

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, 2016-2018 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, 2016 - 2018**

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,					
	2018	As % of total assets	2017	As % of total assets	2016	As % of total assets
Assets						
Cash	15,234	1.7	17,872	2.1	16,531	2.1
Interbank and money market items, net	113,522	12.7	112,534	13.3	113,858	14.3
Derivative assets	7,917	1.0	8,674	1.0	10,460	1.3
Investments, net	73,477	8.2	61,305	7.3	62,985	7.9
Investments in subsidiaries and associate, net	4,577	0.5	-	-	-	-
Loans to customers and accrued interest receivables, net						
Loans to customers	685,793	77.0	643,425	76.2	593,510	74.4
Accrued interest receivables	1,308	0.1	969	0.1	915	0.1
Total loans to customers and accrued interest receivables	687,101	77.1	644,394	76.3	594,425	74.5
Less deferred revenue	(86)	-	(52)	-	(69)	-
Less allowance for doubtful accounts	(31,976)	(3.6)	(24,639)	(2.9)	(24,911)	(3.1)
Less revaluation allowance for debt restructuring	(999)	(0.1)	(330)	-	(177)	-
Total loans to customers and accrued interest receivables, net	654,040	73.4	619,373	73.4	569,268	71.4
Properties for sale, net	2,614	0.3	2,213	0.3	1,506	0.2
Premises and equipment, net	11,876	1.3	12,071	1.4	12,383	1.5
Goodwill and other intangible assets, net	2,592	0.3	2,132	0.3	1,704	0.2
Deferred tax assets	401	-	683	0.1	775	0.1
Other receivables, net	1,251	0.1	1,690	0.2	2,262	0.3
Other assets, net	4,212	0.5	5,325	0.6	5,584	0.7
Total assets	891,713	100.0	843,872	100.0	797,316	100.0

Consolidated statements of financial position (continued)

(Unit: THB million except percentages)

Liabilities and equity	As at December 31,					
	2018	As % of total assets	2017	As % of total assets	2016	As % of total assets
Liabilities						
Deposits	649,568	72.9	611,430	72.5	598,948	75.1
Interbank and money market items	64,267	7.2	60,349	7.2	45,417	5.7
Liabilities payable on demand	3,505	0.4	3,665	0.4	4,032	0.5
Financial liabilities designated at fair value through profit or loss	396	-	386	-	362	-
Derivative liabilities	7,328	0.8	8,559	1.0	10,728	1.4
Debts issued and borrowings, net	35,124	4.0	33,351	4.0	39,874	5.0
Provisions for obligations on transfers of non-performing assets	-	-	-	-	1,657	0.2
Provisions for employee benefits	1,221	0.1	1,301	0.2	1,453	0.2
Provisions for other liabilities	630	0.1	544	0.1	701	0.1
Deferred revenue	17,594	2.0	18,908	2.2	218	-
Other liabilities	13,301	1.5	15,523	1.8	10,078	1.3
Total liabilities	792,934	89.0	754,016	89.4	713,468	89.5
Equity						
Share capital						
Authorised share capital						
44,108,738,479 ordinary shares of Baht 0.95 each	41,903	4.7	41,903	5.0	41,903	5.3
Issued and paid-up share capital						
43,851,893,110 ordinary shares of Baht 0.95 each (31 December 2017 : 43,839,858,871 ordinary shares and 31 December 2016 : 43,807,370,307 ordinary shares)	41,659	4.7	41,648	4.9	41,617	5.2
Premium on share capital	404	-	379	-	325	-
Other reserves	4,811	0.5	5,097	0.6	5,278	0.7
Retained earnings						
Appropriated - Legal reserve	3,000	0.3	2,550	0.3	2,120	0.3
Unappropriated	48,905	5.5	40,182	4.8	34,383	4.3
Equity attributable to equity holders of the Bank	98,779	11.0	89,856	10.6	83,723	10.5
Non-controlling interest	-	-	-	-	125	-
Total equity	98,779	11.0	89,856	10.6	83,848	10.5
Total liabilities and equity	891,713	100.0	843,872	100.0	797,316	100.0

