

- TMB All Free is a newly enhanced transactional deposit account that allows customers to perform unlimited transactions within TMB and to make unlimited withdrawals at any bank's ATM free of charge. Additionally, customers can transfer to other bank's account or pay bills including direct debit without charge up to 5 times a month without minimum balance requirements. The success is shown in the strong growth of Transactional deposits that grew 10% in 2015.

- TMB launched 'Talent Development Program' because TMB believes that capable employees are the driving force in improving customer experience and TMB's competitiveness. Through the talent development program, employees are given opportunities to strengthen their knowledge and experiences with a clear career development plan within TMB and necessary supports to further enhance their capabilities.

- Over 6 years of "FAI-FAH" program, TMB aims to give the opportunities and cultivate young people to create value and return back to the community through various activities. Moreover, TMB introduced "FAI FAH in a box" which allowed Branch staff to connect with local residents and to address the needs of surrounding communities. The initiative aimed to help address local issues and to develop surrounding communities in a sustainable approach by truly understand

their needs and establishing “Make THE Difference”. In 2015, TMB was awarded “The Best Community Development for “FAI FAH” CSR Program” and “CSR Practice in Banking and Finance in Asia” in the 5<sup>th</sup> Asia Best CSR Practice Awards.

## 2016

- TMB has successfully delivered transformation initiatives in 2016 and will continue to deliver transformation’s success to Make THE Differences and to enable the bank to gain competitive edge against competitors.

- Achieved 10% Growth in Pre-Provision Operating Profit (PPOP) Despite Slow Economic Growth. There was a strong growth in Bancassurance products as TMB has better understanding of customer needs, thus, TMB offered products that easy to use at affordable price with “simple and affordable” concept.

- Moreover, TMB continued to deliver operational excellence in 2016. TMB improved turnaround time of retail secure lending applications from submission to approval down from more than 30 days to 5 days.

- TMB is committed to deliver transactional banking efficiency and convenience that relieves banking pains and allows customers to efficiently connect to their business partners and communities. In 2016, TMB enhanced TMB All Free account in order to better address customers’ transactional needs. With the enhancement, not only customers continued to unlimited transact within TMB and withdraw cash at any bank’s ATMs free of charge, the customers now can make unlimited, not just 5 times a month, transfers to other bank’s accounts and bill payments including direct debit without charge and without any minimum balance requirement.

- Since the official launch of TMB Touch, TMB’s mobile application that facilitates customers on their daily financial transactions, in 2015, numbers of retail electronic transaction rapidly grew in 2016 and surpassed numbers of transaction at branches.

- The National E-Payment Initiative, a collaborative effort between Thai Government and Private sectors in laying the foundation of payments and economy of Thailand, gained tremendous traction with the announcement of PromptPay, the first e-payment initiative that offers convenience for consumers to make payments and receive payments from other individuals or government agencies quicker and easier, which TMB had enhanced our infrastructure and services to accommodate the official launch in 2017.

- TMB was the first bank to launch a product that supports Business Security Act which was enforced on July 2<sup>nd</sup>, 2016. The product, named TMB Top-Up Credit, aims to provide Thai SMEs greater opportunities to access funding and thereby start their businesses. SME customers can use “Asset with economic value” on top of land and building as collateral for business loan.

- TMB believes that capable employees are critical in driving better customer experience which ultimately TMB’s competitiveness. In 2016, TMB delinked remunerations and benefits from corporate titles in order to stimulate staff to effectively improve their capabilities and to drive the organization forward. TMB also restructured the organization by reducing the corporate levels down from 6 to 5 to improve agility and to allow staff to effectively demonstrate their capabilities.

### **1.2.2 Significant changes and development in year 2017**

In 2017, TMB continued to focus on providing Needed Base solutions and Simple and Easy transaction which resulted in both revenue and operating profit growth.

#### **Grow in customer base from primary banking benefits and right transactional products**

With PromptPay's value proposition that offers receive payment free of charge together with All Free account that provide customers free payment transaction, the customers could get complete free transactional account that allow them to manage their financial transaction at better efficiency resulted in 50.9% growth in All Free account deposit.

To build relationship with customers to use TMB as their main bank and increase digital channel transaction, TMB launched loyalty program offering primary banking benefits called TMB WOW. There was a good response from the market, over 40% of mobile banking customers joined the program. From continuous improvement in both marketing benefits and customer experiences, TMB Touch, TMB's mobile application has been rapidly adopted with over 1 million users in 2017.

#### **Non-interest income continuously improved at 21.4% in 2017**

TMB renew strategic collaboration with FWD Life Insurance Public Company Limited for initial term 15 years, starting from January 1st, 2017. For this alliance with FWD, TMB received an access fee approximately THB19,582 million, net of all taxes and expense, excluding commission and profit sharing. TMB and FWD have been working closely for a long time in delivering life insurance products to TMB customers. The renewal of the collaboration would support TMB in strengthening bancassurance business with the aim of continuously serving the customers products and services that suit their needs.

To strengthen Mutual Fund Open Architecture value proposition, TMB first introduced Mutual Fund transaction available on mobile banking (TMB Touch) that provided customers convenience in both doing transaction and monitoring their portfolio movement with high performance funds available for different risk profiles. To provide customers advisory in sophisticated investment, TMB Advisory has been launched together with Advisory room at selective branches that allowed customers to have access to investment expert from their nearby branches through video conference with branch staff accompany and facilitating the meeting. The initiatives yielded a good result as Mutual fund fee income grew 76% in 2017.

### **1.3 Structure of Shareholders**

#### **1.3.1 Business Consolidation Policy**

TMB segregates the business activities of its group companies in accordance with the Bank of Thailand's consolidated supervision regulation, which calls for a bank's setting up of a financial business group. The financial business group consists of companies divided into two categories, based on the Bank's ownership portion and type of business, as follows:

1. **Solo consolidation** is defined as a company which operates as a credit or the business like credit which has the specific law regulated institution and the Bank holds at least 75% of its issued and paid-up share capital and its management is under the Bank's supervision.

2. **Non-Solo consolidation** comprising companies engaging in the financial business and businesses supporting the Bank's operations, as follows:

- **Financial business group** is defined as a company which operates financial business and the Bank holds at least 50% of its issued and paid-up share capital which such business has the specific law regulated such as security business, life insurance business, non-life insurance business, credit card business, personal loan under regulated, retail lending, and asset management business.
- **Supporting business group** is defined into 2 types:

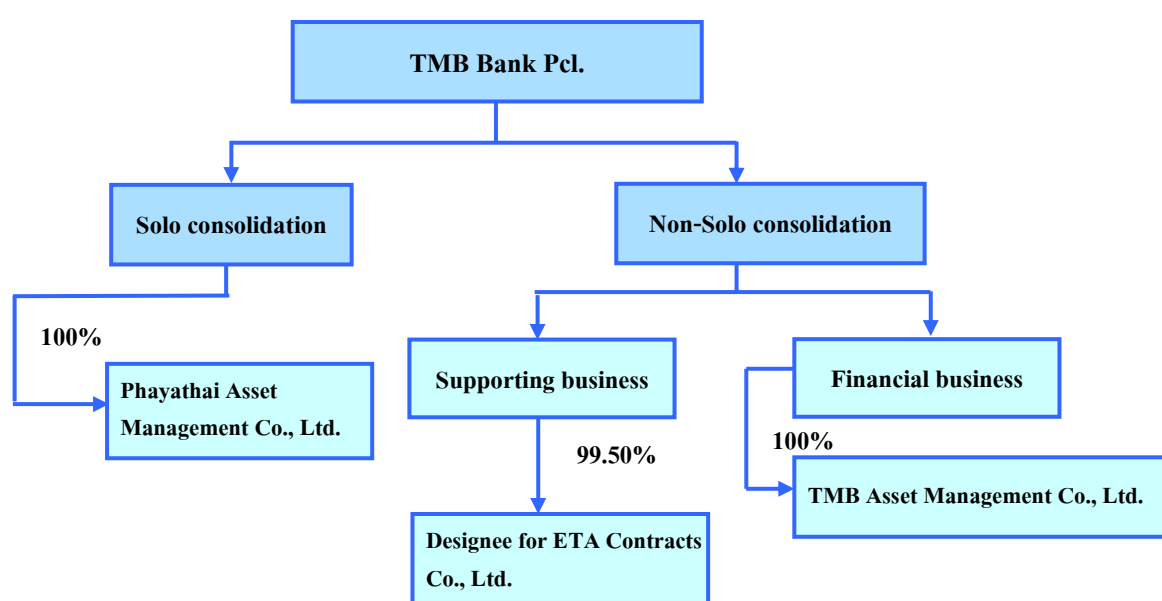
(1) Operating company which engages in function tasks that are normal banking operation or tasks that are directly support the operations of the Bank, provide service to the company in the same financial business group, or in accordance with Bank of Thailand Notification re: Permission of Commercial Bank in provide service to the financial business group or regulator (insourcing). However, if the support function is the company that doing in IT Infrastructure then such company can provide service to public. In addition, the support function such as cash delivery is permitted to provide its service to the other cash delivery operator during the crisis situation as per their Business Continuity Plan: (BCP).

(2) Fintech business that provide the supporting business or support the financial information for the customers in requesting the lending from the financial institutions.

The supporting company is the company that the Bank holds at least 50% of its issued and paid-up share capital.

The Bank's subsidiaries are classified based on this group structure as shown in the chart below:

### 1.3.2 The Bank's Group Structure Chart



**1.3.3 Business description of subsidiary and associated companies**

As of December 31, 2017, TMB had invested in three subsidiaries as described below:

Name	Type of business	Investment value by cost method as of Dec 31, 2017 (THB million)	% of shareholding by TMB as of Dec 31, 2017
<b><u>Subsidiary companies</u></b>			
1. Phayathai Asset Management Co., Ltd.	Asset management	3,870	100.00
2. TMB Asset Management Co., Ltd.	Fund management	563	100.00
3. Designee for ETA Contracts Co., Ltd.	Financial support	-	99.50
<b><u>Total investment in subsidiary companies</u></b>		<b>4,433</b>	
<b><u>Less Allowance for impairment</u></b>		<b>(679)</b>	
<b><u>Net investment in subsidiary companies</u></b>		<b>3,754</b>	

- **Phayathai Asset Management Co., Ltd.** - Established by TMB to manage non-performing loans, non-performing assets and relevant collateral transferred from the Bank to ensure optimum returns.
- **TMB Asset Management Co., Ltd.** - Engaging in fund management in compliance with the Securities and Exchange Act and in investment management under the permission of the Securities and Exchange Commission. The company was established by a consortium of shareholders led by TMB Bank and currently provides a wide range of mutual funds and provident funds to the customers.
- **Designee for ETA Contracts Co., Ltd.\*** – Specially established under an agreement made between a group of major creditors and Bangkok Expressway Pcl. (BECL) to transfer to the creditors all rights under the second stage expressway construction and the operating concession agreement signed between the Expressway and Rapid Transit Authority of Thailand and BECL. Such transfer will take place in the event that BECL fails to perform the obligations or defaults on any condition under the credit facility agreement. (It is currently being processed for cease operation and liquidation).

## 2. Nature of Business

### Income structure

Income structure of TMB and its subsidiaries consist of interest income, fees and service income and other operating income. Details are in the following income structure table for the years ended December 31, 2015-2017:

(Unit: THB million)

Income structure	For the year ended December 31,					
	2017	%	2016	%	2015	%
<b>Interest income</b>	<b>34,713</b>	<b>68.9</b>	<b>35,631</b>	<b>73.8</b>	<b>36,430</b>	<b>75.0</b>
Interbank and money market items	1,824	3.6	1,746	3.6	2,037	4.2
Investments and trading transactions	61	0.1	267	0.6	274	0.5
Investments in debt securities	1,213	2.4	1,369	2.8	2,148	4.4
Loans to customers	31,580	62.7	32,086	66.5	31,588	65.1
Others	35	0.1	163	0.3	383	0.8
<b>Fees and service income</b>	<b>13,533</b>	<b>26.9</b>	<b>10,168</b>	<b>21.1</b>	<b>9,712</b>	<b>20.0</b>
Gains on trading and foreign exchange transactions, net	1,147	2.3	1,692	3.5	1,701	3.5
Losses on financial liabilities designated at fair value through profit or loss, net	(24)	-	(13)	-	(16)	-
Gains on investments, net	64	0.1	201	0.4	181	0.4
Other operating income	932	1.8	585	1.2	543	1.1
<b>Total income</b>	<b>50,365</b>	<b>100.0</b>	<b>48,264</b>	<b>100.0</b>	<b>48,551</b>	<b>100.0</b>

### 2.1 Products and services

TMB offers financial products and services, ranging from deposit, loans, investment product and bancassurance. However, each customer segment has different financial needs. As a customer centric organization, understanding customer's needs is one of TMB key success factors. TMB business is organized into 3 key customer segments as follows:

1. Wholesale Banking Group
2. SME Banking Group
3. Retail Banking Group

#### 2.1.1 Product and services for Wholesale Banking customers

- **Multi-corporate Banking segment:** Customer group with annual sales turnover more than THB5.0 billion.
- **Corporate Banking segment:** Customer group with annual sales turnover of THB1.0 billion – THB5.0 billion
- **Business Banking segment:** Customer group with annual sales turnover of THB100 million – THB1.0 billion

Type	Products and services
Deposit	Business accounts (TMB One Bank)
Loan and Financing	Working capital Supply chain solutions Letter of guarantee
Payment and Collection	Payment service Collection service Liquidity management
International Trade	International trade finance service Capital market risk management
Insurance	Bancassurance & Business Protection
Others	Corporate card Agency service Investment banking

### 2.1.2 Product and service for SME Banking customers

- **Small Enterprise:** Annual sales per year up to THB100 million.

