

Part 3: Financial Position and Operational Performance**13. Key Financial Information**

Investors are recommended to read the Management discussion and analysis together with the Bank's financial statements which contain a summary of the key accounting policy. In certain cases, the Management has to exercise subjective judgments and estimates on the projected assumption of any such business items for the preparation of the Bank's financial statements in conformity with Thai Financial Reporting Standards.

13.1 Summary of financial statements

The financial statements for the years ended December 31, 2015-2017 were audited by Mr. Chanchai Sakulkoedsin, CPA No. 6827, of KPMG Phoomchai Audit Limited.

13.2 Summary of audit report**Summary of audit report for the years ended December 31, 2015 - 2017**

Mr. Chanchai Sakulkoedsin of KPMG Phoomchai Audit Limited audited the consolidated and bank only financial statements for the year ended December 31, 2015 in accordance with Thai Standards on Auditing and expressed an unqualified opinion. The report will be added other matter paragraph due to the fact that the 2014 comparative information were audited by another auditor.

Mr. Chanchai Sakulkoedsin of KPMG Phoomchai Audit Limited audited the consolidated and bank only financial statements for the year ended December 31, 2016 - 2017 in accordance with Thai Standards on Auditing and expressed an unqualified opinion.

13.3 Summary of consolidated financial statements over the past three years

Consolidated statements of financial position

(Unit: THB million except percentages)

Assets	As at December 31,					
	2017	As % of total assets	2016 (Restated)	As % of total assets	2015	As % of total assets
Assets						
Cash	17,872	2.1	16,531	2.1	17,290	2.1
Interbank and money market items, net	112,534	13.3	113,858	14.3	115,758	13.8
Claims on securities	-	-	-	-	11,945	1.4
Derivative assets	8,674	1.0	10,460	1.3	12,250	1.5
Investments, net	61,305	7.3	62,985	7.9	98,260	11.7
Loans to customers and accrued interest receivables, net						
Loans to customers	643,425	76.2	593,510	74.4	580,868	69.2
Accrued interest receivables	969	0.1	915	0.1	1,068	0.1
Total loans to customers and accrued interest receivables	644,394	76.3	594,425	74.5	581,936	69.3
Less deferred revenue	(52)	-	(69)	-	(92)	-
Less allowance for doubtful accounts	(24,639)	(2.9)	(24,911)	(3.1)	(28,845)	(3.4)
Less revaluation allowance for debt restructuring	(330)	-	(177)	-	(180)	-
Total loans to customers and accrued interest receivables, net	619,373	73.4	569,268	71.4	552,819	65.9
Customers' liabilities under acceptances	-	-	-	-	11	-
Properties for sale, net	2,213	0.3	1,506	0.2	1,207	0.1
Premises and equipment, net	12,071	1.4	12,383	1.5	10,292	1.2
Goodwill and other intangible assets, net	2,132	0.3	1,704	0.2	1,239	0.2
Deferred tax assets	683	0.1	775	0.1	2,045	0.2
Other receivables, net	1,690	0.2	2,262	0.3	11,325	1.4
Other assets, net	5,325	0.6	5,584	0.7	4,496	0.5
Total assets	843,872	100.0	797,316	100.0	838,937	100.0

Consolidated statements of financial position (continued)

(Unit: THB million except percentages)

Liabilities and equity	As at December 31,					
	2017	As % of total assets	2016 (Restated)	As % of total assets	2015	As % of total assets
Liabilities						
Deposits	611,430	72.5	598,948	75.1	644,694	76.9
Interbank and money market items	60,349	7.2	45,417	5.7	36,217	4.3
Liabilities payable on demand	3,665	0.4	4,032	0.5	3,008	0.4
Liabilities to deliver security	-	-	-	-	11,945	1.4
Financial liabilities designated at fair value through profit or loss	386	-	362	-	299	-
Derivative liabilities	8,559	1.0	10,728	1.4	12,141	1.4
Debts issued and borrowings, net	33,351	4.0	39,874	5.0	30,184	3.6
Bank's liabilities under acceptances	-	-	-	-	11	-
Provisions for obligations on transfers of non-performing assets	-	-	1,657	0.2	5,998	0.7
Provisions for employee benefits	1,301	0.2	1,453	0.2	1,492	0.2
Provisions for other liabilities	544	0.1	701	0.1	543	0.1
Deferred revenue	18,908	2.2	218	-	198	-
Other liabilities	15,523	1.8	10,078	1.3	15,609	1.9
Total liabilities	754,016	89.4	713,468	89.5	762,339	90.9
Equity						
Share capital						
Authorised share capital						
44,108,738,479 ordinary shares of Baht 0.95 each	41,903	5.0	41,903	5.3	41,903	5.0
Issued and paid-up share capital						
43,839,858,871 ordinary shares of Baht 0.95 each (31 December 2016 : 43,807,370,307 ordinary shares and 31 December 2015 : 43,749,499,615 ordinary shares)	41,648	4.9	41,617	5.2	41,562	5.0
Premium on share capital	379	-	325	-	236	-
Other reserves	5,097	0.6	5,278	0.7	3,960	0.5
Retained earnings						
Appropriated - Legal reserve	2,550	0.3	2,120	0.3	1,710	0.2
Unappropriated	40,182	4.8	34,383	4.3	29,023	3.4
Equity attributable to equity holders of the Bank	89,856	10.6	83,723	10.5	76,491	9.1
Non-controlling interest	-	-	125	-	107	-
Total equity	89,856	10.6	83,848	10.5	76,598	9.1
Total liabilities and equity	843,872	100.0	797,316	100.0	838,937	100.0

Consolidated statements of profit or loss and other comprehensive income

(Unit: THB million except percentages)

	For the year ended December 31,					
	2017	As % of total income	2016	As % of total income	2015	As % of total income
Interest income	34,713	68.9	35,631	73.8	36,430	75.0
Interest expenses	9,979	19.8	10,870	22.5	13,210	27.2
Net interest income	24,734	49.1	24,761	51.3	23,220	47.8
Fees and service income	13,533	26.9	10,168	21.1	9,712	20.0
Fees and service expenses	2,947	5.9	2,171	4.5	1,891	3.9
Net fees and service income	10,586	21.0	7,997	16.6	7,821	16.1
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
Total operating income	37,439	74.3	35,223	73.0	33,450	68.9
Other operating expenses						
Employee expenses	8,511	16.9	8,118	16.8	8,169	16.8
Directors' remuneration	45	0.1	41	0.1	42	0.1
Premises and equipment expenses	3,384	6.7	3,150	6.5	3,130	6.4
Taxes and duties	1,250	2.5	1,273	2.7	1,282	2.7
Others	4,602	9.1	4,007	8.3	3,844	7.9
Total other operating expenses	17,792	35.3	16,589	34.4	16,467	33.9
Operation profit before impairment loss on loans and income tax	19,647	39.0	18,634	38.6	16,983	35.0
Impairment loss on loans and debt securities	8,915	17.7	8,650	17.9	5,479	11.3
Profit from operations before income tax	10,732	21.3	9,984	20.7	11,504	23.7
Income tax	2,004	4.0	1,740	3.6	2,153	4.4
Profit for the year	8,728	17.3	8,244	17.1	9,351	19.3

Consolidated statements of profit or loss and other comprehensive income (continued)

(Unit: THB million except percentages)