Consolidated statements of profit or loss and other comprehensive income

(Unit: THB million except percentages)

	For the year ended December 31,					
	2018	As % of total income	2017	As % of total income	2016	As % of total income
Interest income	35,128	56.6	34,713	68.9	35,631	73.8
Interest expenses	10,631	17.1	9,979	19.8	10,870	22.5
Net interest income	24,497	39.5	24,734	49.1	24,761	51.3
Fees and service income	12,764	20.6	13,533	26.9	10,168	21.1
Fees and service expenses	3,427	5.5	2,947	5.9	2,171	4.5
Net fees and service income	9,337	15.1	10,586	21.0	7,997	16.6
Gains on trading and foreign exchange transactions, net	1,529	2.4	1,147	2.3	1,692	3.5
Losses on financial liabilities designated at fair value through profit or loss, net	(11)	-	(24)	-	(13)	-
Gains on investments, net	11,963	19.2	64	0.1	201	0.4
Share of profit from investment using equity method	64	0.1	-	-	-	-
Other operating income	663	1.1	932	1.8	585	1.2
Total operating income	48,042	77.4	37,439	74.3	35,223	73.0
Other operating expenses						
Employee expenses	8,198	13.2	8,511	16.9	8,118	16.8
Directors' remuneration	44	0.1	45	0.1	41	0.1
Premises and equipment expenses	3,431	5.5	3,384	6.7	3,150	6.5
Taxes and duties	1,264	2.1	1,250	2.5	1,273	2.7
Others	4,538	7.3	4,602	9.1	4,007	8.3
Total other operating expenses	17,475	28.2	17,792	35.3	16,589	34.4
Profit from operations before impairment loss on loans and debt securities and income tax	30,567	49.2	19,647	39.0	18,634	38.6
Impairment loss on loans and debt securities	16,100	25.9	8,915	17.7	8,650	17.9
Profit from operations before income tax	14,467	23.3	10,732	21.3	9,984	20.7
Income tax	2,866	4.6	2,004	4.0	1,740	3.6
Profit for the year	11,601	18.7	8,728	17.3	8,244	17.1

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

(Unit: THB million except percentages)

	For the year ended December 31,					
	2018	As % of total income	2017	As % of total income	2016	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	(80)	(0.1)	103	0.2	(173)	(0.4)
Losses arising from translating the financial statements of foreign operations	(10)	-	(51)	(0.1)	-	-
Income tax relating to items that will be reclassified subsequently to profit or loss	18	-	(10)	-	35	0.1
	(72)	(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	(48)	(0.1)	(40)	(0.1)	2,079	4.3
Actuarial gains on post-employment benefit plan	79	0.1	193	0.4	89	0.2
Income tax relating to items that will not be reclassified subsequently to profit or loss	(6)	-	(31)	(0.1)	(433)	(0.9)
	25	-	122	0.2	1,735	3.6
Total other comprehensive income for the year, net of income tax	(47)	(0.1)	164	0.3	1,597	3.3
Total comprehensive income for the year	11,554	18.6	8,892	17.7	9,841	20.4
Profit attributable to:						
Equity holders of the Bank	11,601	18.7	8,687	17.2	8,226	17.0
Non-controlling interest	-	-	41	0.1	18	0.1
Profit for the year	11,601	18.7	8,728	17.3	8,244	17.1
Total comprehensive income attributable to:						
Equity holders of the Bank	11,554	18.6	8,851	17.6	9,823	20.3
Non-controlling interest	-	-	41	0.1	18	0.1
Total comprehensive income for the year	11,554	18.6	8,892	17.7	9,841	20.4
Earnings per share						
Basic earnings per share (in Baht)	0.2646		0.1982		0.1879	
Diluted earnings per share (in Baht)	0.2646		0.1981		0.1876	