Type	Products and services
Deposit	SME account (TMB One Bank)
Loan and Financing	Working capital Supply chain solutions Special funding programme for SME (TMB SME Smart Biz) Letter of guarantee
Payment and Collection	Payment service Collection service Liquidity management
International Trade	International trade finance service Capital market risk management
Insurance	Bancassurance & Business Protection
Others	Corporate card

### 2.1.3 Products and service for Retail customers

- Affluent for customers who have income from THB 100,000 and above
- Middle Income for customers who have income from THB15,000 to THB100,000
- Mass for customers who have income up to THB15,000

Type	Products and services
Deposit	Transactional account (All Free) Savings account (No Fixed)
Loan	Personal loan Home loan
Mutual fund	TMB Open Architecture
Insurance	Savings towards future securities Life and health protection Properties protection
Wealth banking	Wealth banking Superior banking

### TMB Open Architecture

TMB is considered as a first Thai bank that offer open architecture platform for all group of customers. The Bank set a long-term strategy to distribute under an open-architecture platform and offer a wide variety of mutual fund products in order to match various client needs and risk-return profiles. In 2017, in addition to being a selling agent of TMB Asset Management Co., Ltd., UOB Asset Management (Thailand) Co., Ltd., Aberdeen Asset Management Co, Ltd. and CIMB-Principal Co., Ltd., Manulife Asset Management Co., Ltd, TISCO Asset Management Co., Ltd, One Asset Management Co., Ltd, the bank became a selling agent of Kasikorn Asset Management Co., Ltd. This enables TMB to offer a broader range of products and asset classes that suit different risk profiles of the customers.

### Bancassurance

TMB and FWD Life Insurance are business partners who jointly create innovative insurance products that meet the needs of TMB customers to enhance the stability and prosperity of customers' savings and give customers peace of mind to be able to live fully.

FWD Life Insurance Public Limited Company, a leading life insurer in Thailand and a member of Pacific Century Group (PCG) operates life insurance business by focusing on user-friendly technology and innovation. FWD Life Insurance offers a comprehensive range of products to fulfill the customers' needs throughout the different stages of their lives and also leverages technology to enhance E-Service for customers.

For Non-life insurance business, TMB offers insurance for loan collateral in association with non-life insurance companies. TMB also provides other non-life insurance products such as personal accident, health and motor insurance.

## 2.2 Market and Competition

### 2.2.1 Marketing policy for product and services in year 2017

#### 1) Wholesale Banking

##### Our Intent

We will continue to be customers' most advocated operating bank and value-added business partner. We will help corporates to maximize their business potentials through our financial and business solutions.

##### 2017 Summary

TMB has continued to strengthen core focus on transactional excellence with the "Need-based" and "Simple & Easy" customer experiences through digital platform. TMB successfully delivered valued-added products and services to customers which resulted in higher portion of recurring income from intermediating customers' transactions. In addition, TMB also focused on proactive risk management and portfolio optimization.

- **Digital transactional banking and e-payment solutions:** TMB embraced government's National e-Payment project that aimed to increase the efficiency of Thailand's payment infrastructure and reduce cash usage and payment cost throughout the system. TMB has successfully developed and delivered various digital payment solutions including PromptPay, Digital bill payment, QR code. TMB successfully converted thousands of corporate customers to digital platform through TMB Business Click and TMB Business Touch.
- **Supply chain solutions:** Riding on the established footprint of supply chain solutions, TMB continued to create impact in a larger scale by expanding solutions not only to corporates, but also to government and military organizations. In 2017, TMB successfully implemented contract financing solutions for various government and military units.
- **Customer knowledge management:** TMB continued to equip customers with market and product knowledge they needed to unleash their potentials through need-based events, including M&A and TMB's famous FX simulation program, the electronic channels to allow customers to better manage foreign exchange risk.
- **Customer centric sales model:** TMB strived to improve efficiency in order to deliver "Simple & Easy" experiences to customers by adopting lean concept, leveraging technology in automation and streamlining internal processes, as well as eliminating duplicated work and roles which led us to the cost-competitive operating platform.

#### 2) SME Banking

##### Our Intent

We will continue to be customers' most advocated operating bank and value-added business partner. We will help corporates to maximize their business potentials through our financial and business solutions.

**How We Plan to Deliver**

- Introduce need-based business account, which is simple and easy with no cost through electronic channels to meet customers' need and enhance its flexibility for doing financial transaction anywhere anytime.
- Proactively offer financial products and services that match with customer needs and business cycle to enhance liquidity and support customer growth
- Facilitate hassle-free and fast end-to-end process across all channels to deliver seamless banking experiences such as Call Me Now service, call back will be available in 5 minutes after dropping enquiries on website and single application for group of related bank product & service.
- Strengthen customer understanding of SME transactional and financial needs across different business profiles by intensive research and data analytics.
- Develop our people with good business knowledge to provide financial advisory to SMEs that meet customers' need.

**2017 Summary**

Due to a moderate growth of Thailand economy in 2017, TMB focused on well-managed funding cost and credit quality by expanding its business through existing customer who consistently transacted with TMB as well as increasing customer base by introducing new business account "SME One Bank", which are convenience, simple and easy with free of charge and further improved credit acquisition model, credit monitoring and control to ensure good credit portfolio for sustainable growth.

To offer seamless banking experience for customers, apart from "TMB SMART Biz", a credit solution that offers short-term and long-term credit with maximum 3 times over collateral value, As TMB realized that time to money is also critical to SME's success, the Bank, therefore, improved its process for more efficient turnaround time by reducing unnecessary document and simplifying process. Moreover, TMB developed mobile smart tools for our business develop manager to help them understand customer needs and offer the right credit solution to customer at point of sales.

To build on a successful of "SME One Bank", a business account with SME Product of the Year 2017 Award from Asian Banker Institution, TMB has launched "TMB Business Touch", the first Thailand business mobile banking application with objectives to provide more convenience and improve customer experience in mobile banking. When SME One Bank and TMB Business Touch Application are bundled together, customer can do banking transactions with no fee charge, easy, and convenience every time and everywhere. Moreover, to facilitate SME customers who have international trade transaction. TMB is the first bank to introduce international outward remittance on TMB Business Touch through mobile banking application.

Besides financial services, TMB also provided non-financial service to support SMEs grow sustainably. We continued our successful LEAN Supply Chain by TMB program in its fourth year, partnering with leading universities in Thailand such as

King Mongkut's University of Technology Thonburi, and large business conglomerate such as Siam Cement Group (SCG), Central Group. 11 courses have been completed with over 2,000 participants that help our customers save cost approximately around 850 million Baht.

Despite Thailand economy grew moderately in 2017 and overall NPL was still elevated, however TMB could maintain our loan market share which SME's portfolio slightly expanded through our existing customers, whom we know their businesses well. Transactional deposit balance, which is TMB's strategic product, grew significantly at 7%.

### **3) Retail Banking**

#### **Our Intent**

Become the most advocated bank of choice by delivering the easiest transactional banking experience and offering relevant need-based products and services through omni-channel.

#### **How we plan to achieve our intent**

- Grow customer base amongst those who use TMB as their main bank.
- Provide meaningful products and services at the right time to match the needs of our customers.
- Deliver the best customer experience.
- Provide customers a greater accessibility to our products and services through seamless omni-channel experience with digital channel as primary focus.

#### **2017 Summary**

Both make THE Difference brand philosophy and customer centricity continued to be the main reasons behind our growth. We continued to remain focused in deposit-led strategy with a great ambition in becoming the country's most advocated bank of choice through transactional service excellence.

2017 was a pivotal year for us as we managed in a sustained effort to position our Digital Banking as the "More Than App" instrument used to blend into customer's lifestyle more completely and live within a part of their life. We continued to make more progress in enhancing our digital services to the next level of convenience after money transfer service via PromptPay, Quick Balance (check account balance without having to log-in), Self-Card Management that allowed each individual Credit Card/ Debit Card/ Ready Cash customer to manage their own card/ account preferences not limiting to card activating/deactivating, card reissuing, changing password or even requesting for cash transfer. We went even further by empowering our customers to trade their mutual fund using a simple QR Scan function at the same time we were starting to transform our community to become cashless. Furthermore, we made a revolutionary debut of the first ever TMB Retail Bank's Loyalty Program – TMB WOW – claiming the country's first gamified online banking platform. The introduction was truly a new-to-market and yet fun-loving loyalty program with its own innovative "WOW" currency built to reward our customers for banking with us. Customers could enjoy vast benefits of reward redemption through our extensive arrays of collection of gifts and goods from leading partners which covered all key lifestyle categories. With these sequential

innovations along with many others happening mainly in our digital channel, TMB TOUCH made a significant progress in marking a total number of users to be close to 1.2 million in 2017, up 66% from previous year while our Credit Card 's total digital sales (digital drop lead via TMB website) went up 33% higher than previous year.

We continued to remain focused in retail deposit through deposit-led-strategy, our key instrument in funding our other businesses and at the same time helping us to improve the cost of fund. Through our sustained efforts in customer understanding with many successive years of proven success in matching our customer needs with a good variety of For Use and For Save products, we finally made a disruptive upgrade of TMB All Free and successfully reintroduced it as the country's new and only "Unconditional Freeness" transactional product. Not only the upgrade lifted all transactional fees, disbursement speed was also improved from one-day to real-time, marking it to be the best transactional product in the market. The maximum benefit for our good customers continued further when they used TMB All Free at least 5 times a month, an additional interest rate of 0.3% was yielded to TMB No Fixed (For Save) in the following month, indisputably creating a sustainable differentiation and bringing maximum benefit to our frequently-used transactional customers, or so called Primary Banking customers. As of 2017, a total number of TMB All Free customers finally reached 2.2 million.

Our "More Than App" visionary Digital Banking also extended to ME by TMB, our other digital savings product, offering 4.5 times higher interest rate than any other savings products in the market. And in this face of rapidly changing customer behaviors and market environment particularly in technology, we made a new debut of the country's first ever Chatbot, or ME BOT, an artificial intelligence conversational tool used to engage with customers in banking category as part of instant messaging configured in ME by TMB Facebook Fanpage. The capability was made available 24 hours and all responses happened real-time. ME by TMB Mobile App also progressed to the next level of convenience when logging-in, that the 6-digit PIN or fingerprint now replaced traditional user name and password. Again, over a series of progressive innovations and continued efforts in understanding our customer needs, ME by TMB had a total of 150,000 active users in 2017 with nearly 300,000 in total users since its market launch, or up 20% from previous year.

The commitment to know and understand more about our customers is instrumental to our success. Our advanced data analytic played a crucial part in understanding more about our customer behaviors and their potential needs over a series of moments. In 2017, we managed to move forward in a very sustainable way in both of our mutual fund and bancassurance businesses, and even further to the next level of need-based customer service model where we made another progressive introduction of TMB Advisory. TMB Advisory was an advisory service provided to our customers who were interested in buying investment products or seeking for advices to growing their wealth from a group of certified advisors made available at multiple channels. While TMB Advisory Room made its early debut to 25 branch locations and offered at free of charge through VDO conference, customers also had other options of calling into the TMB Contact Center 1558 #9, signing themselves up with Line @TMBadvisory to receive daily market updates, or even a self-navigating through TMB Advisory website. And yet, we still had a pride to lead the market with our only Point-of-Difference's Open Architecture platform which allowed customers to conveniently purchase mutual funds with confidence from 8 leading asset management companies, all at one place – namely Aberdeen, CIMB Principal, Manulife, ONEAM, TISCO, TMBAM, UOBAM and

KASSET. Furthermore, we partnered with Amundi, Europe's leading Asset Management Company with more than 30 years of investment experience, in designing/ recommending different investment portfolio options, all was to reassure the confidence of our customers along their purchasing journey. In 2017, our total AUM was 2.87 trillion, up 28% from previous year, or 350% against the market.