	For the year ended December 31,					
	2017	As % of total income	2016	As % of total income	2015	As % of total income
Other comprehensive income						
Items that will be reclassified subsequently to profit or loss						
Gains (losses) on remeasuring available-for-sale investments	103	0.2	(173)	(0.4)	(30)	-
Gains (losses) arising from translating the financial statements of foreign operations	(51)	(0.1)	-	-	30	-
Income tax relating to items that will be reclassified subsequently to profit or loss	(10)	-	35	0.1	-	-
	42	0.1	(138)	(0.3)	-	-
Items that will not be reclassified subsequently to profit or loss						
Change in revaluation surplus on assets	(40)	(0.1)	2,079	4.3	(49)	(0.1)
Actuarial gains on post-employment benefit plan	193	0.4	89	0.2	95	0.2
Income tax relating to items that will not be reclassified subsequently to profit or loss	(31)	(0.1)	(433)	(0.9)	(9)	-
	122	0.2	1,735	3.6	37	0.1
Total other comprehensive income for the year, net of income tax	164	0.3	1,597	3.3	37	0.1
Total comprehensive income for the year	8,892	17.7	9,841	20.4	9,389	19.4
Profit attributable to:						
Equity holders of the Bank	8,687	17.2	8,226	17.0	9,333	19.3
Non-controlling interest	41	0.1	18	0.1	18	-
Profit for the year	8,728	17.3	8,244	17.1	9,351	19.3
Total comprehensive income attributable to:						
Equity holders of the Bank	8,851	17.6	9,823	20.3	9,371	19.4
Non-controlling interest	41	0.1	18	0.1	18	-
Total comprehensive income for the year	8,892	17.7	9,841	20.4	9,389	19.4
Earnings per share						
Basic earnings per share (in Baht)	0.1982		0.1879		0.2134	
Diluted earnings per share (in Baht)	0.1981		0.1876		0.2128	

Consolidated statements of cash flows

(Unit: THB million)

	For the year ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Profits from operations before income tax	10,732	9,984	11,504
Adjustments to reconcile profit from operations before income tax to net cash provided by (used in) operating activities			
Depreciation and amortisation	1,340	1,254	1,178
Impairment loss on loans and debt securities	8,915	8,649	5,479
Impairment loss on premises and equipment (reversal of)	23	(55)	24
Impairment loss on properties for sale and other assets (reversal of)	286	(12)	118
Provisions for employee benefits and other liabilities	19	364	175
Impairment losses on investment (reversal of)	(22)	5	2
Gains on revaluation of trading investments	-	(5)	(6)
Losses on disposal of intangible assets	9	-	2
Gains on disposal of premises and equipment	(43)	(37)	(90)
Gains on disposal of investments	(43)	(206)	(183)
Unrealised losses on remeasurement of financial liabilities designated at fair value through profit or loss	24	13	16
Unrealised losses (gains) on exchange on borrowings and derivatives	(1,410)	310	844
Expenses in relation to share-based payments	15	37	93
Net interest income	(24,734)	(24,761)	(23,220)
Dividend income	(32)	(62)	(40)
Interest received	33,783	34,471	34,073
Interest paid	(8,626)	(9,675)	(11,599)
Income tax paid	(2,252)	(1,466)	(1,706)
Profits from operations before changes in operating assets and liabilities	17,984	18,808	16,664

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2017	2016	2015
Decrease (increase) in operating assets			
Interbank and money market items	1,327	2,011	(2,853)
Trading investments	9,594	4,648	5,936
Loans to customers	(59,532)	(26,290)	(55,720)
Properties for sale	252	325	909
Other receivables	166	(172)	2,043
Other accrued income	(198)	(114)	(43)
Other assets	551	(1,002)	(217)
Increase (decrease) in operating liabilities			
Deposits	12,416	(46,067)	72,891
Interbank and money market items	14,932	9,200	(36,500)
Liabilities payable on demand	(367)	1,024	(137)
Financial liabilities designated at fair value through profit or loss	-	50	100
Short-term debts issued and borrowings	(749)	(33)	(74)
Provision for obligations or transfers of non-performing assets	(1,317)	-	-
Provisions for employee benefits	(144)	(160)	(160)
Provisions for other liabilities	(19)	(19)	(14)
Account payables	323	(224)	127
Other accrued expenses	991	(255)	273
Deferred revenue	18,680	20	-
Other liabilities	3,669	2,047	(1,733)
Net cash provided by (used in) operating activities	18,559	(36,203)	1,492

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2017	2016	2015
Cash flows from investing activities			
Interest received	1,302	1,504	2,322
Dividend received	32	62	40
Purchase of available-for-sale investments	(50,780)	(42,936)	(52,514)
Proceeds from sales of available-for-sale investments	41,535	59,230	53,331
Purchase of held to maturity debt securities	(3,984)	(8,058)	(11,828)
Proceeds from redemption of matured held to maturity debt securities	5,285	21,630	19,378
Proceeds from sales of general investments	121	125	123
Purchase of investments in subsidiary	(258)	-	-
Purchase of premises and equipment	(1,020)	(1,344)	(802)
Purchase of leasehold rights	(2)	(2)	(2)
Purchase of intangible assets	(761)	(976)	(559)
Proceeds from disposals of premises and equipment	132	415	172
Net cash provided by (used in) investing activities	(8,398)	29,650	9,661
Cash flows from financing activities			
Repayments of long-term debts issued and borrowings	(12)	(773)	(1,442)
Interest paid on long-term debts issued and borrowings	(1,195)	(1,346)	(1,397)
Cash receipts on senior debenture issued	5,430	10,542	3,144
Cash paid for redemption of subordinated debenture	(10,350)	-	(8,000)
Expenses in relation to issuance of ordinary shares to employees	(1)	(1)	(1)
Dividend paid to equity holders of the Bank	(2,623)	(2,628)	(2,625)
Dividend paid to non-controlling interest	(18)	-	-
Net cash provided by (used in) financing activities	(8,769)	5,794	(10,321)
Change in translation adjustments of foreign operations	(51)	-	30
Net increase (decrease) in cash	1,341	(759)	862
Cash at 1 January	16,531	17,290	16,428
Cash at 31 December	17,872	16,531	17,290

13.4 Key financial ratios

Consolidated financial statements	For the year ended December 31,		
	2017	2016 (Restated)	2015
Profitability ratio			
Gross profit margin (%) ⁽¹⁾	71.3	69.5	63.7
Net profit margin (%)	17.3	17.0	19.2
Return on equity (%)	10.0	10.2	12.9
Interest income (%) ⁽²⁾	4.5	4.7	4.9
Interest expenses (%) ⁽³⁾	1.4	1.5	1.9
Interest margin (%)	3.1	3.2	3.0
Return on investment (%)	2.3	2.4	2.7
Efficiency ratio			
Cost to income (%) ⁽⁴⁾	47.3	46.9	49.2
Net interest income to assets (%)	3.0	3.0	2.8
Return on assets (%)	1.1	1.0	1.1
Asset turnover (time)	0.06	0.06	0.06
Financial policy ratio			
Debt to equity ratio (time)	8.4	8.5	9.9
Loans to borrowings (%)	99.2	92.3	85.7
Loans to deposits (%)	105.2	99.1	90.1
Deposits to total liabilities (%)	81.1	83.9	84.6
Dividend payout ratio (%) ⁽⁵⁾	31.1	32.7	28.6
Capital adequacy ratio (%) ⁽⁶⁾	17.3	18.1	16.7
Asset quality ratio			
Allowance for doubtful debts to total loans (%)	3.9	4.2	5.0
Bad debt to total loans (%)	1.4	2.2	0.8
NPLs coverage (%) ⁽⁷⁾	143	143	142
NPLs to total loans (%) ⁽⁸⁾	2.4	2.5	3.0
Accrued interest receivable to total loans (%)	0.2	0.2	0.2

(1) Gross profit margin = net interest income / interest income

(2) Interest income = interest income / average earning assets⁽⁹⁾(3) Interest expenses = interest expenses / average interest-bearing liabilities⁽¹⁰⁾