Consolidated statements of cash flows

(Unit: THB million)

	For the year ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Profits from operations before income tax	14,467	10,732	9,984
Adjustments to reconcile profit from operations before income tax to net cash provided by (used in) operating activities			
Depreciation and amortisation	1,425	1,340	1,254
Impairment loss on loans and debt securities	16,100	8,915	8,650
Impairment loss on premises and equipment (reversal of)	10	23	(55)
Impairment loss on properties for sale and other assets (reversal of)	124	286	(12)
Provisions for employee benefits and other liabilities	157	19	364
Impairment losses on investment (reversal of)	1	(22)	5
Losses (Gains) on revaluation of trading investments	2	-	(5)
Losses on disposal of intangible assets	-	9	-
Gains on disposal of premises and equipment	(17)	(43)	(37)
Gains on disposal of investments	(113)	(43)	(206)
Profit on the loss of control of a subsidiary	(11,851)	-	-
Unrealised losses on remeasurement of financial liabilities designated at fair value through profit or loss	11	24	13
Unrealised gains on exchange on derivatives	(471)	(383)	(67)
Unrealised losses (gains) on exchange on debentures and long-term borrowings	(74)	(1,027)	376
Expenses in relation to share-based payments	1	15	37
Share of profit from investments accounted for using the equity method	(64)	-	-
Net interest income	(24,497)	(24,734)	(24,761)
Dividend income	(19)	(32)	(62)
Interest received	33,593	33,783	34,471
Interest paid	(9,339)	(8,626)	(9,675)
Income tax paid	(1,288)	(2,252)	(1,466)
Profits from operations before changes in operating assets and liabilities	18,158	17,984	18,808

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2018	2017	2016
Decrease (increase) in operating assets			
Interbank and money market items	(5,032)	1,327	2,011
Trading investments	(674)	9,594	4,648
Loans to customers	(50,470)	(59,532)	(26,290)
Properties for sale	(209)	252	325
Other receivables	358	166	(172)
Other accrued income	249	(198)	(114)
Other assets	(314)	551	(1,002)
Increase (decrease) in operating liabilities			
Deposits	38,073	12,416	(46,067)
Interbank and money market items	3,918	14,932	9,200
Liabilities payable on demand	(160)	(367)	1,024
Financial liabilities designated at fair value through profit or loss	-	-	50
Short-term debts issued and borrowings	-	(749)	(33)
Provision for obligations or transfers of non-performing assets	-	(1,317)	-
Provisions for employee benefits	(246)	(144)	(160)
Provisions for other liabilities	(51)	(19)	(19)
Account payables	183	323	(224)
Other accrued expenses	(214)	991	(255)
Deferred revenue	(1,310)	18,680	20
Other liabilities	(2,094)	3,669	2,047
Net cash provided by (used in) operating activities	165	18,559	(36,203)

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2018	2017	2016
Cash flows from investing activities			
Interest received	1,373	1,302	1,504
Dividend received	19	32	62
Purchase of available-for-sale investments	(80,860)	(50,780)	(42,936)
Proceeds from sales of available-for-sale investments	76,805	41,535	59,230
Purchase of held to maturity debt securities	(12,900)	(3,984)	(8,058)
Proceeds from redemption of matured held to maturity debt securities	5,286	5,285	21,630
Proceeds from sales of general investments	102	121	125
Purchase of investments in subsidiaries	-	(258)	-
Proceeds from reduction and sales of investment in a subsidiary	11,438	-	-
Purchase of premises and equipment	(1,068)	(1,020)	(1,344)
Purchase of leasehold rights	(5)	(2)	(2)
Purchase of intangible assets	(1,019)	(761)	(976)
Proceeds from disposals of premises and equipment	141	132	415
Net cash provided by (used in) investing activities	(688)	(8,398)	29,650
Cash flows from financing activities			
Repayments of long-term debts issued and borrowings	(13)	(12)	(773)
Interest paid on long-term debts issued and borrowings	(1,320)	(1,195)	(1,346)
Cash receipts on debenture issued	4,868	5,430	10,542
Cash paid for redemption of debenture	(3,009)	(10,350)	-
Expenses in relation to issuance of ordinary shares to employees	(1)	(1)	(1)
Dividend paid to equity holders of the Bank	(2,630)	(2,623)	(2,628)
Dividend paid to non-controlling interest	-	(18)	-
Net cash provided by (used in) financing activities	(2,105)	(8,769)	5,794
Change in translation adjustments of foreign operations	(10)	(51)	-
Net increase (decrease) in cash	(2,638)	1,341	(759)
Cash at 1 January	17,872	16,531	17,290
Cash at 31 December	15,234	17,872	16,531