Likewise, we continued to place a good focus and attempted to reach out to our retail bank's Middle-Income targets in more parts of the country more completely with Life Saver 15/9, our bancassurance product, under a winning idea of "Simple and Affordable." Not only direct benefits such as low premium cost, high returns, life-insured as well as tax deductibility our customers could expect to receive from the Life Saver 15/9, the application process and product communication itself was made simple/easy enough to comprehend and get themselves a fast onboarding. Given the popularity BA 15/9 was gaining in 2017, it now accounted for 45% of the total bancassurance policy holders. Last while not least, we entered into a new space we never played before with wealthier segment, marking another introduction of TMB Wealthy Link, or Unit Link. TMB Wealthy Link, designed to be highly elastic for each individual to customize their own investment proportion, combined the constructs of both life insurance and mutual fund where it generously extended maximum benefits to those looking for both protection and high returns at the same time. Based on latest customer understanding, we classified customers into 4 different life-stage groups covering from 30 years old to over 50 years old, each with different degrees of protection needs and expected returns. The TMB Wealthy Link introduction brought a wide acceptance amongst target customers leading to disproportionate growth, with its current premiums accounting over 50% of the total bancassurance premiums paid by new customers acquired in 2017.

## 2.2.2 Distribution channel and network

### 1) Branches and Business Centers

<b>Domestic branches</b>	432 branches nation-wide including ME branch
<b>Overseas Branches</b>	Cayman Islands branch, Cayman Islands branch Vientiane branch, Lao P.D.R.
<b>SME Zone Offices</b>	55 zone offices for Small Enterprise 42 zone offices for business banking
<b>Foreign Currency Exchange Service</b>	1 Booth at HQ
<b>ME by TMB</b>	1 ME branches

*Information as of December 31, 2017*

*For details and latest information of branches and business hours, please visit [www.tmbbank.com](http://www.tmbbank.com) or contact 1558*

### 2) Electronic Channels

#### ATMs and AMDs

As of December 31, 2017, TMB has a total network of terminal 2,054 which are 2,054 ATMs , 734 ADMs and 53 All in Ones across Thailand. TMB continues to focus on its strategy to provide its own cardholders.

- 1) TMB has relocated the installation of ATM's and ADM's location more efficiently by focusing in shopping area with cash society also focus on SME area within 10 strategic provinces to ensure TMB terminal coverage network.
- 2) TMB has increased terminal capability by upgrading All in One machine from deposit & withdraw functions to deposit, withdrawal and update passbook function on top of the machine in order to provide customers' convenience as "One Stop Service Machine" across Thailand and TMB will continually increase the proportion "All in One" to serve customer. Moreover, the Bank continues to focus on overseas customers by adding ATMs in tourist areas to serve the foreign exchange service through Visa, Visa Electron, Plus, Master Card, Cirrus, , Maestro, JCB and China Union Pay.

### **Merchant Acquiring Business**

TMB's merchant acquiring business enables merchants to accept credit cards and debit cards (VISA credit card, MasterCard Credit card and VISA Electron) for payment from its customers. The services offered are as follows.

- 1. Card Acceptance at Point of Sales:** Cardholders make payment for purchase of goods and services by credit card and/or debit card via Electronic Data Capture (EDC).
- 2. Mail Order/Telephone Order:** This service allows cardholders to make payment by submitting credit card information to merchants via mail, fax, phone, or other media.
- 3. Recurring:** This service allows for recurring payment for such services as telephone bills, electricity bills, membership fees, etc. on a monthly basis or per merchant billing cycle. Customer can sign up via the merchant, and payments are executed when merchants submit payment data (credit card information and payment amount) to TMB for processing.
- 4. ePayment:** Enables for credit card payment via merchant's own website. VbV certify and MasterCard Secure Code certify from VISA and MasterCard respectively ensure transactions are secure.
- 5. DCC (Dynamic Currency Conversion):** A value-added service for card acceptance at the point of sale which enables the merchants customers to make payment in Thai Baht or via their home currency.

**3) Digital Channels**

<b>TMB Internet Banking</b>	<p>TMB Internet Banking is an online banking service through website <a href="http://www.tmbdirect.com">www.tmbdirect.com</a>. Customers can access to the website anywhere and anytime using personal computer, smart phone, or even tablet.</p> <p>Besides, there is “Web Chat”, a chat box that allows customers to converse with the Bank’s staff. Customers can also send any enquiries about products or suggestion via “Web Mail”.</p>
<b>TMB Touch</b>	TMB Touch is mobile device application which offers mobile banking service through smart phone and tablet devices both iOS and Android operating system including Apple iPad.
<b>TMB Business Click</b>	TMB Business Click is an Internet Banking for corporate customers. It provides board range of banking services across cash management, international trade transactional services, Foreign Exchange Service and Supply Chain Financing. The service enables online self-service banking transaction 24 hours a day with comprehensive transaction information.

**4) Phone Banking**

<b>Contact Center</b>	<p>1558</p> <p>International call : +66 2299 1558</p>
<b>TMB SME</b>	0-2828-2828
<b>Corporate Call Center</b>	<p>02-643-7000</p> <p>Service hours: 8.00 -18.00 on working days</p>

**2.2.3 Banking Industry and Trends****1) Performance of Commercial banks in 2017**

Commercial banks’ sector grew at a faster pace due to accelerating loan growth. Credit expanded at a slower pace than deposits. This caused L/D ratio to decrease from 96.9% to 96.3%. Thai banking system liquidity at the year-end stood at THB 3.4 trillion, increasing from THB 3.1 trillion at the previous year-end. Total assets of domestically registered commercial banks rose 3.8% to THB 16.6 trillion.

Commercial banks’ total loans in 2017, stood at THB 12.5 trillion, expanding by 4.4%. Main factor was the recovery of Small and Medium Enterprises’ (SME) loan growing at 5.7% from manufacturing industry, real estate, and construction as a result of the return of export growth and business confidence. Large corporate loans trivially expanded by 0.2%, especially from especially from 1) loan repayment, 2) substitution of corporate funding sources to debt capital markets as a result of flat yield curves. Retail loans grew 6.1% speeded up from last year due to the end of first car loan scheme. Mortgage significantly

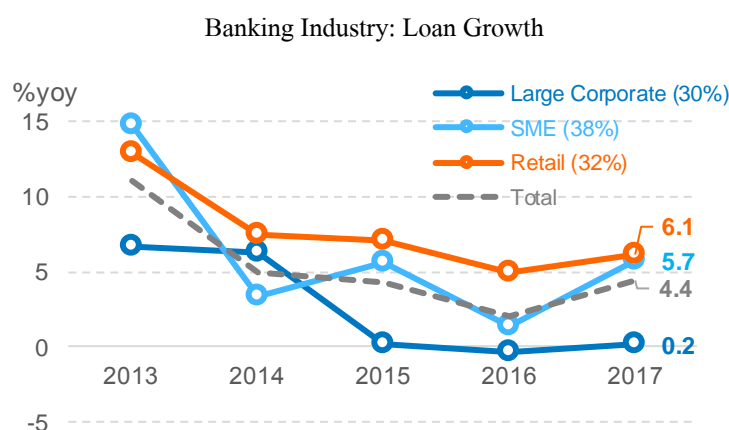
slowed down from the decline of demand for housing estates after the end of the government stimulus packages in the real estate, so mortgage growth slipped from 7% to 5.5%.

MLR of the four largest commercial banks declined by 6 basis points from 6.26% on average at the end of 2016 to 6.20% on average at the end of 2017. Banks cut lending rates in May 2017 to relieve interest burden of their customers from the economic slowdown, even though BOT kept policy rate constant at 1.50%. As a result, spread between MLR and 12-month time deposit rate narrowed down to 480 basis points.

In 2017, commercial banks' deposits grew 5% from last year to THB 13 trillion. Deposits growth was slightly higher than loan growth, which was aligned in the context of accommodating monetary policy. The share of time deposits also reduced to 38% from 40% of total deposit. Four largest banks' average time deposit interest rates stood still consistently with the policy rate, except slight drops of 6-month and 12-month fixed rate. This reflected that banks managed cost of deposit efficiently under the low interest rate environment.

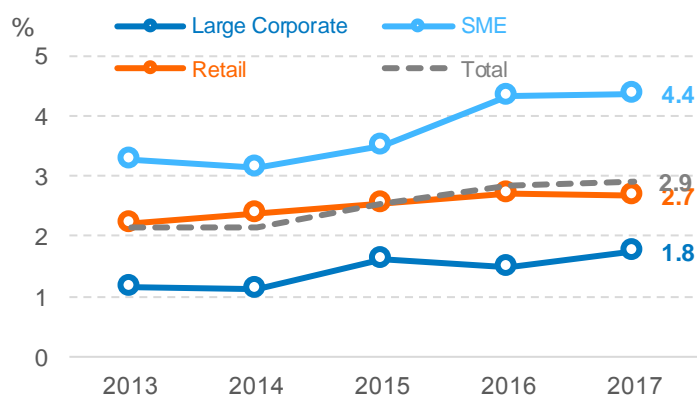
Total NPLs (gross NPLs) of commercial banks as of December 2017 increased THB 43 billion from the same period last year to be THB 429 billion. NPL ratio increased by 8 basis points to 2.91% mainly driven by NPLs from a SME. However, their NPL ratio continuously stayed at 4.4%, the same level as in 2016, especially in commerce business as a result of the slack consumer's purchasing power. Retail's NPL ratio remained at 2.7%, propelled by mortgage, impaired by the slowdown of housing demand.

The net profit of commercial banks registered in Thailand stood at THB 174 billion in 2017, decreased by THB 14 billion or only 7% from last year owing to the increased reserves for loan impairment consistent with increased trend of NPL. Nevertheless, net interest income still marginally increased by 3% despite MLR and MRR cut in May 2017. Commercial banks can manage cost of deposit so that interest expenses fell by 4%. Net non-interest income also rose up by 3%, driven by Bancassurance and mutual fund fee.