(4) % Cost to income = operating expenses(excluded extra-ordinary items and credit related items) / net interest income + net fee and service income + other operating income(excluded extra-ordinary items and credit related items)

(5) Dividend payout ratio = dividend paid / net profit (Bank only); Dividend payout ratio of 2017 is in accordance with the proposition to the Annual General Meeting of Shareholders in April 2018

(6) Capital adequacy ratio used the guidelines specified in the BoT's notification (Bank Only)

(7) % NPLs coverage = allowance for doubtful debts + revaluation allowance for debt restructuring / NPLs

(8) % NPLs to total loans used the guidelines specified in the BoT's notification

(9) Average earning assets = average loans + average interest-bearing interbank and money market items (assets) + average investments in debt securities

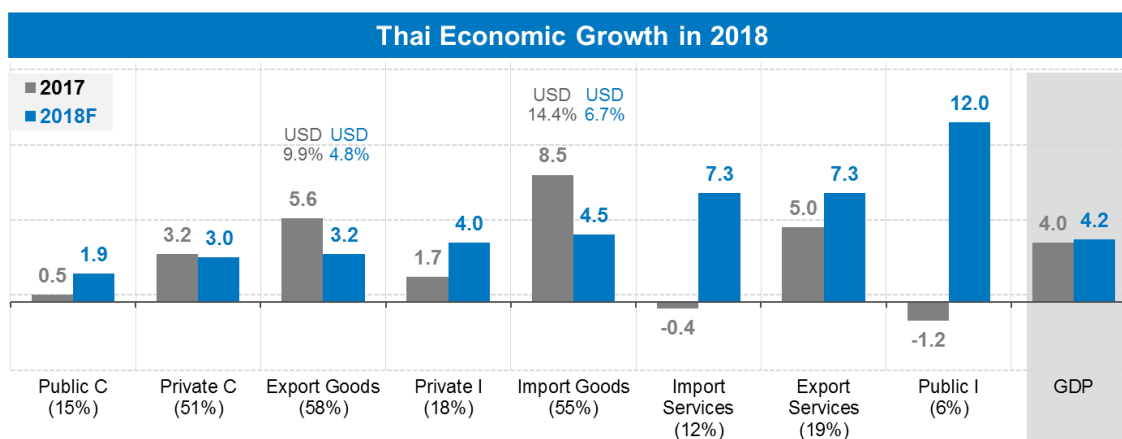
(10) Average interest-bearing liabilities = average deposits + average interest-bearing interbank and money market items (liabilities) + average debts issued and borrowings

14. Management Discussion & Analysis**2017 economic review and 2018 outlook****Thai Economy in 2017**

2017 was the year of continual recovery for Thai economy, driven by improvement in most of the economic components especially export of goods which was uplifted by global trade recovery and good economic performance of Thailand's trading partners. Exports, in USD term, grew by 10% in both products and markets. Correspondingly, tourism sector, with impressive number of tourist arrivals of 35.4 million, expanded robustly from every nationality especially Chinese. Domestic demand also showed upward improvement. Continual expansion in private consumption was supported by well-performing export-oriented manufacturing and tourism. Private investment in equipment expanded well, aligning with export growth and decreasing capital utilization rate of many industries. However, construction investment remained contracted, causing sluggishness in overall private investment. Meanwhile, boost from public investment dissipated from previous year as a result from lower-than-target disbursement rate and adjustment towards the new government procurement process. In conclusion, a strong momentum in economic activities resulted in 3.9% growth of GDP in 2017 compared to 3.3% in 2016.

Economic Outlook for 2018

Thai economy is expected to grow at rate 4.2%, consistent with robust global economic expansion and strong growth momentum from last year. A robust global economy will support Thai merchandise exports to grow by 4.8% annually together with the tourism sector to continue rising. Other economic growth contributors are also anticipated to perform better especially private investment which will be backed by vigorous export expansion and investment by public sector. Increase in money injection from public investment is expected due to historically large government capital budget as well as mega project investment to support Eastern Economic Corridor (EEC) amounting to more than 1 trillion baht. This is consistent with better business sentiment under improving investment environment and domestic political situations. Regarding financial market, Thai policy rate is expected to increase from 1.5% to 1.75- 2% at the end of year 2018, in tandem with continual expansion of Thai economy and monetary policy regime shift of major economies. Thai baht will continue to appreciate in line with robust Thai economy and foreign capital inflows into the region. Thai baht is forecasted to move in the range of 31.50-32.50 baht per US dollar.



Source : NESDB, MOC and TMB Analytics

(.) indicates percentage share to GDP in 2017

Discussion of operating performance

Executive summary

2017 financial result reflected TMB's business improvement and prudent operation. In 2017, core operating performance was on positive momentum, reflected by a 5.7% YoY growth of PPOP to THB19,736 million. Improving earning capability also allowed TMB to set higher provision for prudence and wrote off NPLs to limit downside risks. As a result, NPL ratio dropped to 2.35% while coverage ratio remained high at 143%

Loan growth was led by retail mortgage: In 2017, the Bank managed to grow performing loan by 8.7% YTD to THB626 billion, driven mainly by a 30.3% robust growth in retail mortgage and followed by corporate loan rose by 9.8%. SME loan, however, was still stagnant which dropped by 3.4% but saw recovery signs in 4Q17.

Retail base and transactional deposit grew on track: Total deposit expanded 2.1% YTD to THB611 billion in 2017, in line with the Bank's liquidity management. Throughout the year, TMB focused more on acquiring retail and transactional deposit base. Overall, it was on track, with retail deposit growth of 5.0% and transactional deposit growth 3.7% YTD. As of Dec-17, retail deposit was 70% and transactional deposit was 40% of total deposit.

Non-NII grew well from strong retail fees while NII was flat: Despite a moderate loan growth, NII was flat at THB24,734 million as NIM declined slightly by 4bps to 3.13% in 2017. The decline in NIM was due to a shift in loan mix toward mortgage and a slowdown in SME loan. Non-NII, on the other hand, posted a 21.4% growth to THB12,705 million. Key driver was net fee and service income which grew by 32.4%.

With revenue growth and operating efficiency, PPOP rose further: Operating efficiency improvement was one of the Bank's key focuses. In 2017, operating expenses rose in line with business expansion. PPOP therefore remained strong at THB19,736 million, a 5.7% growth. Growing PPOP also allowed the Bank to strengthen its loan loss absorption by providing THB8,915 million of provision in 2017, a 3.1% increase from previous year.

NPL ratio dropped to 2.35% and coverage ratio remained strong at 143% : To limit downside risks and keep balance sheet clean, the Bank proactively wrote off NPLs. As a result, NPLs dropped further to THB17.5 billion and NPL ratio reduced to 2.35% while coverage ratio remained high at 143% . This reflected the Bank's prudent operation and NPL management.

After provision, TMB reported THB THB8,687 million of net profit. The figure grew 5.6% YoY and represented a return on equity (ROE) of 10.0%

Analysis of operating performance for the accounting year as of 31 December 2017, in comparison to 31 December 2016 is as follows;

Statement of comprehensive income

(Unit: THB million)

	For the year ended December 31	
	2017	2016
Interest income	34,713	35,631
Interest expense	9,979	10,870
Net interest income.....	24,734	24,761
Fees and service income.....	13,533	10,168
Fees and service expenses	2,947	2,171
Net fees and services income.....	10,586	7,997
Other operating income	2,119	2,465
Non-interest income	12,705	10,462
Total income	37,439	35,223
Total other operating expenses	17,792	16,589
Impairment loss on loans and debt securities	8,915	8,649
Profit before income tax expense	10,732	9,984
Income tax expense	2,004	1,740
Net profit.....	8,728	8,244
Other comprehensive income	164	1,596
Total comprehensive income.....	8,892	9,841
Net profit for the period attributable to: Equity holders of the parent.....	8,687	8,226

Note: Consolidated financial statements

14.1 Operating income

For the year 2017, TMB reported operating income of THB37,439 million, an increase of THB2,216 million or 6.3% from last year. Both net interest income and non-interest income were on positive momentum while operating cost was well-maintained. Details of the Bank's operating performance was as follows.