13.4 Key financial ratios

Consolidated financial statements	For the year ended December 31,		
	2018	2017	2016
Profitability ratio			
Gross profit margin (%) ⁽¹⁾	69.7	71.3	69.5
Net profit margin (%)	18.7	17.3	17.0
Return on equity (%)	12.4	10.0	10.2
Interest income (%) ⁽²⁾	4.4	4.5	4.7
Interest expenses (%) ⁽³⁾	1.5	1.4	1.5
Interest margin (%)	2.9	3.1	3.2
Return on investment (%)	19.7	2.3	2.4
Efficiency ratio			
Cost to income (%) ⁽⁴⁾	36.4	47.3	46.9
Net interest income to assets (%)	2.8	3.0	3.0
Return on assets (%)	1.4	1.1	1.0
Asset turnover (time)	0.07	0.06	0.06
Financial policy ratio			
Debt to equity ratio (time)	8.0	8.4	8.5
Loans to borrowings (%)	99.6	99.2	92.3
Loans to deposits (%)	105.6	105.2	99.1
Deposits to total liabilities (%)	81.9	81.1	83.9
Dividend payout ratio (%) ⁽⁵⁾	34.8	31.1	32.7
Capital adequacy ratio (%) ⁽⁶⁾	17.5	17.3	18.1
Asset quality ratio			
Allowance for doubtful debts to total loans (%)	4.8	3.9	4.2
Bad debt to total loans (%)	1.1	1.4	2.2
NPLs coverage (%) ⁽⁷⁾	152	143	143
NPLs to total loans (%) ⁽⁸⁾	2.8	2.4	2.5
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 2018 is in accordance with the proposition to the Annual General Meeting of Shareholders in April 2019

(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

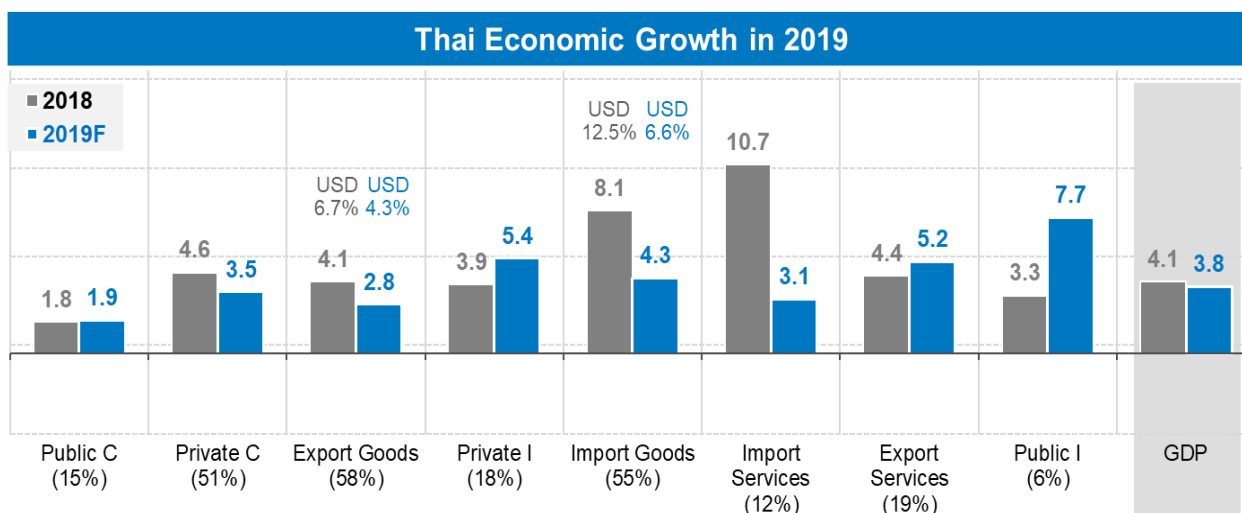
14. Management Discussion & Analysis**2018 economic review and 2019 outlook****Thai Economy in 2018**