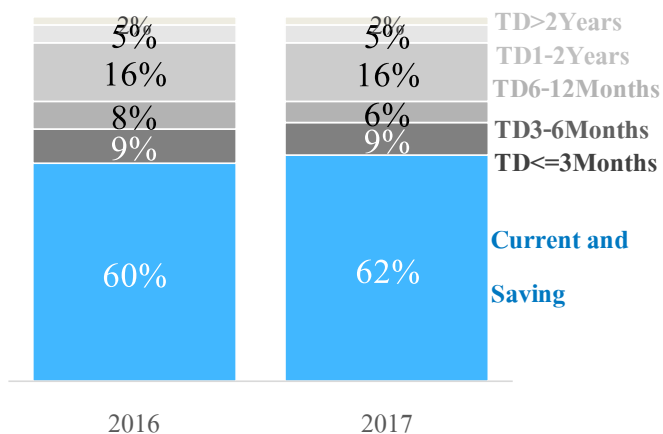
Source: Bank of Thailand

Banking Industry: NPL Ratio



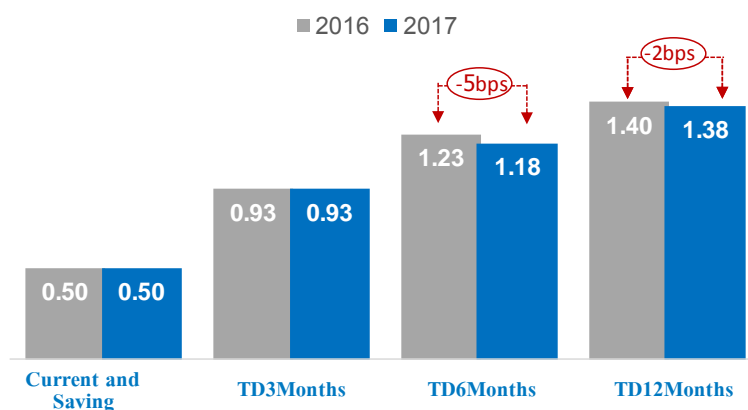
Source: Bank of Thailand

Banking Industry: Composition of Deposits by Maturity



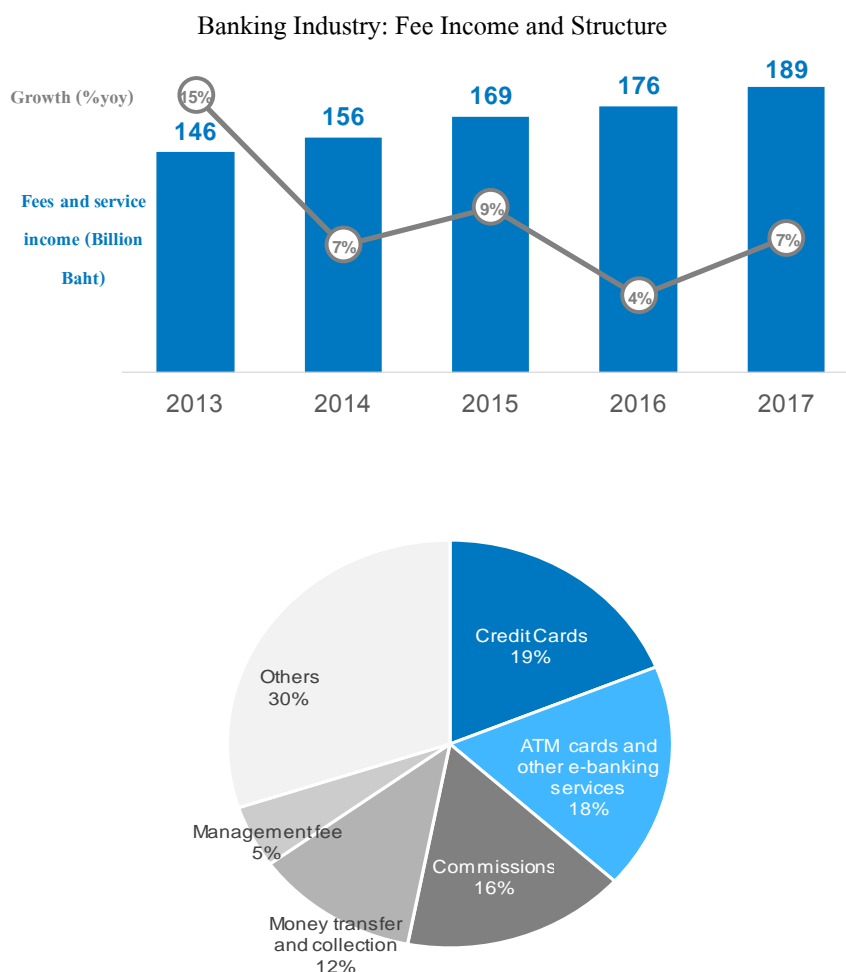
Source: Bank of Thailand

Banking Industry: Composition of Deposits by Maturity



\*Average from 4 largest commercial banks' rates

Source: CEIC



## 2) Trend of Commercial Banks in 2018

The commercial banking industry is expected to exhibit a moderate but resilient performance in alignment with recovery in the public and private sector. It will likely gain momentum from the public infrastructure projects, i.e., dual tracks, high-speed train, motor ways, in which its disbursement will be revved up this year. This will also be beneficial for certain industries, such as contractor, construction material industry, and their corresponding supply chains. Moreover, Eastern Economic Corridor (EEC) would attract foreign direct investment, especially the advanced technology-based industries, e.g., aviation, robotics, and logistics. Additionally, upward trend of increasing tourist arrivals will be soon beneficial to services and commerce businesses.

Loan quality will be expected to improve from the recovery of export and investment, especially in SME's manufacturing-based industries. However, agricultural-based industries are likely to recover, consistent with the expected hike of agricultural prices.

Personal loan and credit card's loan growth are likely to be on an upward trend due to the slight improvement of private consumption and recovered farm income as a result of recovery in agricultural prices. Mortgage loan will be back on track this year after the tepid growth from the recovered demand after the expansion of the urban area along with the mega projects, mass transit, and rail system connected regions together. However, tailwind for the retail lending inevitably are high

household debt level, which could potentially decrease the household's debt serviceability and hence causes the rise of delinquency rate.

Deposits are likely to continue its growing trend to support loan growth. Therefore, the rising deposit competition will soon start by increasing special time deposit rate. However, the trend of low inflation due to the low oil price could maintain the accommodating policy rate. As a result, the faster growth of loan over deposit will lead to the tightening liquidity.

Regarding the trend of commercial banks in 2018, the outlook for the disruptive themes will be described as follows:

### **1. Digital Banking**

Banks will invest significantly in digital infrastructure, particularly in technology and people since it does not only enhance simplicity to the customer's accessibility, but also increases speed and decreases the cost of operation relatively to other channels. Digital banking will evolve financial services by building up customer experiences. Big data analytics will play a major role in analyzing and extracting the insightful customer behaviors along the customer journey. This could be considerably favorable for laying down the strategy and innovating financial products which can satisfy customer's demand. Additionally, banks could utilize such data to have a better risk management to prevent against the uncertainty and volatility in the economy. Moreover, banks also need strong IT securities. It is essential to protect against cyber risk, which is potentially harmful to the digital systems and lower user's confidence if the system is under siege. Additionally, organization structure will be changed to be consistent with the digital environment by focusing on swift and nimble movement. This agility structure will make a cumbersome traditional culture become more strategically customer-centric and faster deliverables to satisfy customers in this digital era.

### **2. National e-Payment**

National e-payment is a national agenda to promote electronic payment across the board with a view to creating a cashless society. By working jointly with Government, Private sector and financial service, national e-payment is aimed to increase overall payment efficiency, creating a foundation of Thai banking system for local financial institutions to compete with others. This digital transformation will mark a major step of Thai's financial history. After launching Any ID scheme or PromptPay and the expansion of EDC project in 2017, this year Request to Pay and Dynamic QR Payment will enable customers and businesses to do financial transactions much easier. E-Payment will be driven by e-Commerce, which has been increasingly becoming a part of day-by-day spending in Thailand. The rise of e-Commerce aligns with the change of customer's lifestyle on seeking for convenience. Beyond the advantage of convenience and time, national e-payment will also spur financial access to unbanked people.

### **3. Fintech**

Fintechs have become a recent trend, especially for payment and transfer, investment, and insurance. The main reason why Fintechs become popular because they solve the customer's right financial pain points by applying current technology with an economical operating cost via Venture Capital.

Consequently, the Bank of Thailand and the Securities and Exchange Commission established Regulatory Sandbox to innovate financial products and services by trial on the real customers before launching to the public. This trial will limit the unexpected risk from such innovation and possibly leads to the good governance for the regulators. For this year, some other services would be launch out from Fintechs, for instance, Peer-to-Peer Lending, Robo-Advisor, or crowd funding via Initial Coin Offering (ICO).

#### **4. Trade Finance**

Since the trend of export and import will expand this year, competition in trade finance will likely intensify as it is a growing source of banks' fee income. Focus will be on SME who are expanding in ASEAN countries. In addition, the ASEAN central banks' have adopted of the Principles for Product Transparency and Disclosure on Cross-Border Trade Settlement to improve the level of transparency on charges and service level offered by financial institutions in the ASEAN region on cross-border trade settlement. The allows trade customers to transparently compare charges and services, leveling playing field for access to both domestic and ASEAN clients base.

#### **5. Regional Partnership**

Alliance and partnership among ASEAN banks plus Chinese and Japanese counterparts will increase. The establishment of Qualified ASEAN Banks (QABs) will increase the opportunities for Thai commercial banks to do business around the region. On the other hands, regional commercial banks also gain opportunities to establish in Thailand. Such mutual benefit will facilitate transaction in either trading or investment for private demand.

#### **6. e-Marketplace Platform**

In 2018, commercial banks and financial institutions will transform themselves from financial intermediaries toward marketplace consistent with the change of consumer behaviors. With strengths in large customer base and understanding customers, Bank of Thailand already provided guidelines for commercial banks and financial institutions in providing marketplace channel for transaction exchanging and online payment between retail customers and business customers.

### **2.3 Source of funds**

#### **2.3.1 Sources of funds**

Major sources of funds for TMB are deposits, interbank and money market items, borrowings and liabilities payable on demand. As of December 31, 2017, TMB had total deposits of THB 611,508 million, where time deposits represented 13.6%, 77.8% for savings account and 8.7% for current account and total deposits represented 86.3% of total funds. In addition, the Bank recorded interbank and money market items of THB 60,349 million, borrowings of THB 33,352 million and liabilities payable on demand of THB 3,665 million, making up 8.5%, 4.7% and 0.5% of total funds respectively.

**TMB's sources of funds during the specified period are as follows:**

(The Bank)	As of December 31					
	2017		2016		2015	
	Amount (THB million)	As % of total fund	Amount (THB million)	As % of total fund	Amount (THB million)	As % of total fund
Time deposits.....	82,890	11.7	115,131	16.7	170,227	23.8
Savings accounts.....	475,573	67.1	433,084	62.9	409,145	57.3
Current accounts.....	53,045	7.5	50,806	7.4	65,358	9.2
NCD.....	-	-	-	-	-	-
Total deposits.....	611,508	86.3	599,021	87.0	644,730	90.3
Interbank and money market items...	60,349	8.5	45,417	6.6	36,217	5.1
Liabilities payable on demand .....	3,665	0.5	4,032	0.6	3,008	0.4
Borrowings.....	33,3524	4.7	39,874	5.8	30,184	4.2
Total.....	708,874	100.0	688,345	100.0	714,138	100.0

**2.3.2 Policy on funding and pricing**

TMB has a policy to mobilize funds from the sources mentioned above with the amount and tenor that is most closely aligned to its requirements. Other factors taken into account are proper liquidity for the Bank's operation and comparison of funding costs from various sources. Meanwhile, suitable deposit interest rates are determined based on liquidity in the money market and of the Bank itself, together with external factors such as interest rate trends, the BoT's monetary policy, competition in mobilizing deposits, national economic trends and other such factors.

**2.3.3 Policy on liability management**

The Bank manages its short- term and long-term liabilities both in Thai baht and foreign currencies to match with the asset or clients' demand for loans. In order to hedge both interest rate and FX risks, various financial instruments such as FX swap, Interest rate swap and Cross currency swap are applied manage the above liabilities efficiently, which constitutes the alignment of the Bank's cash inflow and outflow.

### 2.3.4 Capital Adequacy

The Bank's capital adequacy ratios consisted of the following:

(Unit: percentage)

	The BoT's regulation minimum requirement *	31 Dec 17	31 Dec 16	31 Dec 15
<u>Capital ratio</u> (under Basel III framework)				
Common Equity Tier 1 Capital Ratio/Total Risk-Weighted Asset	5.75	13.18	12.80	11.32
Tier 1 Capital Ratio/Total Risk-Weighted Asset	7.25	13.18	12.80	11.32
Capital Adequacy Ratio/Total Risk- Weighted Asset	9.75	17.34	18.14	16.68

\* Includes capital conservation buffer as required by the BoT commencing 1 January 2016.

### 3. Risk management & Key risk factors

#### 3.1 Overview of TMB's risk management

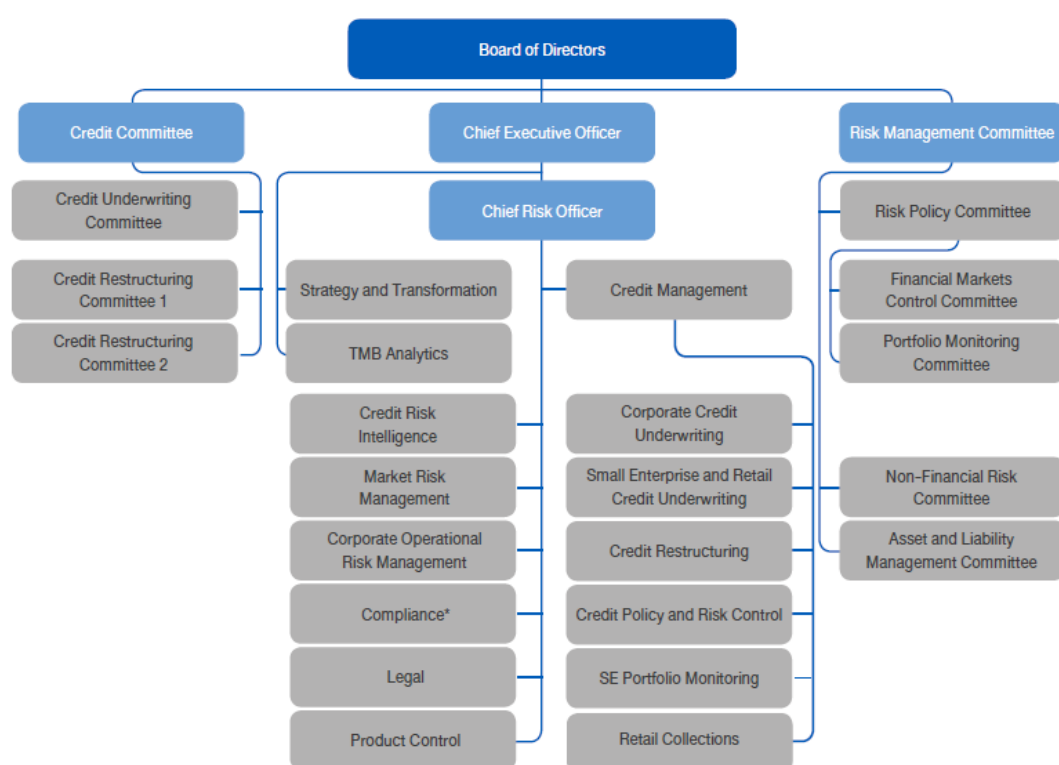
In TMB, risk management is of primary importance in order to create shareholder value by ensuring a sustainable balance between risk and return and compliancy to regulatory requirements. The general Risk Management Framework consists of a clear Governance Structure, a consistent Risk Management Process and embedding a Risk Culture in the first Line of Defense. Moreover, Risk measurement is fully integrated in the strategic planning. All of this translates into a straightforward Risk Management strategy in which:

- Products & portfolios are structured, underwritten, priced, approved and managed appropriately;
- Compliance with internal and external regulations and guidelines is monitored continuously;
- Our risk profile and risk appetite are transparent and consistent;
- Delegated authorities are consistent with the Bank's overall strategy and risk appetite;
- Communication to internal and external stakeholders on risk management and value creation is transparent.