14.1.1 Net interest income

(Unit: THB million)	For the year ended	
	December 31	
	2017	2016
Interest income		
Interest on loans	31,580	32,086
Interest on interbank and money market items	1,824	1,746
Investments in debt securities	1,214	1,370
Investments and trading transactions	61	267
Other	35	164
Total interest income	34,713	35,631
Interest expense		
Interest on deposits	4,990	6,134
Interest on interbank and money market items	744	336
Contributions to the Deposit Protection Agency	2,842	2,954
Interest on debt issued and borrowings	1,378	1,427
Borrowing fee and others	26	20
Total interest expense	9,979	10,870
Net interest income	24,734	24,761

Note: Consolidated financial statements

➤ **Interest income**

As of 31 December 2017, total interest income of the Bank and its subsidiaries was THB34,713 million, a decrease of THB918 million or 2.6% from 2016. Such drop was essentially because of lower yield on earning assets, despite moderate loan growth. Key items are as follows.

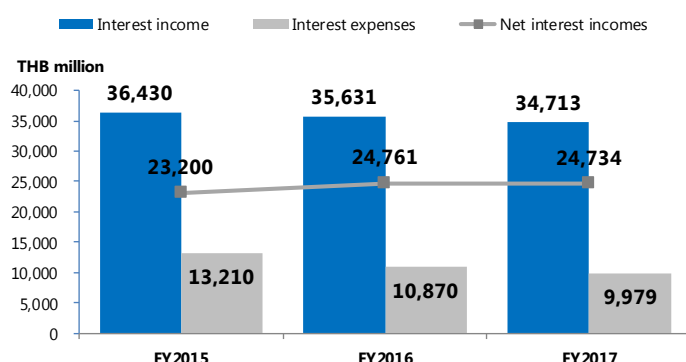
- Interest on loans declined by THB506 million or 1.6% from previous year as a result of lower yield on earning asset.
- Interest on interbank and money market items rose by THB78 million or 4.5%.
- Interest on investments decreased by THB156 million or 11.4% from last year.

➤ **Interest expense**

At the end of 2017, total interest expenses of the Bank and its subsidiaries was THB9,979 million, a decline of THB891 million or 8.2% from last year due to well-managed funding cost. Details are shown below.

- Interest expense on deposits dropped by THB1,144 million or 18.7% due to a reduction in deposit volume which was a result of the Bank's strategy to optimize deposit mix.
- Interest expense on interbank and money market items fell by THB408 million or 121.2%, in line with market rate.
- Interest on debt issued and borrowing declined by THB49 million or 3.4% from 2016.

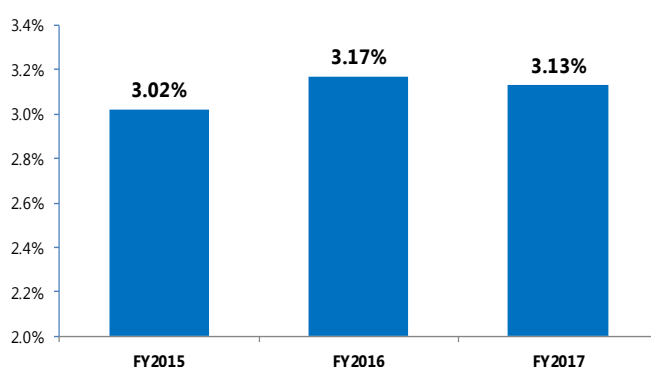
➤ Net interest income



Note: Consolidated financial statement

The Bank reported THB27,734 million of net interest income, relatively flat when compared to previous year.

➤ Net interest margin (NIM)



Note: Consolidated financial statement

Due to shift in loan portfolio toward mortgage and slowdown in high yield segment of SME, net interest margin (NIM) slightly dropped to 3.13% from 3.17% in 2016, still in line with the Bank's target. However, well-managed funding cost helped reduce the impact of lower yield.

14.1.2 Non-interest income

(Unit: THB million)

Fees and service income	
Acceptances, aval and guarantees	
Others	
Fees and service expenses	
Net fees and service income	
Gains (losses) on trading and foreign exchange transactions.....	
Gains (losses) on financial instrument designated at fair value.....	
Gains (losses) on investments.....	
Gains on sale of assets.....	
Dividend income	
Others	
Total non-interest income	

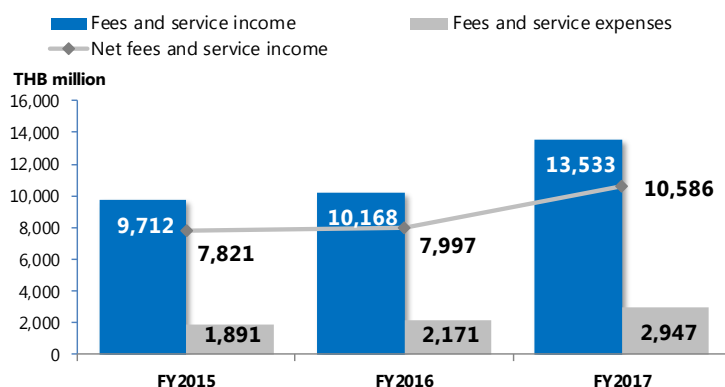
For the year ended December 31

	2017	2016
Fees and service income	13,533	10,168
Acceptances, aval and guarantees	568	575
Others	12,965	9,593
Fees and service expenses	2,947	2,171
Net fees and service income	10,586	7,997
Gains (losses) on trading and foreign exchange transactions.....	1,147	1,691
Gains (losses) on financial instrument designated at fair value.....	(24)	(13)
Gains (losses) on investments.....	64	201
Gains on sale of assets.....	209	115
Dividend income	32	62
Others	691	408
Total non-interest income	12,705	10,462

In 2017, total non-interest income of the Bank and its subsidiaries was THB12,705 million, an increase of THB2,243 million or 21.4% over-year, driven mainly by growth in fees and service income. Key items are as follows.

- Net fees and service income was reported at THB10,586 million, grew robustly by THB2,589 million or 32.4% from last year. This increase was primarily due to 1) growth of retail fees from bancassurance and mutual fund sales and 2) access fee from the renewal of life bancassurance collaboration of TMB and FWD, offsetting a decrease in credit related fee.
- Gain on foreign exchange transactions declined by THB545 million or 32.2%.
- Gain on investment dropped by THB137 million or 68.0%.
- Gain on sales of assets rose by THB94 million or 82.1%.
- Dividend income declined by THB30 million or 48.1%.