2018 was the year with continual growth momentum for Thai economy against the backdrop of heightened risks from external factors. In the first half of the year, every economic engine continued to operate especially merchandise exports, which grew by 11% from global trade recovery as well as robust economies of trading partners. Similarly, tourism sector, led by Chinese tourists, expanded strongly. In addition, domestic economic activities were vigorous. Private consumption rose mainly from durable goods consumption, which benefited from the unlock of the first-car buying scheme. Private investment showed a clear rising trajectory, though not at accelerating pace. This was in line with the improving confidence of both consumers and businesses. Furthermore, the money injected from government investment projects rise at the similar growth rate as last year. As a result, in the first half of 2018 Thai economy achieved a remarkable 4.8% growth rate.

However, economic engines decelerated in the later half of the year, particularly merchandise exports and tourism. Merchandise exports was undermined by the effect of US-China trade tension as Thai was a part of Chinese supply chain, while the number of Chinese tourists this year has not fully recovered from the Phuket boat accident. Still, domestic activities continued to drove the economy. Consumption received an extra boost from government policies on household spending, while private investment continually improved, in line with business sentiment index that has consistently floated above 50 since 2017. In conclusion, the robust economic drivers during the first half of the year, albeit the deceleration in the second half, resulted in Thai economic growth of 4.1%, close to 2017 growth rate.

Economic Outlook for 2019

TMB Analytics expects Thai economy to continue to gain traction, though slowdown from last year, and grow by 3.8%. Domestic factors will be the main growth drivers. Private consumption will consistently elevate, though not at an accelerating pace. Private investment outlook is positive, supported by escalating capital utilization in several industries. Moreover, investment by S-Curve industries, which have been approved by BOI in 2016-2017 in automotive, petrochemical, electrical appliances, and electronics, is expected to happen. In addition, some of the production bases could be relocated to Thailand. This is in line with the public investment plan which becomes more solid especially the Eastern Economic Corridor's infrastructure projects such as the high-speed train linked 3 airports, U-Tapao airport project, and Laem Chabang deep sea port, which amount to more than 100 billion baht. However, the downside risks to Thai economic growth will come from external factors including global economic slowdown and escalating trade tension, which will weaken exports. Merchandise export growth is expected to grow by 4.3%, lower than 6.7% last year. Tourism will grow consistently as Chinese tourist arrivals return to normal. Regarding financial market, Thai policy rate can potentially increase from 1.75% to 2.0%. Thai baht will be more volatile than the previous year from uncertainties of major central banks' monetary policy implementation such as lower-than-expected Federal Fund rate hike. Thai baht tends to depreciate due to sluggish exports. Foreign capital inflows will fluctuate because of the tightening global liquidity, pressuring Thai baht to depreciate from 32.30 baht per US dollar last year to average at 32.75 baht per US dollar in 2019.