##### 3.1.1 Risk Governance Structure

TMB maintains a risk governance structure that is intended to strengthen risk management while ensuring that risk-taking authorities are cascaded down from the Board to the appropriate committees and functional levels. Risk issues and the changing regulatory and business environment are managed in an efficient and effective manner. Moreover, to maintain the independence of the compliance function, Compliance has a dual reporting line to the Audit Committee and Chief Risk Officer.

**TMB Risk Governance Structure**



\*Also report directly to the Audit Committee

The Board of Directors (BoD) holds ultimate responsibility of bank-wide risk management. The Risk Management Committee (RMC) has been delegated by the Board of Directors to review and oversee the management of all risks across the Bank and is authorized to approve the Bank's overall risk management strategies, policies, frameworks and standards, as well as aggregate risk tolerance and risk concentration levels. However, Business Units as the 1<sup>st</sup> Line of Defense are primarily responsible for managing risks within their responsible portfolio, several risk committees provide forums to discuss and decide about specific risk areas:

1. **The Risk Policy Committee:** assists the RMC in fulfilling its oversight of internal policies, frameworks, standards, risk appetite targets and boundaries, as well as issues related to credit risk management.
  - **Financial Market Control Committee** serve as a discussion forum for Business functions, Operation functions and Risk functions with a primary focus on ensuring the effectiveness and efficiency of financial market operation regarding to internal control, risk management of each business functions and of cross-business functions related to financial market operation.
  - **The Portfolio Monitoring Committees** serve as a discussion forum for Business functions and Risk functions with a primary focus on credit portfolio monitoring to ensure appropriate proactive credit portfolio management and alignment with business strategy.
2. **The Bank Non-Financial Risk Management Committee:** to manage the **Non-Financial** risks of the Bank and its subsidiaries by establishing the **Non-Financial** Risk strategy and policies and oversee to ensure that they are implemented effectively at all levels of granularity. To emphasize the effectiveness of the "Three Lines of Defense" risk governance model, the bank set up 3 Business Unit Non-Financial Risk Committees for Retail, SME and Wholesale Banking, reporting to Bank Non-Financial Risk Committee
  - **The Financial Markets Control Committee:** serves as a cross-functional forum for business, operations, information technology and risk management functions with a primary focus on business practices and the risk and control environment and end-to-end value chain of the Bank's Financial Markets undertakings and its product approval and review.
3. **The Asset and Liability Management Committee:** assists the RMC in all matters related to the asset and liability management and balance sheet management.

All the risk management related functions are under the leadership of the Chief Risk Officer (CRO). The CRO, as a member of the Bank's executive committee (CEC) and reporting directly to the Chief Executive Officer, oversees and promotes the development and implementation of consistent bank-wide risk management.

### **3.1.2 Risk Management Process**

Risk Management in TMB consists of 4 key risk management processes:

**1) Risk Identification:** TMB classifies risks which are arising in daily business activities into 5 key risk areas: Credit Risk, Market Risk (which includes Foreign Exchange Risk and Interest Rate Risk), Liquidity Risk, **Non-Financial Risk** and Strategic Risk.

**2) Risk Assessment & Measurement:** TMB uses different methods and tools to measure various risk types in both quantitative and qualitative measures. In addition, TMB also conducts Stress Testing to measure quality and resilience of the Bank's portfolio and the Bank's tolerance to stress event scenarios.

**3) Risk Monitoring and Control:** TMB controls, mitigates and monitors risks by setting key risk indicators and risk boundaries, as well as risk limits at the bank-wide level, portfolio level, product level, and other levels as may be appropriate.

**4) Risk Reporting & communication:** Status of various risk types as well as actions taken / to be taken are reported to relevant parties / committees and top management on a regular basis. The risk reports cover product level, functional level, and the bank-wide level.

**3 lines of Defense:**

Over the last years, TMB has invested significantly in further strengthening a risk management culture where all employees in the Business units (1<sup>st</sup> line) identify risks, consider the impact, report if necessary and apply appropriate risk mitigation strategies. Investments include training, tooling, processes and policies. Risk Management units under the Chief Risk Officer perform 2<sup>nd</sup> line of defense duties of formulating risk strategy, policies and appropriate risk structures, provide oversight & monitors 1<sup>st</sup> line of defense and actively challenges the risk – return trade-off in the Business units. Internal audit as the 3<sup>rd</sup> line of defense provides independent and objective assurance on the effectiveness of controls and recommends improvements to the governance, risk & control framework.

## **3.2 Key Risk Factors**

Key risk factors that could arise from the Bank's business operation are as follows.

### **3.2.1 Credit Risk**

Credit risk is the risk of loss to TMB as a result of borrowers and/or counterparties failing to meet their financial and contractual obligations in accordance with agreed terms. It arises principally from granting loans and undertaking contingent liabilities, and also from certain off-balance sheet products such as guarantees and credit derivatives.

TMB's credit risk management objective is to maximize the Bank's risk-adjusted return by maintaining credit risk exposure within acceptable levels and build a sustainable competitive advantage by integrating risk management into business activities and strategic planning.

In recent years, TMB has improved and continues to improve its credit risk management capabilities with investments in people, risk management governance, processes, measurement tools and systems including the development of an economic capital framework, improved risk measurement processes, credit assessment & origination and tools, such as risk rating models, application- and behavioral scorecards, and established frameworks which set out credit policies, procedures,

and guidelines covering the measurement and management of credit risk. This has been achieved while further building a stronger credit culture within TMB, based on thorough knowledge of our borrowers and executed by well-trained staff according to our 3 lines of defense risk management framework. The 3 lines of defense principle helps us to mitigate credit risk within TMB and consists of 3 principles:

- Management and staffs of TMB Bank business units have primary responsibility and accountability for the effective control of credit risks incurred by their business units (“**1<sup>st</sup> line of defense**”).
- Credit Risk Management (“**2<sup>nd</sup> line of defense**”) partner with and support the 1<sup>st</sup> line of defense’s risk management activities. Risk management functions are independent of the management and staff that originate the credit risk exposures.
- Audit operates as the “**3<sup>rd</sup> line of defense**”. Audit is to provide an independent assurance of the design and effectiveness of internal controls over the credit risks inherent to TMB’s business performance.

### 3.2.1.1 Credit Risk Factors

- **Credit quality**

Further improving the quality of TMB's assets remains a key priority. Non-Performing Loans (NPL) arises when debtors fail to repay debts according to an agreed schedule. This may lead to loss of interest income but sometimes also of the principal balance, whether in whole or in part, which thereby will affect TMB’s profitability and capital adequacy.

TMB manages the quality of its credit portfolios by monitoring and reviewing status of our borrowers and/or counterparties constantly, both at individual level and at portfolio level. Also here the 3 lines of defense approach is applicable: dedicated Relationship Managers monitor their Wholesale and SME Customers at an individual level. Credit Risk data and analytics is supporting on a portfolio level. In our Retail portfolio, the focus is on portfolio management. Special attention is paid to problem exposures, which are subject to more frequent review and reporting. Early warning triggers and Qualitative Risk Score are in place to detect customers that may be moving toward adverse classification or further deterioration of their performance. Dedicated Credit Restructuring teams and Credit Restructuring Committees are established to restructure problem loans in an effective manner and to provide advice on debt restructuring conditions. TMB sets aside loan loss provision in accordance with guidelines from the Bank of Thailand (BOT). TMB also takes IBNR provisions (loss incurred but not yet recognized) for performing loans as a further cushion for losses expected as a result of future events. IBNR provisioning is calculated using PD (probability of default) based on risk level, EAD (exposure at default) based on loan types or debtor types, and LGD (loss given default) based on collateral types.

The bank’s Risk Appetite Statement (RAS) expresses the type and level of Credit Risk that the bank is willing to tolerate in pursuit of its strategic objectives. RAS aims to ensure that the Bank’s actual risk exposure is consistent with its strategic objectives and that exposure moving beyond tolerance risk levels is timely identified and acted upon. The RAS is determined based on consideration of TMB Bank’s financial plan. The RAS contains a set of quantitative statements which

are measured and reported on a monthly basis towards RMC and Executive Committee. This RAS also forms the basis of the quarterly Portfolio Monitoring Committees in order to timely address possible boundary breaches.

- **Impairment in value of physical collateral**

A substantial portion of TMB's loan portfolio is secured by physical collateral and other assets, the value of which may be affected by the overall economic conditions of Thailand. For example, a downturn in the real estate market could result in the principal amount of loans secured by real estate exceeding the loan-to-value proportion compared to that at the time of origination. A decline in the value of collaterals securing loans may result in an increase in the Bank's allowance for doubtful accounts. TMB manages collateral value impairment risk by establishing a collateral appraisal policy and executing procedures which are in accordance with BOT's regulations. The reappraisal frequency is also driven by the level of risk measured by the borrower's loan performance.

- **Credit concentration**

Concentration risk in credit portfolios is an important aspect of credit risk management. TMB manages and monitors credit concentration with respect to industries, countries and borrowers by establishing and managing Bank-wide industry diversification thresholds, country limits and customer concentration to manage both existing and potential exposures within acceptable levels to ensure appropriate diversification of the portfolio and avoid excessive credit risk exposure in certain industries, countries or borrowing groups. In addition, TMB has established a risk-based Single Exposure Limit to manage the maximum exposure for single obligor and related lending. Managing concentration risk remains a major focus in TMB's Credit Risk Management prioritization.

### **3.2.1.2 Credit-Related Policy**

#### **1) Classification and provisioning policies**

The Bank has conducted the loan classification and provisioning, including qualitative classification, in line with the BoT's notification regarding worthless or irrecoverable assets and doubtful assets which may be worthless or irrecoverable by commercial banks. Commercial loans are classified by debtors, whereas consumer or retail loans by accounts based on delinquent period. If customers use both types of credits, the loans are classified by debtors based on their main income source so as to truly exhibit the asset quality and make sufficient provisioning. Moreover, in addition to provision made according to the above mentioned BOT's notification, the Bank sets aside additional provisions by a collective approach for debtors classified as special mention and normal for each credit rating according to the Bank's policy.

#### **2) Policy on provisioning for off-balance sheet items**

TMB estimates the liabilities arising from off-balance sheet items on a quarterly basis to make appropriate provision in line with the BoT's notification regarding Classification and Provision of the Financial Institutions as follows:

1. Provisions for off-balance sheet items with high credit risk are made by using a BoT-specified credit conversion factor of 1.0 for capital adequacy calculation.

1.1 In case the off-balance sheet obligations of a debtor are classified, according to the BoT's guidelines, as sub-standard, doubtful, doubtful of loss, and loss assets, the Bank must set aside provisions at the same rate as the provisioning rate of the same debtor in the balance sheet.

1.2 In case the off-balance sheet obligations of a debtor are classified as special mention and normal assets, the Bank sets aside provisions based on the amount of estimated potential loss by using the collective approach.

2. For off-balance sheet items with a credit conversion factor less than 1.0 and classified as special mention and normal assets, the Bank also sets provisions by the collective approach.

3. For liabilities other than those in 1 and 2 above, the provision is made only for the contingent liabilities that are very likely to become a loss.

### **3) Non-Performing Loan (NPL) and Potential Non-Performing Loan Management**

The Bank is aware that to manage the Non-Performing Loan (NPL) and Potential Non-Performing Loan Management will impact to the overall bank performance. So that the Bank set the "Non-Performing Loan and Potential Non-Performing Loan Management" with the objective to reduce the NPL based on the principle of Proactive correction and fast track measures to convert NPL to normal loan.