Net fees and service income



Note: Consolidated financial statement

14.1.3 Non-interest expenses

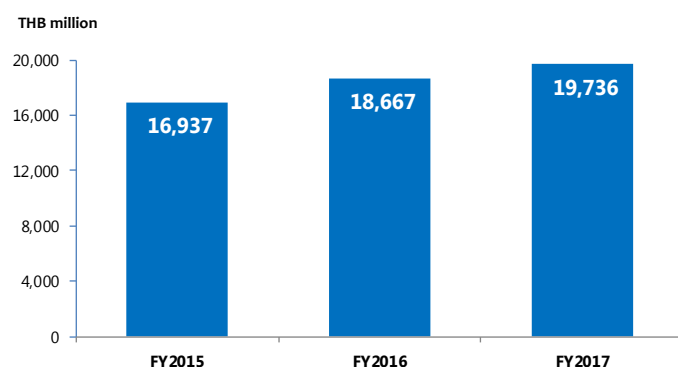
(Unit: THB million)

	For the year ended December 31	
	2017	2016
Non-interest expense		
Personnel expenses	8,511	8,118
Premises and equipment expenses	3,384	3,150
Taxes and duties.....	1,250	1,273
Directors' remuneration	45	41
Loss on impairment of properties foreclosed	114	(4)
Loss on diminution in value of other assets	172	(9)
Provisions of obligation on transfers of non-performing assets (reversal)	0	0
Provisions for other liabilities (reversal)	(166)	154
Other expense	4,482	3,865
Total non-interest expense	17,792	16,589

At the end of 2017, total non-interest expenses of the Bank and its subsidiaries was THB17,792 million, an increase of THB1,204 million or 7.3% from last year, due to;

- Personnel expenses rose by THB393 million or 4.8%, mainly resulted in higher incentives from growing business volume.
- Premise expenses increased by THB234 million or 7.4% from previous year.
- Other expenses rose by THB617 million or 16.0% mainly from higher marketing, collection expenses and computer software rental.

14.1.4 Pre-provision operating profit (PPOP)



The pre-provision operating profit of the Bank and subsidiaries was THB19,736 million or grew by THB1,069 million or 5.7%, supported by growth of operating income while operating cost was well-managed.

Note: Consolidated financial statement

14.1.5 Bad debt, Doubtful accounts and impairment losses

Provisions for bad debt and doubtful accounts and impairment loss on debt securities were THB8,915 million, an increase of THB265 million or 3.1% from last year. The increase was mainly to accommodate the proactive NPL write-off, reflected the Bank's objective to reduce future downside risks. As a result, coverage ratio of the Bank and its subsidiaries remained strong at 143%, relatively stable compared to last year and in line with the Bank's target.

14.1.6 Profit before income tax

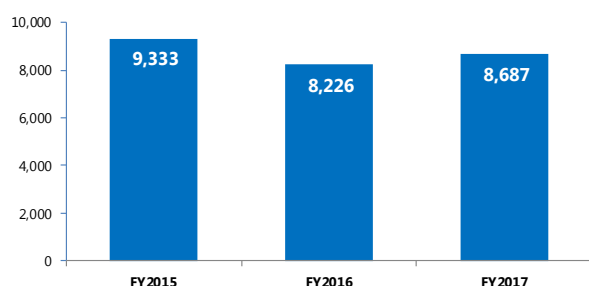
The Bank and its subsidiaries recorded profit before income tax at THB10,732 million, rose by THB747 million or 7.5% compared to the previous year. Income tax expense in 2017 was THB 2,004 million, an increase of THB264 million or 15.2%.

14.1.7 Net profit

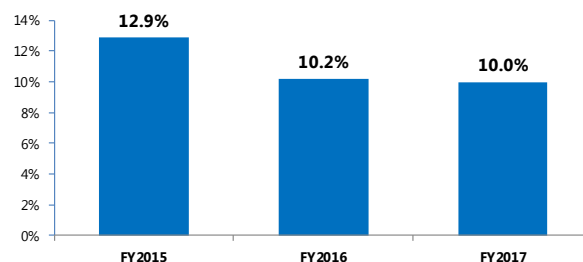
At the end of 2017, consolidated net profit for the period attributable to equity holders of the Bank was THB8,687 million, grew by THB460 million or 5.6% from previous year. This represented an ROE of 10.0%.

Net profit

THB million



Note: Consolidated financial statement

Return on equity (ROE)

Note: Consolidated financial statement

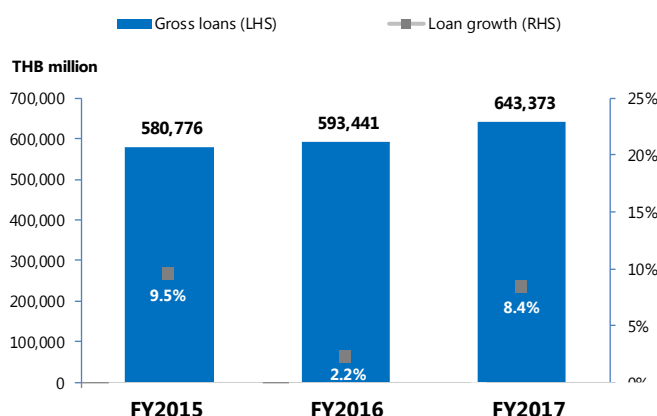
14.2 Financial Position**For the year ended 31 December**

(Unit: THB million)	2017	2016
Cash, Interbank and derivative assets	139,080	140,849
Investments	61,305	62,985
Loans and accrued interest receivables - net	643,373	593,441
Accrued interest receivables	969	915
Less Allowance for doubtful accounts & Revaluation allowance	24,969	25,088
Loans and Allowance - net	619,373	569,268
Properties for sale - net	2,214	1,506
Premises and equipment - net	12,071	12,383
Goodwill from transferred business and other intangible - net	2,132	1,704
Deferred tax assets	683	775
Other receivables - net	1,690	2,262
Other assets	5,325	5,584
Total Assets	843,872	797,316
Deposits	611,430	598,948
Interbank and Money Market Items	60,349	45,417
Borrowings	33,352	39,874
Deferred tax liabilities	18,908	218
Other liabilities	29,978	29,010
Total Liabilities	754,016	713,468
Equity attributable to equity holders of the Bank	89,856	83,723
Non-controlling interest	0	125
Total equity	89,856	83,848
Total liabilities & equity	843,872	797,316

14.2.1 Assets

Total assets of the Bank and its subsidiaries as of 31 December 2017 were THB843,872 million, an increase of THB46,556 million or 5.8% from last year. It was attributed to an increase in total loan to customers, net investments, and net properties for sale. Details are as follows.

Total loans and % growth



Note: Consolidated financial statement

➤ Loan portfolio by customer segment

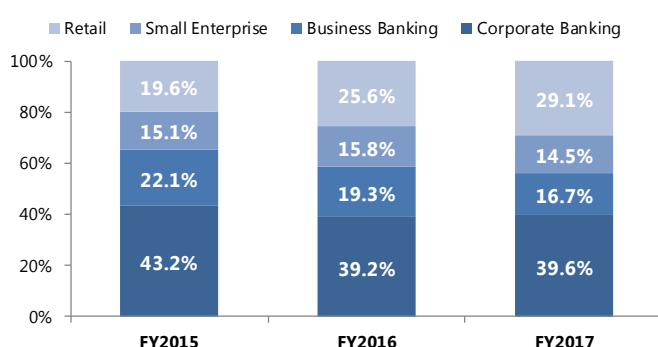
As of December 2017, total loan on bank-only basis was reported at THB643,325 million which expanded by THB49,932 million or 8.4% due to growth in retail lending, especially mortgage loan and corporate loan whereas SMEs loan on the other hand declined due to a slowdown in economic and business sentiment.

The following table sets forth TMB's loans by customer segment as at the dates indicated:

	(THB million except in %)			
	As at December 31,			
	2017		2016	
	Amount	Amount	Amount	% of total
Corporate Banking ⁽¹⁾	249,056	38.7%	226,648	38.2%
Business Banking ⁽²⁾	109,334	17.0%	116,113	19.6%
Small Enterprise ⁽³⁾	99,773	15.5%	100,131	16.9%
Retail ⁽⁴⁾	185,163	28.8%	150,482	25.4%
Total	643,325	100.0%	593,393	100.0%

(Bank only)

Loans by customer segments



Note: Bank-only financial statements

1) Loans

As of Dec-17, TMB reported THB643,373 million of total loans (excluding accrued interest receivable), an increase of THB49,932 million or 8.4% from last year.