Source : NESDB, MOC and TMB Analytics

() indicates percentage share to GDP

Discussion of operating performance

Executive summary

In 2018, the Bank strengthened its deposit value proposition with “Get More with TMB” concept and could expand deposit base by 6.2%. Meanwhile a key focus on loan was to ensure portfolio quality amid Thailand’s uneven economic recovery cycle. The Bank therefore grew loan selectively and registered a growth of 6.6%. While total operating income rose by 28.3%, non-interest expense dropped by 1.8%. Therefore, PPOP for 12 months was reported at THB30,540 million which grew by 54.7% YoY. Growing PPOP allowed TMB to set higher provision for prudence and preparation for IFRS 9 implementation. Coverage ratio, as a result, rose to 152%. Net profit grew 33.6% YoY to THB11,601 million.

Deposit expanded 6.2% from retail flagship products: TMB could expand its deposit by 6.2% from last year to THB650 billion. The growth was led by non-transactional deposits with 14.3% growth from TMB No-Fixed and 11.5% from ME Save, deposit on digital platform. Transactional deposit grew moderately at 2.1%, led by One Bank (+14.5%) for commercial customers and All Free (+3.9%) for retail customers. This reflected TMB’s value proposition of “Get More with TMB”

Loan grew 6.6%, led by retail mortgage: To ensure portfolio quality, TMB has selectively grew loans as well as gradually resumed Small SME loans as Thai economy recovered unevenly while facing with external volatilities. Consequently, loan rose 6.6% YTD to THB686 billion. Key driver was retail segment (+17.8), especially from mortgage (+19.7%). This followed by large corporate segment (+5.1%), mainly from trade finance (+17.7%) Small SME loans remained on recovery trend and registered its growth at 1.7% from last year.

An increase in PPOP was from Non-NII and well-managed operating expenses: NII slightly contracted by 1.0% to THB24,497 million as NIM dropped 19 bps to 2.94%. Lower NIM was due to a slow recovery of Small SME, a high yield segment. Non-NII, on the other hand, rose 85.3% to THB23,545 million. Key factor was the recognition of THB11.8 billion gains from TMBAM deal with Eastspring in July 2018. Overall, the Bank reported total operating income of THB48,042 million, rose by 28.3% YoY while operating expenses were well-managed and dropped 1.8% to THB17,475 million. Nonetheless, PPOP increased 54.7% to THB30,540 million.

Higher provision was for IFRS 9 and prudent NPL management: Prudent risk and asset quality management has been one of the Bank’s priorities. In 2018, TMB proactively wrote off NPLs to limit downside risks. With higher PPOP, the Bank decided to add more provision from normal business level in preparation for IFRS 9 and for qualitative loan downgrade. In total, TMB set aside provision of THB16,100 million in 2018 compared to THB8,915 million in 2017. Meanwhile NPL ratio was at 2.76%. Coverage ratio therefore increased to 152% from 143% as of December 2017, reflected an improvement in loss-absorption ability.

After provision, TMB reported THB11,601 million of net profit. The figure increased by 33.6% YoY and represented a return on equity (ROE) of 12.4%.

Analysis of operating performance for the accounting year as of 31 December 2018, in comparison to 31 December 2017 is as follows;

Statement of comprehensive income

(Unit: THB million)

	For the year ended	
	December 31	
	2018	2017
Interest income.....	35,128	34,713
Interest expense.....	10,632	9,979
Net interest income	24,497	24,734
Fees and service income.....	12,764	13,533
Fees and service expenses	3,426	2,947
Net fees and services income	9,338	10,586
Other operating income.....	14,208	2,119
Non-interest income	23,545	12,705
Total income.....	48,042	37,439
Total other operating expenses	17,475	17,792
Impairment loss on loans and debt securities	16,100	8,915
Profit before income tax	14,467	10,732
Income tax	2,866	2,004
Profit for the year	11,601	8,728
Other comprehensive income(loss)	-48	164
Total comprehensive income	11,554	8,892
Net profit for the period attributable to: Equity holders of the parent	11,554	8,687

Note: Consolidated financial statements

14.1 Operating income

For the year 2018, TMB reported operating income of THB48,042 million, an increase of THB10,604 million or 28.3% from last year. Net interest income slightly declined by 1.0% from the same period last year, resulting from non-transactional deposit expansion while non-interest income registered its strong growth. Operating cost was well-managed. Details of the Bank's operating performance was as follows.