The Bank set NPL Prevention (in 2<sup>nd</sup> line of defense) under Credit Restructuring to perform proactively on Potential NPL who will take care of debtors who start to be delinquent on the term loans and fall in "Early Warning Sign (EWS)" or having significant deterioration in risk profile. Especially, the debtors who are classified as Special Mention (SM) requiring close monitoring. To be more efficient, Relationship Manager (RM) will co-ordinate with NPL Prevention Team to negotiate with debtors to identify debtors' problems and to set appropriate solutions based on nature of the problem. For example, in case of short term liquidity problem, the bank may consider term extension, restructuring loan facility, and etc. In case of long term problem such as higher competition or lower sale, the bank may consider long-term restructuring based on debt service ability<sup>1</sup>.

To comply with the policy, Documentation Team and Legal & Strategy Team will co-ordinate with NPL Prevention Team to prepare any document or agreements to be guideline of such measurement. To monitor the implementation, the Monitoring Team will closely follow up all actions relating to contracts by working along with NPL Prevention Team to ensure that the risk is controlled until the accounts are converted back to normal.

For NPL, to set the Debt Restructuring Plans which comply with the Bank's Policies and Regulations, all Credit Restructuring Teams will work with Legal Strategy Team to set appropriate plan before negotiating with Debtors, However, in order to have effective reduction of NPL, the Bank may consider selling NPLs that are not able to finalize Debt Restructuring Plans by groups or by cases.

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<sup>1</sup> Small Enterprise (SE) Portfolio: Before May 2017, NPL Prevention Non-Performing Loan Preventive (NPLP) team managed DPD customers on Bucket Management concept. Non-DPD customers were managed by Business Units, with a focus on sales. SE Portfolio Monitoring (SEPM) was established in May 2017 (with a combination of Monitoring part under SE BU, and SE NPL Prevention team under Credit Risk Management), with the primary objective to improve SE portfolio quality and turn this portfolio into a growing healthy portfolio. SEPM takes care of both Non-DPD and DPD customers.

### 3.2.2 Market Risk

Market risk is defined as the potential losses due to changes in the price of market parameters. The main parameters are interest rates, foreign exchange (FX) rates, equity and commodity prices. For risk management purposes, the Bank has established various market risk policies, which set standards and guidelines for market risk management. The business units designated with the responsibility for market risk management accomplish this task under the standards set in the policies, while Market Risk Management independently monitors the bank-wide market risk.

The Bank controls the actual market risk exposures by setting limits within the maximum exposure and maximum loss approved by the Board of Directors. The significant market risks are as follows:

#### 3.2.2.1 Foreign Exchange Rate Risk

Foreign Exchange Risk means the potential losses of earnings and/or shareholder value of the Bank resulting from changes in foreign exchange rates arising from exposures in, both on- and off-balance-sheet, the Trading and/or Banking Books. The losses may arise from the devaluation on the conversion of foreign currency positions, including losses from foreign exchange trading transactions, or translations from one currency to another.

The Bank's Capital Markets is responsible for managing foreign exchange positions of the Bank's Trading Book. In addition, Market Risk Management puts in place a framework of market risk management measures. These measures are designed to minimise the excessive risk from unfavourable changes in market conditions, which adversely affect the prices or returns on the Bank's trading portfolios related to foreign currencies, with strict limits on:

1. Delta – Defined as the rate of change of the option value with respect to changes in the price of underlying asset.
2. Gamma - Defined as the rate of change of the delta with respect to changes in the price of the underlying asset.
3. Vega - Defined as the rate of change of the option value with respect to the volatility of the underlying asset.
4. Foreign Exchange - Defined as both the gross amount (the aggregated amounts of individual long and short positions) and net amount (the net difference of both long and short positions) for individual FX positions.

Within these limits, Capital Markets is responsible for trading and managing the portfolio and optimising the return on the funds invested. Adherence to the limits is monitored by Market Risk Management.

#### 3.2.2.2 Interest Rate Risk

Interest rate movements directly affect the Bank's earnings or economic value. Interest rate risk management is undertaken in accordance with the policy framework as approved by the Bank's Board of Directors, by establishing and monitoring various risk curbing limits such as Earnings-at-Risk limit, Economic Value-at-Risk limit. The ALCO is delegated by the Board of Directors to oversee the firm-wide structural interest rate risk to stay within the Bank's aggregated interest rate risk limit.

The Bank has adopted interest rate risk management measures to cushion the interest rate volatility, e.g. rebalancing of assets and liabilities or setting of a proper mismatch by considering external and internal factors including interest rate forecasted by TMB Analytics.

### 3.2.3 Liquidity Risk

Liquidity risk is the risk that the Bank fails to meet its obligations as and when they fall due as a result of an inability to liquidate assets into cash in time or is unable to raise funds deemed adequate for its operations causing damage to the Bank. The Asset and Liability Management Committee (ALCO) is responsible for the oversight of liquidity management. The primary aim is to provide liquidity to the Bank in order to ensure that the liquidity position in both domestic and foreign currencies are sufficient for the Bank's normal operations as well as for any crisis that may arise and that the Bank's liquidity level is to exceed the minimum as required by Bank of Thailand (BoT) and comply with the risk framework approved by the Risk Management Committee and the Board of Directors. The Bank reviews its liquidity management plan and strategy for a normal and critical situation at least once a year, or under special situation due to material changes that may impact the Bank's position. This is to ensure the alignment with the Bank's core policy, the organization structure, the regulations, and the ever-changing market condition. The Bank and each company in the Bank's financial group manage liquidity risk separately.

The Balance Sheet Management (BSM) is the unit of the Bank responsible for overall liquidity management and Capital Markets is responsible for day-to-day liquidity management. Balance Sheet Management is also responsible for liquidity risk measurement, and reporting the performance of the liquidity management to the ALCO. The Market Risk Management is responsible for identifying, monitoring and controlling the liquidity risk. The Bank has a liquidity risk management policy, which is reviewed at least once a year, or when necessary, to ensure that it is appropriate with the prevailing environment.

In order to manage liquidity, the Bank continuously monitors its funding sources and access to capital markets. The Bank recognizes the importance of holding highly liquid assets that can be quickly converted into cash or used as collateral for raising funds.

Most of the Bank's funding was mainly from deposits. The Bank's ongoing quality deposit strategy seeks to further strengthen its financial position and operating results in order to boost depositors' and customers' confidence. Meanwhile, priority is also given to liquidity risk management by maintaining the level of liquid assets, keeping abreast of risk levels on a daily and monthly basis, setting risk indicators limits, and taking proactive steps to contain risks at an acceptable level. Plans for risk management in critical situations have been devised to ensure that the Bank has strategic plans for taking remedial action, should an early warning indicator be triggered.

### 3.2.4 Non-Financial Risk

**Non-Financial** risk is defined as the risk of loss, both financial and non-financial, resulting from inadequate or failed internal processes, people, and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. TMB adopts the Basic Indicator Approach (BIA) by using gross income as a proxy in the calculation of value equivalent to operational risk-weighted asset (RWA).

**Non-Financial** Risk Management at the Bank is managed through a governance structure where the Board of Directors holds the ultimate responsibility for bank-wide risk management. The Board has delegated several non-financial risk management

related authorities to the Bank Non-Financial Risk Committee: BNFRFC, chaired by the CEO, whose responsibilities are to manage the non-financial risks of the Bank and its subsidiaries by establishing the Non-financial Risk strategy and policies and oversee to ensure that they are implemented effectively at all levels of granularity.

The bank has applied the “Three Lines of Defense” risk governance model aligning with COSO (the Committee of Sponsoring Organizations of the Treadway Commission). The bank set up 3 BU (Retail Banking, SME Banking and Wholesale Banking) Non-Financial Risk Committees: BU NFRC, chaired by CRBO, CSBO and CWBO, respectively, reporting to BNFRFC, to emphasize the effectiveness of the “Three Lines of Defense” Model at lower level in the organization and enable the management from lower levels to steer the operational & compliance risk management in their Business Units.

Under “the Three Lines of Defense” principle, Business and Support Units (BU/SUs) as the 1st Line of Defense, are primarily responsible and accountable for their own operational risk management and control. Business Operational Risk Management (BORM) is the function under BU/SUs with joint reporting line to CORM, responsible for the advisory service and support of the respective business areas in developing, formulating, and implementing the non-financial risk policies, monitoring and measuring the non-financial risk profile of the respective business areas.

The Bank has established a dedicated Corporate Operational Risk Management (CORM), the 2<sup>nd</sup> Line of Defense, reporting to the CRO, to oversee specific non-financial risk management concerns which is processing risk, control risk, unauthorized activity risk, information (technology) risk, crisis management & business continuity / disaster recovery risk, fraud risk, personal & physical security risk, and workplace safety risk. CORM developed Non-financial Risk Management Policies to ensure that the non-financial risks are properly identified, assessed, monitored, reported, analyzed, and controlled in a systematic and consistent manner. The policies provide the foundation and common infrastructure for delivering, maintaining, and governing operational risk management.

Compliance is the 2<sup>nd</sup> Line of Defense, reporting to the CRO, to oversee Compliance risk, one of the non-financial risk management. Compliance developed the Compliance Policy to ensure that the Compliance risk are properly managed. (see more detail in section 3.2.6)

Legal and Financial Control are the 2<sup>nd</sup> Line of Defense, reporting to the CRO and CFO, respectively, oversee the legal risk and the financial control risk which are also under coverage of the non-financial risks.

Audit operates as the "3rd Line of Defense". Their mission is to provide an independent assurance of the design and effectiveness of internal controls established by the first (BU/SUs) and second (CORM, Compliance, Legal, Financial Control) line of defense. In carrying out this work, Audit will provide specific recommendations for improving the governance and the risk & control framework.

The Bank has applied the Basel New Capital Accord (Basel II) guidelines. Risk Appetite Statement (RAS) and various policies have been established to manage the operational risk, including coverage of all key processes and tools, such as Risk & Control Self-Assessment (R&CSA), Key Risk Indicators (KRI), Incident Management, Action Tracking, Product and

Service Approval Process (PSAP), Outsourcing Risk Management, Business Continuity Plan and Disaster Recovery Plan (BCP / DRP), and Key Control Testing (KCT).

The bank's Risk Appetite Statement (RAS) expresses the type and level of non-financial risk that the bank is willing to tolerate in pursuit of its strategic objectives. RAS aims to ensure that the Bank's actual risk exposure is consistent with its strategic objectives and that exposure moving beyond tolerance risk levels is timely identified and acted upon.

The RAS is determined based on consideration of TMB Bank's vision, the TMB Way, strategy, objectives and historical data. The RAS contains a set of quantitative and qualitative statements. The Quantitative statements are measurable and are informed by the strategic priorities of the organization. The Qualitative expressions of non-financial Risk Appetite describe the acceptable and unacceptable attitudes and behaviors of the organization as a whole.

The process of measuring, monitoring and reporting of RAS are made through non-financial risk dashboard (NFRD) on an ongoing basis which aims to promote pro-active risk management response. In case the Bank moves towards or beyond the tolerance level, the responsible units will highlight the issue during NFRD reporting on the Bank Non- Financial Risk Committee (BNFRC), management and staff are expected to take actions to bring down to its tolerance level.

R&CSA is a process that helps to identify and assess key risks and controls as well as to determine the mitigating actions. The Bank has also established KRI's at corporate and business level to be a warning signal for all levels of management, enabling them to proactively manage and control their non-financial risks. Incident management is established to enable detection, resolution, analysis of non-financial risk incidents, as well as collection of loss data. This incident reporting and response process is key in order to facilitate management's insight in and awareness of the actual costs of non-financial risks, existing control weaknesses, and the Bank's specific risk profile. The bank implement the GRC system as the tool for incident management and response and keeping track of the status of the actions which come from audit and non-audit findings to ensure that they are monitored and managed efficiently by all relevant parties.

To ensure that products and services are offered in a safe and responsible manner, the Product and Service Approval Process (PSAP) is established to set guidelines for sign-off and approval of new products and services. This due diligence process ensures that the potential risks created by the new products and services are properly identified and addressed, and that the necessary infrastructure and controls are in place to support the new business.

The Bank has established its Outsourcing Risk Management Policy to set out the principles and standards for the effective identification of major risks created by outsourcing and management of such risks.

The Bank has established its Business Continuity Management (BCM) Policies and Standards to provide guidance and standards for all units to develop a Business Continuity Plan. The Business Continuity Management under CORM is set up to oversee the implementation of BCM Policies and Standards, monitor and lead the co-ordination of group-wide BCP initiatives to raise the overall BCP / DRP readiness of the Bank.

The Bank has established the Key Control Testing (KCT) governance to provide guidance and standards for all Business and Support Units for implementation. KCT is the set of methods and processes used for the key control identification, maintenance and testing in order to keep non-financial risks related to business activities actively within TMB Bank's risk appetite, ensure the effectiveness of controls and building proactive Risk Culture.