Key growth driver was performing loan growth in retail and corporate lending. SME although declined but showed a recovery signs from previous quarter.

Segment definition

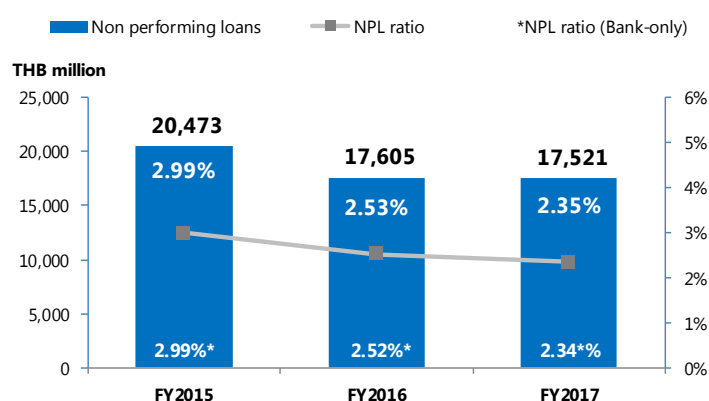
1. Multi-Corporate Banking (MB): customer with annual sales volume more than THB5 billion
Corporate Banking (CB): customer with annual sales volume more than THB1 billion to THB5 billion
2. Business Banking (BB): customer with total annual sales volume more than THB100 million to 1 billion
3. Small Enterprise (SE): customer with total annual sales volume up to THB100 million, including owner operators
4. Retail: Individuals

➤ Non-performing loan and NPL ratio

TMB has put priority on asset quality monitoring and continued to manage NPLs with prudence. As of 31 December 2017, the Bank and its subsidiaries' non-performing loans ("NPLs") classified as substandard, doubtful, and doubtful of loss were THB17,521 million, slightly decreased by THB84 million or 0.5%. The Bank's NPL (on bank-only basis) were THB17,473 million, also dropped by THB84 million or 0.5% from 31 December 2016.

The reduction in NPLs was due mainly to proactive NPL management, especially by write-off and sale to reduce future downside risks and keep balance sheet clean. In 2017, the Bank further wrote-off its NPLs by THB9.1 billion and NPL sale of THB1.3 billion.

Non-performing loans and NPL ratio



Note: Consolidated financial statements

NPL ratio of the Bank and subsidiaries (include interbank loans) was 2.35%, decreased from 2.53% as of 31 December 2016 which in line with the Bank's expectation.

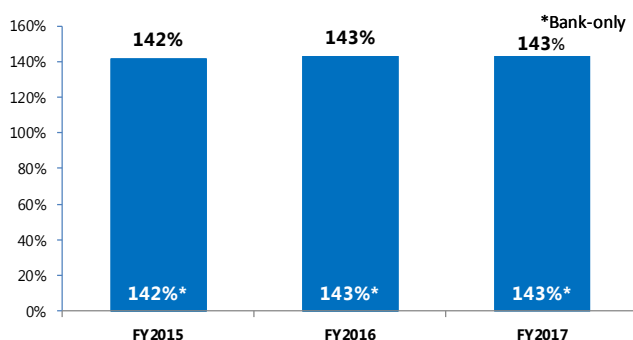
On bank-only basis, NPL ratio (include interbank loans) was at 2.34% which decreased from 2.52% as of December 2016.

➤ Allowance for loan losses

The allowance in excess of such minimum percentage as specified in the BoT's notifications to cover losses incurred but not yet reported is determined, taking into accounts the relevant factors such as the types of lendings, historical loss, the debtor's credit risk, management's experience and so on. The additional provision is determined, taking into accounts the debtor's payment ability, the expected amount to be collected from the underlying collateral and debt management plan etc.

Any additional allowances for doubtful accounts are charged to expense in each accounting period million) on which it ceased recognition of interest income on an accrual basis.

NPL Coverage ratio



Note: Consolidated and Bank-only financial statements

As of 31 December 2017, the Bank and its subsidiaries had the allowance for debt restructuring of THB24,969 million, decreased by THB119 million or 0.5%.

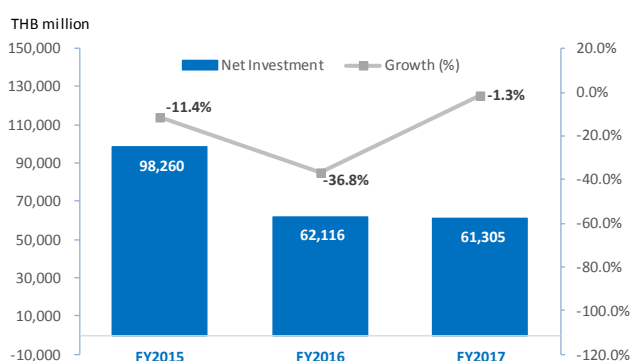
The ratio of allowance to total NPL or coverage ratio on consolidated basis was maintained high at 143%, stable from the previous year. The coverage ratio on bank-only basis was also at 143%, relatively stable compared to December 2016.

2) Interbank and money market

Net Interbank and money market reported THB112,534 million, a decrease of THB1,323 million or 1.2% as a result of liquidity management.

3) Investment

Net investment and % growth



Note: Consolidated financial statement

As of December 2017, the Bank reported net investment at THB61,305 million, a slight decrease of THB811 million or 1.3%, basically from the adjustment of bond portfolio.

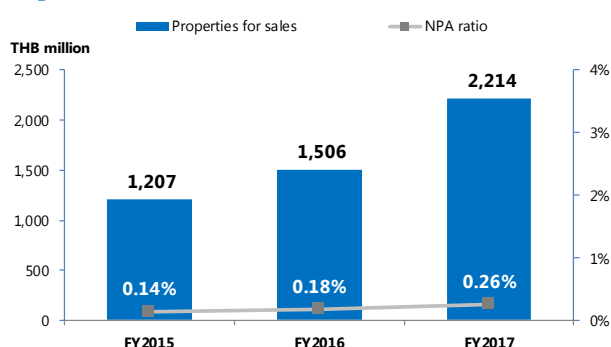
The table below illustrates TMB's investment portfolio for the periods indicated:

	Consolidated financial statements	
	31 December 2017	31 December 2016
<u>Trading securities - fair value</u>		
Government and state enterprise securities	620	10,214
Total trading securities	620	10,214
<u>Available-for-sale securities - fair value</u>		
Government and state enterprise securities	36,862	27,377
Domestic marketable equity securities	3	3
Total available-for-sale securities	36,865	27,380
<u>Held-to-maturity debt securities - cost/amortized cost</u>		
Government and state enterprise securities	23,511	24,956
Total held-to-maturity debt securities	23,511	24,956
<u>General investments - cost</u>		
Non-marketable equity securities		
- Domestic	1,098	1,219
Non-marketable equity securities		
- Foreign	2	35
Total general investments	1,100	1,254
Less: Allowance for impairment	(791)	(819)
General investments - net	309	435
Investments - net	61,305	62,116

The fair value of investments in government-sector debt securities is determined, using yield rates or prices quoted on the Thai Bond Market Association (“ThaiBMA”). The fair value of investments in other debt securities issued locally is determined based on market value appraised by the reliable institutions, their respective yields, or the ThaiBMA’s yield rates adjusted by appropriate risk factors.