In terms of non-financial risk management at the subsidiaries, the subsidiaries have aligned with and adopted TMB's Non-financial Risk Management Policies and Framework where applicable. Their organization structure includes their own dedicated non-financial risk management. They also implemented non-financial risk tools such as R&CSA, incident reporting, KRI, and BCP.

### 3.2.5 Strategic risk

TMB is aware of the possible strategic risk that results from the strategic plans, business plans, strategic implementations and controls which may be inappropriate and/or inconsistent with both internal and external business environments.

TMB's vision is, **"TMB inspires people to Make THE Difference"**. In order to achieve this vision, TMB developed a 5-year rolling strategic plan focusing on a Deposit-Led Strategy and Transactional Banking Excellence. This will create a strong foundation for sustainable growth whilst TMB builds towards achieving market leadership.

The crystallization of our strategy are reflected in continuous improvements of key financial performances. In order to better manage the strategic risk, TMB improved the processes of performance tracking and strategic risk control. Regular meetings of the management team and business units are held to review performance results together with remedial planning in case of target shortfalls. A strategic risk dashboard has been developed and is updated regularly to keep management informed and aware of the changing strategic risk status. A self-assessment of strategic risk is also regularly evaluated by management.

In all, TMB strongly determined to maintain a high level of strategic risk management. Starting from the process of strategic planning, organization restructuring, staffing and project implementation as well as performance monitoring, all must be in line with the Bank's key strategies. In addition, the strategic plan itself is reviewed regularly to ensure it stays relevant with the changing business environment.

### 3.2.6 Other Risk Factors

#### 1) Risk from Economic condition

TMB Analytics expected an upbeat Thai economy in 2018 with 4.2% GDP growth as all the main economic components synchronously expand. Commodity export, uplifted by global economic recovery, is expected to grow by 4.8%. In addition, the progress of government's mega projects in terms of dual-track railways and motorways is anticipated this year with 3.3 hundred billion baht investment, which will encourage investment by private sector. Private consumption is also expected to continually expand, reflected from 36-month high consumer confidence index in the beginning of the year with supports from 3.4% increase, on average, in minimum wage in all provinces. However, there are uncertainties from external factors regarding increasing volatility in global financial market from monetary regime shift of major

economies particularly the US. At least 3 times Fed Fund rate hikes is expected due to apparent improvement in US economy and expected acceleration in inflation rate. However, investors' concerns about uncertainties from the implementation of US economic policy can lead to US dollar depreciation and capital outflows from the US. The volatility will affect Thai financial market, both interest rate and currency. Thai policy rate is anticipated to gradually rise from 1.5% to 1.75% - 2.0% towards the end of this year, while Thai baht, supported by robust fundamental, is expected to appreciate from 33.9 baht per US dollar last year to average of 31.5 baht per US dollar this year, which will impact exporters and importers. Moreover, subdued prices of some agricultural products, such as rubber and palm oil, are still worrisome as they could affect private consumption, while risks from domestic factors especially political stability are less prominent.

The Bank is fully aware of economic uncertainties and put in place a framework to manage the risks. TMB Analytics, the Bank's in-house economic research unit, has played an important role in closely monitoring and assessing the economic conditions as well as cooperating with business units on regular basis. This is to ensure that the Bank's operation is resilient and ready against any unexpected uncertainties. We also provide economic and financial information as well as industry outlook for our clients.

## **2) Risk from Material Changes in Regulations**

It is the Bank's obligation to comply with statutory rules and regulations issued by relevant authorities, e.g., Financial Institutions' Businesses Act, Bank of Thailand's Regulations and Notifications, the Securities and Exchanges Act, the Securities Laws and Regulations as issued by the Stock Exchange of Thailand, the Securities and Exchange Commission, the Anti Money Laundering Laws and their Royal Decrees. In addition, foreign act which substantial impact to the banking industry has also in place.

Compliance has been established in which responsible for providing advice, recommendations and opinions on various issues, cooperative with the relevant functions within the Bank, and set up the control and monitoring program, in order to ensure that the Bank and its subsidiaries are in compliance with applicable statutory laws, rules and regulations as well as the Bank's internal policies and procedures. Substantial issues shall be escalated to the Bank's management and committees to effectively manage compliance risk.

### **The Bank of Thailand (BOT)**

During the year 2017, BOT issued regulations, and guideline as following summary;

BOT emphasized on Banking Governance especially on customer protection on financing services according to Market Conduct. BOT also revised principles and guidance to support Banking Technology and Innovations including Mobile Payment, Cyber Resilience, and also preparation on financial industry for Financial Sector Assessment according to International Standard.

Significant issued regulations and guideline; Revision of regulation on Consolidated Supervision, Regulations Procedures and Conditions for Conducting Credit Card Business for Commercial Banks, Reverse Mortgage, Debit Chip Card Thai-Standard, Permission for Commercial Banks to operate e-Money service, PromptPay Registration Practice for e-Money,

Guidelines for Quick Response Code (QR Code) for Payment and Money Transfer, and Information Technology Risk Governance and Implementation Guideline.

Moreover, there were Amended Rules and Practices Regarding the Exchange Control for ease of doing business, cancelling the form of Exchange Transaction, In case client wants to purchase, sell, deposit, or withdraw foreign currencies, with equal to or less than 50,000USD, bank shall requires client to indicate the detail of foreign exchange transaction e.g. client's information and purpose of the transaction; and issue evidence of such transaction indicating customer's information, transaction's amount, exchange rate, transaction's date (day/month/year) and purpose of transaction. Moreover, bank shall inquire client to check the correctness of such information on the evidence again for confirmation.

### **The Securities and Exchange Commission (SEC)**

The Securities and Exchange Commission (SEC) has announced the selling and servicing guideline of capital market products (investment units and bonds), with the objective to be standard of practices which the intermediary shall comply with. The intermediary shall undertake business by taking into account the best interest of client, which can also be called "Fair dealing" in order to build confidence and trust with customers. In this regards, the intermediary shall have an appropriate and sufficient selling and servicing system and personnel in order to be capable of achieving these following targets;

1. Clients have confidence that they are contacting with in the intermediary who focuses on the principle of "Fair dealing"
2. Clients have confidence that the selection of products and services are suitable for them and response to their needs.
3. Able to provide clear and proper information to clients.
4. Able to provide proper advices that suit to customers' situations.
5. Able to provide product and services that meets clients' expectation.
6. After sale and service process, customers are satisfied with the products and services, and do not file the complaint.

These afore mentioned targets shall decrease some principle risks which include; Risk from mis-selling and fraud. The intermediary shall pay attention to the principle of Fair- dealing and have proper operating system in order to achieve these targets.

In order to achieve the targets, SEC has specified the elements of business practices for Financial Institutions, including;

- 1) Determining organization structure, roles, power, duties and responsibilities of directors and executives.
- 2) Product Selection and Client Segmentation
- 3) Communication and Training Program
- 4) Sale Process
- 5) Remuneration Structure
- 6) Complaint Handling
- 7) Internal Control and In-house Inspection
- 8) Operation and Business Continuity

**The Office of Insurance Commission (OIC)**

OIC has issued a notice on the Rules of Issuance an insurance policy, Offering an insurance and Reimbursement under the insurance policy by using electronic means including the registration of such electronic activities. This is due to an information technology is nowadays used in the insurance industry in order to reduce the long-term costs and increase public accessibility. Therefore, OIC is establishing regulations of the aforesaid registration and asking for an approval on acceptance of Information Technology and stipulate standard of security by requiring the bank who want to use electronic system channel to register with OIC prior to their implementation. In addition, bank needs to submit all related documents to the OIC within timeline

**Anti-Money Laundering Office (AMLO)**

In year 2017, Anti-Money Laundering Office (AMLO) prescribed a tax evasion or tax avoidance or tax refund fraud as a violent crimes and it prescribed as a serious predicate offense pursuant to law on anti-money laundering. In which, it contains with following elements:

1. An offender under section 37, section 37 bis and section 90/4 of the Revenue Code.
2. Tax evasion or tax avoidance and tax fraud for amount 10 Million Baht or more per tax year or tax refund fraud for amount 2 Million Baht or more per tax year.
3. Acting in a procedural manner or as a network create false or fraudulent transactions to tax avoidance.
4. Making false transactions or concealing assessable income and any asset resulting from an offense.

**Committee For the Protection of Credit Information** has amended the Credit Information Business Act B.E. 2545, with the objective to enable banks to pull customer's data(Only the parts that do not identify clients) from Credit Information Company to use in developing credit model. However, banks shall have approval from customers first. This amendment also helps in improving the standard of credit model development to become more international, and provide benefits for financial institution system in long term as well as for clients to receive proper services that match to their payment ability.

**3) Shareholder Risk**

Shareholder risk may arise if the return from investment is not as initially expected. Returns from the investment in shares can be in the form of capital gains and/or dividend income.

The Bank aims to consistently maintain its operating performance and prudent risk management in order to generate sustainable returns for shareholders in the long run. Nevertheless, there are other external factors, which are beyond the Bank's control, that have the potential to affect the volatility of TMB share prices e.g. domestic and international political situations, foreign fund flows including the unpredictable circumstances. Hence, shareholders must be aware of all risk factors in which out of the Bank's control and decide on investment to suit their acceptable risk levels.

**4. Business Assets****4.1 Core fixed assets used in business operations****Premises and Equipment**

Net book value of premises and equipment of the Bank and its subsidiaries as at December 31, 2015-2017 are as follows:

(Unit: THB million)

Item	As at December 31,		
	2017	2016	2015
1. Land	6,293	6,465	5,265
2. Building	8,915	8,967	8,450
3. Leasehold improvements	1,309	1,308	1,206
4. Equipment	6,441	6,403	5,917
<b>Total</b>	<b>22,958</b>	<b>23,143</b>	<b>20,838</b>
<u>Less</u> Accumulated depreciation	10,602	10,453	10,106
Allowance for impairment	285	307	440
<b>Premises and equipment, net</b>	<b>12,071</b>	<b>12,383</b>	<b>10,292</b>

**4.2 Leasehold rights****1. Long-term lease**

The Bank has leased office spaces, buildings, and commercial buildings from government agencies, state enterprises and private entities to locate regional offices, branches, sub-branches, bureau de change offices, car parking and ATMs, numbering 1,821 for rental-terms ranging from 1 year to 30 years, with total rentals payable of about THB 625 million per year.

**2. Leasehold**

The Bank owns leasehold on 3 branch offices amounting to THB 104 million for rental-terms ranging from 10 years to 30 years.






**Details of the long-term lease contracts, land and office buildings**

As of December 31, 2017, TMB leased a total of 1,821 plots of land and buildings from government agencies, state enterprises and private entities, of which 761 are located in Bangkok and its vicinities and 1,060 in other provinces, as detailed:







Counterparty	Location		Contract term
	Bangkok & its vicinities	Other provinces	
<b>1. Land (ATM)</b>			
1.1 Outsiders	566	856	1-3 years
1.2 Related parties			
- Bureau of the Crown Property	-	-	1-3 years
- The Treasury Department	45	70	1-3 years
- Government agencies/State enterprises	20	36	1-3 years
<b>Total (1)</b>	<b>631</b>	<b>962</b>	<b>1,593</b>
<b>2. Buildings (branch offices)</b>			
2.1 Outsiders	109	81	1-30 years
2.2 Related parties			
- Bureau of the Crown Property	2	2	1-3 years
- University	4	1	1-5 years
- The Treasury Department	12	9	1-24 years
- Government agencies/State enterprises	3	5	1-30 years
<b>Total (2)</b>	<b>130</b>	<b>98</b>	<b>228</b>
<b>Grand total (1)+(2)</b>	<b>761</b>	<b>1,060</b>	<b>1,821</b>

#### 4.3 Intangible assets

As of December 31, 2017, the Bank's service marks and trademarks registered with Department of Intellectual Property, Ministry of Commerce, with the registration valid for 10 years from the registration date and renewable every 10 years, are as follows:

Symbol	Type	Product/Service	Registration date	Renew	Expiry date
	Service mark	Commercial bank	November 4, 2005	July 21, 2015	November 3, 2025
	Trademark	Magnetic stripe card	November 4, 2005	August 26, 2015	November 3, 2025
	Service mark	Commercial bank	October 19, 2005	August 26, 2015	October 18, 2025
	Trademark	Magnetic stripe card	January 15, 2007	December 8, 2016	January 14, 2027
Device mark	Service mark	Website, internet banking, mobile banking, customer relationship management center	September 2, 2010		September 1, 2020
	Service mark	Website, internet banking, mobile banking, customer relationship management center	September 2, 2010		September 1, 2020