The fair value of marketable equity securities held for trading and as available-for-sale is determined at the last bid price quoted on the last working day of the Stock Exchange of Thailand of the reporting period. The fair value of an investment unit is determined using the net asset value announced on the reporting period-end date. The fair value of non-marketable equity securities is determined mainly based on the net asset value of the investee company.

4) Properties for sales



Properties for sales as of December 2017 were THB2,214 million which increased THB708 million or 47.0% from December 2016. The increase was due mainly to debt asset swap.

The NPA ratio therefore increased to 0.26% compared to 0.18% in 2016, still in line with the Bank’s plan.

Note: Consolidated financial statements

Consolidated financial statement

	As of December 31, 2017	As of December 31, 2016
	(THB million)	(THB million)
Beginning balance	1,572	1,305
Net decrease.....	795	267
Ending balance	2,367	1,572
Provision for impairment	(153)	(66)
Total NPAs-net	2,214	1,506

Properties for sale are stated at the lower of cost or net realizable value. Impairment losses is recognized as an expense in profit or loss. Gains or losses on disposal is recognized in profit or loss when a disposal is made.

14.2.2 Liabilities

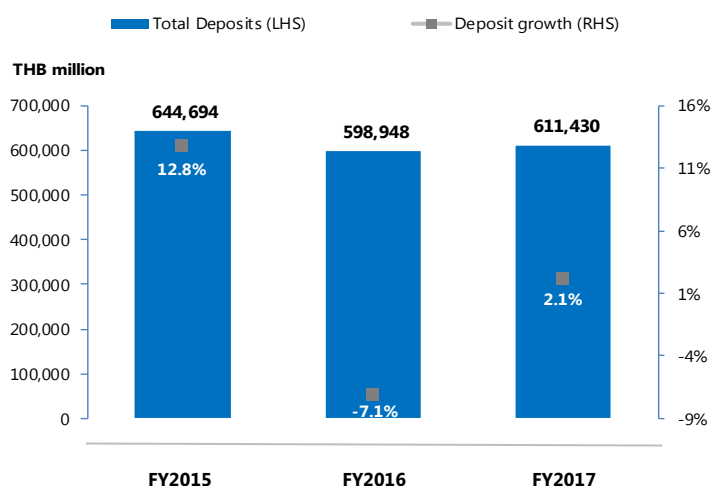
As of 31 December 2017, total liabilities of the Bank and its subsidiaries reported THB754,016 million, an increase of THB40,548 million or 5.7%, in comparison to last year. The increase was due to the growth in deposit volume. Details are shown below;

1) Deposits

Total deposits reported THB611,430 million, an increase of THB12,482 million or 2.1%, driven by mainly retail deposit.

While rebalancing deposit volume to align with loan growth, the Bank continued to optimize deposit mix by expanding transactional deposits (All Free & One Bank) and replacing Time deposit (TD) with No-Fixed and ME. As of December 2017, TMB All Free TMB All Free continued to show its robust growth by 50.9% while No-Fixed and ME grew by 16.2% and 6.0% respectively. TD dropped by 28.0%. The ratio of transactional deposit (CASA-excluded No-Fixed and ME) to total deposit was reported at 40.4%, a slight increase compared with 39.8% in 2016.

Total deposits and % growth



Note: Consolidated financial statement

Deposits breakdown by products

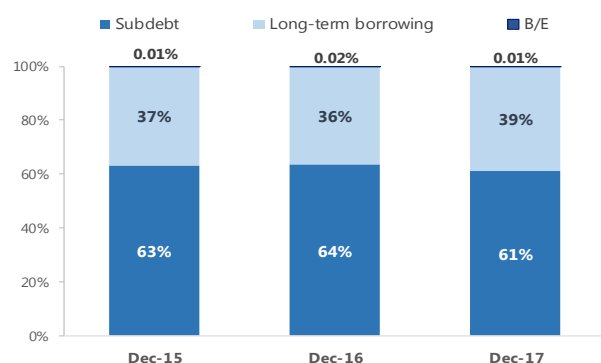
(Unit: THB billion)	Dec-17	% of total deposit	Dec-16	% of total deposit	% Change YoY
Current	53	8.6%	50	8.3%	2.3%
Saving	195	31.8%	188	31.4%	1.4%
No Fixed and ME	278	45.5%	243	40.6%	17.7%
Time Deposit	83	13.6%	115	19.2%	-29.4%
NCD & FCD	3	0.5%	3	0.5%	0%
Total	612	100.0%	599	100.0%	2.1%

Note: Bank-only financial statements

Remark: "TMB No Fixed" and "ME" and classified as savings account as the products are not required to maintain minimum balance and have no restriction to term of deposit.

2) Borrowings

Total borrowing was THB33,352 million, a decrease of THB6,522 million or 16.4%. The reduction was mostly from redemption existing sub-debt by THB10 billion and reissuance of sub-debt by THB5 billion in May.

Borrowings breakdown

Note: Consolidated financial statement

3. Interbank and money market

Interbank and money market items as of 31 December 2017 reported THB60,349 million, an increase of 32.9%, in accordance to the liquidity management.

14.2.3 Shareholder's equity

As of 31 December 2017, the consolidated shareholders' equity was THB89,856 million, an increase of THB6,008 million or 7.2% due to higher profit generation during the period.

Diluted earnings per share increased from THB0.1876 as of 31 December, 2016 to THB0.1981 as of 31 December, 2017.

14.3 Off-balance sheet items

- Commitments**

The Bank's commitments comprise aval to bills, guarantees of loans, liabilities under unmatured import bills, letters of credit, other guarantees, unused overdraft credit lines and other commitments. The Bank's commitments (excluding commitments from derivative contracts) decreased by 9.4% from THB 214,347 million as of December 31, 2016 to THB 194,151 million as of December 31, 2017.

	Consolidated and Bank only	
	2017	2016
	<i>(in million Baht)</i>	
Avals to bills ⁽¹⁾	633	1,583
Liability under unmatured import bills	2,529	2,502
Letters of credit	19,360	22,948
Other commitments		
- Other guarantees	62,045	65,488
- Amount of unused bank overdrafts	80,908	90,845
- Committed line	5,566	17,366
- Others ⁽²⁾	23,110	13,615
Total	194,151	214,347

⁽¹⁾ As at 31 December 2017, this included bank acceptance amounting to Baht 3 million (2016: Baht 5 million).

⁽²⁾ As at 31 December 2017, this included the financial assets accepted as collateral that had been sold or pledged amounting to Baht 22,641 million (2016: Baht 13,115 million). The Bank is obliged to return those securities in equivalent amount.

14.4 Liquidity management

The objective of liquidity management is to keep the Bank's financially capable of performing its financial obligations at present and in future and generating benefits when the market condition serves. The financial obligations arise from deposit withdrawal, repayment of debts, loan expansion, working capital requirement, and legally required provisioning. The Bank has adequate liquidity sources and can manage its liquidity through the domestic and foreign money market, the exchange market, and the repurchase market.

The table below shows the Bank's liquidity status for the periods indicated:

(THB million except in %)

	December 31, 2017	December 31, 2016	December 31, 2015
Liquid assets	9,617	9,315	9,539
Loans/Deposits (%)	105.2	99.1	90.1
Loans/Deposits (THB only) (%)	102.2	94.7	85.4
Liquid assets/Assets (%)	1.1	1.2	1.1
Liquid assets/Deposits (%)	1.6	1.6	1.5

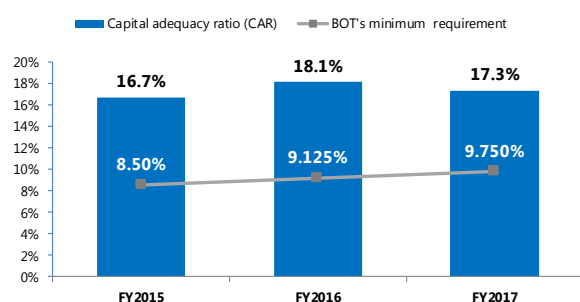
Liquidity (Bank-only)

As of December 31, 2017, TMB had liquid assets of THB 9,617 million, shifted from THB 9,315 million as of December 31, 2016. Deposits increased by 2.1% from THB 599,021 million as of December 31, 2016 to THB 611,508 million as of December 31, 2017. Borrowings decreased by 16.4% from THB 39,874 million as of December 31, 2016 to THB 33,352 million as of December 31, 2017 due to decrease of short-term borrowing by THB 7,913 million and increase of long-term borrowing by THB 1,391 million.