Symbol	Type	Product/Service	Registration date	Renew	Expiry date
IT'S NOT A BANK.IT'S 	Service mark	Website, internet banking, mobile banking, customer relationship management center	September 2, 2010		September 1, 2020
 BY 	Service mark	Website, internet banking, mobile banking, customer relationship management center	September 13, 2010		September 12, 2020
	Trademark	Umbrellas, fabric bags, travelling bags, briefcases, vanity cases, sold empty, taffeta backpacks, name card cases of leather, fabric totes.	June 5, 2014		June 4, 2024
	Trademark	Tents.	June 5, 2014		June 4, 2024
	Trademark	T-shirts, shirts (except undershirts and sports shirts), hats, shirts.	June 5, 2014		June 4, 2024
	Trademark	Music boxes, melody boxes.	June 5, 2014		June 4, 2024
	Trademark	Drinking water.	September 5, 2014		September 4, 2024
	Trademark	Umbrellas, fabric bags; travelling bags, briefcases, vanity cases, sold empty, taffeta backpacks, name card cases of leather, fabric totes.	September 5, 2014		September 4, 2024
	Trademark	Tents.	September 5, 2014		September 4, 2024
	Trademark	Electric kettles, flashlights.	September 5, 2014		September 4, 2024

Symbol	Type	Product/Service	Registration date	Renew	Expiry date
	Trademark	Music boxes, melody boxes.	September 5, 2014		September 4, 2024
	Trademark	Golf bags, golf balls, dolls.	September 5, 2014		September 4, 2024
	Trademark	Calculators, hard disks, USB data carriers, computer bags, radios, telephone stands, mobile phone cases, computer mouse pads, application software, videos and data, video recording discs.	September 5, 2014		September 4, 2024
	Trademark	shirts (except undershirts and sports shirts), hats.	September 5, 2014		September 4, 2024
	Service mark	Television advertising, radio advertising, newspaper advertising, online advertising, outdoor advertising.	September 5, 2014		September 4, 2024
	Service mark	Financial services, banking services, non-life insurance services, credit services, loan services, credit card services, debit card services, surety services, electronic money transfer services, safe deposit services, currency exchange services, travelers' check issuance services,	September 5, 2014		September 4, 2024

Symbol	Type	Product/Service	Registration date	Renew	Expiry date
		internet banking services, provision of banking services through telephone and mobile phone, life insurance brokerage services, insurance brokerage services, life insurance services, marine insurance services, fire insurance services, accident insurance services, provision of installment loans, mutual fund services, hire-purchase financing services, leasing financing services, savings services, monetary and financial analysis, debit services, provision of secured loan, monetary and financial consultancy.			

#### 4.4 Investments in subsidiary and associated companies

##### 4.4.1 Policy on investments in subsidiary and associated companies

The Bank has a policy to invest in related subsidiaries and associated companies, providing that such entities engage in either financial businesses or businesses that will contribute to TMB's core banking businesses and thereby enhance financial service offerings to customers. The companies must have good prospects with an acceptable level of risk. In order to ensure that subsidiaries and associated companies have undertaken proper business practices in line with the Bank's investment policy, the Bank will participate in directing and determining their policies, business plans, and initiatives. Investment size will not exceed the limits permitted by the BoT.

As of December 31, 2017, details of the Bank's investments in subsidiaries and associated companies compared to its total assets as shown in the financial statements (the Bank only) are tabulated below:

(Bank Only)	Total Investment by TMB (THB million)	As % of total assets
Associated Companies	-	-
Subsidiary Companies	3,754	0.4
Subsidiary and associated companies	3,754	0.4
<b>Total Assets</b>	<b>842,976</b>	<b>100.0</b>

#### 4.4.2 Policy on operations of subsidiaries and associated companies

The Policy is developed by using the guideline of BoT's Consolidated Supervision Policy that requires commercial banks under BoT's supervision to comply with. The scope of the Bank's supervision is divided into various aspects to cover the implementation of the Financial Business Group. The Policy comprises 1 core policy and 7 supporting policies as follows:

##### Core Policy

##### 1. Governance Structure

To determine the management and control structure of the Group Companies in aspect of generating strategic plan and nominating representative directors to jointly manage the Group Companies and reorganize to take responsibility of the Group Companies as appropriate. The Bank determines the guideline of representative director nomination covering investment in other companies in financial business group and general investment.

##### Supporting Policy

##### 1. Accounting Policy

To determine the accounting and financial report policy for the Bank to collect related information from the Group Companies for generating consolidated financial report correctly, in the same direction and in compliance with the BoT's rule and regulation and analyzing performance and financial status of the Group Companies correctly and promptly for controlling and monitoring.

##### 2. Corporate Governance Policy and Policy on Confidential & Insider Information and Conflicts of Interest

##### 2.1 Corporate Governance Policy

To determine the policy for the Group Companies to conduct under business ethic and the morality and the best practices are concerning in good corporate governance and best practices which should be in line with Corporate Governance Policy.

##### 2.2 Policy on Confidential & Insider Information and Conflicts of Interest

To determine the policy for the Group Companies to comply with the relevant policies and procedures in preventing any transaction which might be considered as conflict of interest or breach the bank regulation regarding insider trading.

**3 Anti-Corruption Policy**

This policy and the relevant policies are setting to manifests the Bank's and the subsidiaries intention on anti-corruption. Giving and accepting a bribe of improper benefit either from the officer / unit of the bureau office or private sector is prohibited. In this regard, each subsidiary shall be notified in writing of the policy in order to complied with this Anti-Corruption Policy and relevant policies included the relevant laws

**4. Risk Management Policy**

To determine the risk management policy of the Group Companies covering various aspects of risk relating to companies' performance and impacting the stability of the Group Companies including:

4.1 Market Risk Management

4.2 Liquidity Risk Management

4.3 Operational Risk Management

4.4 Credit risk management

**5. Compliance Policy**

To determine the policy for the Group Companies to conduct under Compliance Policy and relevant Regulatory Policy such as Regulatory Compliance, Related Parties or Connected Persons Policy, BoT's Regulatory Compliance and Know Your Customer and Anti-Money Laundering

**6. Corporate Communication Policy**

To determine the policy regarding the communication of information to outsider for the Group Companies to conduct in the same way and promote the Bank image in aspect of name and brand and disclose information of the Group Companies.

**7. Audit Policy**

To determine the roles of Internal Audit (AUD) and Independent Credit Review (ICR) and the Audit Committee's oversight role in conjunction with the roles of the Bank management and external auditor on auditing, controlling and monitoring the Group Companies. The ultimate objective is to ensure sound control culture and good governance throughout the Financial Business Group.

**5. Legal Disputes**

On December 31, 2017 TMB does not have an unsettled legal dispute which has the potential to negatively impact its assets, as the claimed amount is worth over 5% of net equity according to financial statements of bank.

**6. General and Other Significant Information****6.1 General Information****6.1.1 The Securities Issuing Company**

Name of the company	:	TMB Bank Public Company Limited
Nature of Business	:	Commercial bank's businesses in accordance with Financial Institutions Businesses Act and the businesses concerning financial services under the permission of the Ministry of Finance, the Bank of Thailand, and other parties concerned.
Head Office	:	3000 Phahon Yothin Road, Chomphon, Chatuchak, Bangkok 10900
Registration No.	:	0107537000017
Telephone	:	0-2299-1111
TMB Phone Banking	:	1558
Website	:	<a href="http://www.tmbbank.com">http://www.tmbbank.com</a>
Registered capital	:	THB 41,903,301,555.05 Million (as of 31 December 2017)
Paid-up capital	:	THB 41,647,865,927.75 Million
Common share	:	43,839,858,871 shares at par value 0.95 Baht

**6.2 Investment in other companies holding more than 10 % of the paid-up capital**

Investment in other companies as of December 31, 2017 holding more than 10 % of the paid-up capital in each company were as follows:

	Company	Head Office Location	Type of Business	Type of Capital (Share)	Paid-up Capital (Share)	TMB's ownership		
						Amount (Share)	Percentage ( % )	Amount (Baht) (net of allowance for diminution in value)
	<b>Strategic Investment in Financial Business Companies</b>							
1	PHAYATHAI ASSET MANAGEMENT CO.,LTD. Tel. 0-2354-5001, Fax 0-2354-5014	Bangkok	FINANCE	COMMON STOCK	107,000,000	107,000,000	100.00	3,190,940,256.70
2	TMB ASSET MANAGEMENT CO.,LTD. Tel. 0-2636-1800 Ext.1725 (customer service center)	Bangkok	FINANCE	COMMON STOCK	10,000,000	10,000,000	100.00	562,692,787.36
	<b>Business Supporting Companies</b>							
3	TMB PROPERTY DEVELOPMENT CO.,LTD. Tel. 0-2299-1159, Fax 0-2242-3138-9	Bangkok	REAL ESTATE	COMMON STOCK	10,000	9,993	99.93	4,169,342.92
4	DESIGNEE FOR ETA CONTRACT CO.,LTD. Tel. 0-2299-1217, Fax 0-2299-1278	Bangkok	SUPPORT FINANCIAL INSTITUTION	COMMON STOCK	1,000	995	99.50	0.00
	<b>Property Funds</b>							
5	THAI BUSINESS FUND 5 Tel. 0-2670-4900 Ext.1291-2, Fax 0-2679-1820	Bangkok	PROPERTY FUND	UNIT TRUST	220,000,000	30,000,000	13.64	8,994,000.00
	<b>Other Companies</b>							
6	TRIS CORPORATION LIMITED Tel. 0-2231-3011, Fax 0-2231-3681	Bangkok	SERVICES	COMMON STOCK	1,000,000	153,000	15.30	14,361,948.00
7	N D GROUP FEEDMILL CO.,LTD.	Lumphun	WHOLESALE,RETAIL	COMMON STOCK	120,000	30,000	25.00	0.00
8	WING GROUP CO.,LTD. Tel. 053-331315-6, Fax 053-331314, 053-331336	Chiang Mai	GARMENT MANUFACTURER	COMMON STOCK	9,000	2,250	25.00	0.00
9	THAI CHAREONPHOL INDUSTRY CO.,LTD. Tel. 0-5458-1202, Fax 0-5458-1876	Phrae	PRODUCTION	COMMON STOCK	15,500	2,500	16.13	0.00
10	WHOLESALE TOWN CO.,LTD. Tel. 0-2531-6860, Fax 0-2532-3009	Bangkok	TRANSPORTATION	COMMON STOCK	22,000	2,200	10.00	0.00
11	M_THAI ESTATE CO.,LTD. Tel. 0-2261-1144, Fax 0-2261-1143	Bangkok	REAL ESTATE	COMMON STOCK	30,000,000	3,000,000	10.00	0.00
12	NATIONAL ITMX CO.,LTD. Tel. 02558-7555, Fax 02558-7566	Nonthaburi	SERVICES	COMMON STOCK	500,000	53,703	10.74	46,900,863.18

### 6.3 Reference information

#### Other referral parties

- **Share Registrar:**

Thailand Securities Depository Co., Ltd.  
62 The Stock Exchange of Thailand Building,  
Ratchadapisek Road, Klongtoey,  
Bangkok 10110, Thailand  
Tel. 0-2229-2888

- **Auditors :**

	Mr.Chanchai Sakulkoedsin	CPA	Registered No. 6827
Or	Miss Pantip Gulsantithamrong	CPA	Registered No. 4208
Or	Mrs.Wilai Buranakittisopon	CPA	Registered No. 3920

KPMG Phoomchai Audit Ltd.  
50<sup>th</sup>-51<sup>st</sup> Floors, Empire Tower  
1 South Sathorn Road., Yannawa  
Sathorn, Bangkok 10120  
Tel. 0-2677-2000

## 6.4 Other Significant Information

### 6.4.1 Credit Rating on TMB

The table below shows credit ratings of TMB assigned by Standard & Poor's, Moody's Investor Services and Fitch Rating as of December 2016 and 2017.

Credit Rating	December 31, 2017	December 31, 2016
<b>Standard &amp; Poor's (S&amp;P)</b>		
<u>Foreign Currency</u>		
Long-term : Debt instrument	BBB-	BBB-
Short-term : Deposits / Debt instrument	A-3	A-3
Stand-Alone Credit Profile (SACP)	bb+	bb+
Outlook	Stable	Stable
<b>Moody's Investors Service</b>		
<u>Foreign Currency</u>		
Long-term : Deposits	Baa2	Baa2
Short-term : Deposits / Debt instrument	Prime-2	Prime-2
Outlook	Stable	Stable
Baseline Credit Assessment (BCA)	ba2	ba2
Outlook	Stable	Stable
<b>Fitch Ratings</b>		
<u>Foreign Currency</u>		
Long-term IDR	BBB-	BBB-
Short-term IDR	F3	F3
<u>National</u>		
Long-term	A+(tha)	A+(tha)
Short-term	F1+(tha)	F1(th)
Subordinated	A(th)	A(th)
Viability Rating	bbb-	bbb-
Support Rating	3	3
Supporting Rating Floor	BB+	BB+
Outlook	Stable	Stable