14.5 Capital adequacy

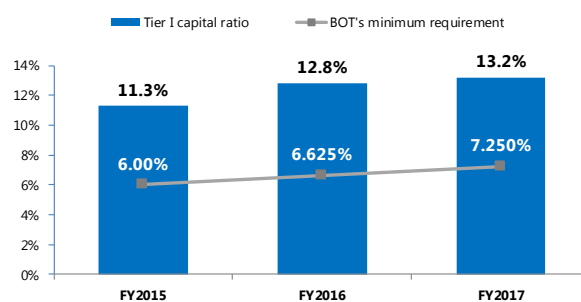
At the end of December 2017, Capital Adequacy Ratio (CAR) of the Bank under Basel III calculation was 17.3% while CET1 and Tier 1 ratio were 13.2%. The Bank has maintained the robust capital well above the Bank of Thailand's minimum requirement (including conservation buffer) of 9.75%, 7.25% and 5.75% of CAR, Tier 1 and CET 1 capital ratio, respectively.

Capital adequacy ratio (CAR)



Note: Bank only financial statement

Tier 1 Capital



Note: Bank only financial statement

(For the disclosure of full details of capital under BASEL III, please visit investor relations webpage at www.tmbbank.com)

14.6 Factors impact to financial status and business operations

Success of TMB business depends on achieving the Bank's 7 Strategic Intents including: strongly understanding customers; growing quality deposits; building transactional banking excellence; building recurring non-interest income; optimizing capital utilization and liquidity; ensuring cost efficiency management; and high performance and empowered organization. With respect to TMB's 7 Strategic Intents, TMB may not achieve expected returns and other benefits as a result of various factors, which may include increasing competition on deposit acquisitions; unexpected prolonged low interest rates; rapid changes of technologies related to transactional banking; and regulatory changes on fees.

TMB may face significant and increasing competition in the banking industry, and may not be able to compete in the acquisition of quality deposits which could adversely affect the Bank's cost of deposits and the expected re-deployment of quality deposits into profitable assets. TMB will continue to experience intensified competition as the evolution of the banking industry may result in better capitalized and more diversification that is capable of offering a broader range of financial products and services at more competitive prices. TMB may face competitors with more experience and more established relationships with customers which could adversely affect TMB's ability to attract quality deposits. Resuming loan growth during the time of global rate hike may further drain liquidity out from the system, which may further put pressure on deposit cost. Such increased competition may negatively affect the Bank by creating pressure to lower margin on the products and services, and failing to gain stable funding which thus increases cost of funds. Nonetheless, TMB has placed a strategic plan to address this anticipated problem by continuing to develop and innovate quality saving products differentiating them from other normal savings in the market while addressing customers' needs. By designing the right saving products and provide simple and easy transactional services, TMB will be able to successfully obtain low cost quality deposits even in the current highly competitive environment.

In the current slow economic recovery situation, TMB faces difficulty in maintaining asset quality and in achieving loan growth as targeted. Since Thailand's current economic condition does not appear to be improving quickly in the short-term, TMB will have to tighten credit controls which will put upward pressure on operating expense resulting in greater challenges in generating maximum returns for investors. However, TMB has been preparing itself for the case of weak economic situation. Since 2013, TMB has tightened credit policies and implemented stricter annual credit monitoring and review. In addition, an "Early Warning" system has been implemented which would help predict and detect customers' credit status as well as establishing advisory center to help proactively advise and resolve customers' credit issues. TMB continued to develop and improve asset management which will help maintain the Bank's asset quality in an acceptable level. In long term, TMB has also brought in data analytics to enhance banks' lending capability not only for better risk management but also for better pricing strategy that reflect true risk profile of each individual customer.

TMB may not be able to achieve anticipated level of profits due to the unexpected prolonged-low interest rates. The occurrence of which may adversely affect the Bank's business, financial position and results of operations. The ultra-low interest rates may be prompted by monetary policy to stimulate ailing economy. Exceptionally low interest rates may pose a greater level of challenges on the Bank's ability to acquire quality deposit and profitability. The low interest rates on savings deposits would be less attractive to savers. As banking deposit products become less attractive, customers may choose other

investment alternatives, such as fixed-income and equity, over banking deposit products. In addition, ultra-low interest rates may put downward pressure for the Bank to achieve its anticipated financial returns and expected level of business growth. Nonetheless, TMB has prepared business plans both short-term and long-term goals with focus on increasing portion of non-interest income, which will help TMB to sustainably generate profits in a volatile economic environment.

TMB's business model is primarily based on transactional banking that provides a broad range of financial services to a diversified mix of customers, delivered through multiple channels. TMB's success in transactional banking depends on the Bank's ability to adapt and develop the Bank's transactional banking services to evolving industry standards. The transactional banking in which TMB operates is subject to technological change and requires skilled talent. In addition, technological advancement and the growth of e-Banking have made it possible to provide electronic and Internet-based financial services. The adoption of new technologies, including services through digital channel, could require the Bank to incur substantial expenditures to modify the Bank's existing products and services. TMB might not be successful in developing new transactional services, adopting new technologies, responding to changes in customer spending and saving habits, achieving customer acceptance of the Bank's transactional services, or sufficiently developing and maintaining loyal customers. Also, TMB may face cyber security threats and could be the target of cyber attack, thus, cyber security has been placed as one of highest priorities which would have great impact on the Bank's credibility and customers' trust. However, TMB places high emphasis on execution of digital transformation including technology implementation, organization structure, IT infrastructure and Omni-channel experiences. Moreover, TMB is also gaining strong collaboration from ING who has the experience and expertise in digital banking to help develop and implement highest standard of cyber security and driving stability in digital experience and services. The collaboration would benefit TMB in development and raising TMB's capability to effectively provide digital services and supports customers' current and future needs.

Any unexpected change of banking regulations on fees by regulatory authorities may adversely affect the Bank's ability to achieve expected level of fee incomes. This could harm the Bank's goal to ensure continued business growth and sustainable profitability. TMB focuses on growing its businesses while optimizing capital utilization. A portion of the Bank's earnings partly depends on fee revenues taken into account-related charges to customers. Any change of banking regulations on fees which Thai banks are permitted to charge customers, such as transaction fees for cross-border money transfer, overdraft fees and late fees, may impact the Bank's business model to a significant extent, and expose the Bank to additional strategic and financial challenges. In addition, the advent of IFRS9 accounting standards in 2019 will impact loan-related fee from fee incomes, as well as calculation of interest incomes and provisions. Implementation of key regulatory changes also has specific complications which may present operational risks to the Bank. However, TMB's earning capabilities are not dependent on such traditional fee incomes (For example, the introduction of TMB All Free). Instead, TMB emphasizes on customer understanding and transactional banking excellence to acquire important customer information. Thus, the Bank will be able to offer fee-based products and services matching customers' needs and behaviors (at both individual and organizational levels), and create superior value propositions to customers, sustainable fee incomes and continued business growth.