14.1.1 Net interest income

	For the year ended December 31	
	2018	2017
(Unit: THB million)		
Interest income		
Interest on loans	32,082	31,580
Interest on interbank and money market items	1,761	1,824
Investments in debt securities	1,219	1,214
Investments and trading transactions	56	61
Other.....	10	35
Total interest income	35,128	34,713
Interest expense		
Interest on deposits	5,626	4,990
Interest on interbank and money market items	686	744
Contributions to the Deposit Protection Agency	2,965	2,842
Interest on debt issued and borrowings	1,277	1,378
Borrowing fee and others	77	26
Total interest expense	10,631	9,979
Net interest income	24,497	24,734

Note: Consolidated financial statements

➤ Interest income

As of 31 December 2018, total interest income of the Bank and its subsidiaries was THB35,128 million, an increase of THB415 million or 1.2% from 2017. Moderate growth in performing loan helped reduce pressure from lower yield on earning assets, which was a result of slowly recovering in small SME loan growth and shift in loan portfolio to mortgage and corporate loan. Key items are as follows.

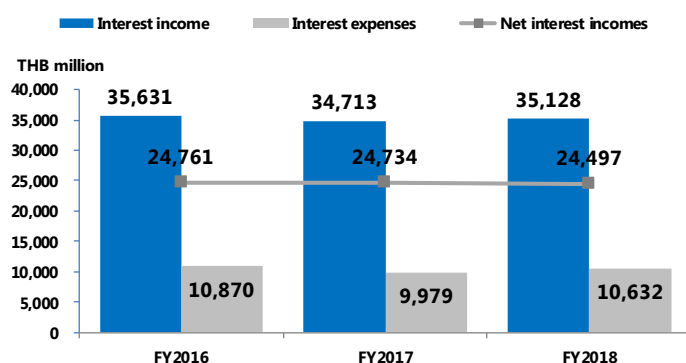
- Interest on loans rose by THB502 million or 1.6% from previous year, largely attributed by moderate loan growth.
- Interest on interbank and money market items declined by THB63 million or 3.5% YoY.
- Interest on investments in debt securities increased by THB6 million or 0.5% from last year.

➤ Interest expense

At the end of 2018, total interest expenses of the Bank and its subsidiaries was THB10,631 million, an increase of THB652 million or 6.5% from last year, due mainly to non-transactional deposit expansion. Details are shown below.

- Interest expense on deposits increased by THB637 million or 12.8% YoY. While the Bank continued to expand deposit, the gradual growth in interest expenses was because of higher funding cost.
- Interest expense on interbank and money market items fell by THB58 million or 7.8% YoY.
- Interest on debt issued and borrowing declined by THB100 million or 7.3% from 2017.

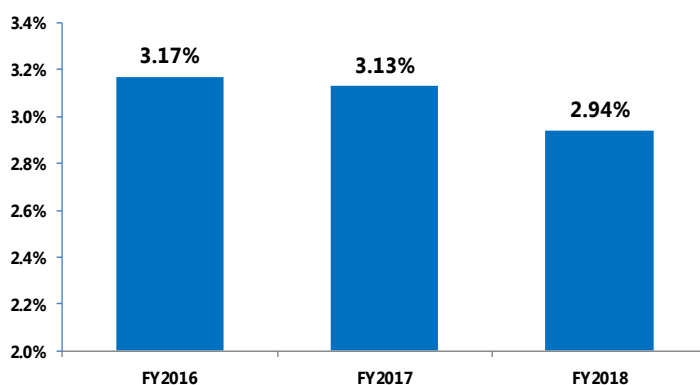
➤ Net interest income



Note: Consolidated financial statement

The Bank reported THB24,497 million of net interest income, a marginal decline of 1.0% 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, given a slowing economy. Therefore, net interest margin (NIM) dropped to 2.94% from 3.13% in 2017.

14.1.2 Non-interest income

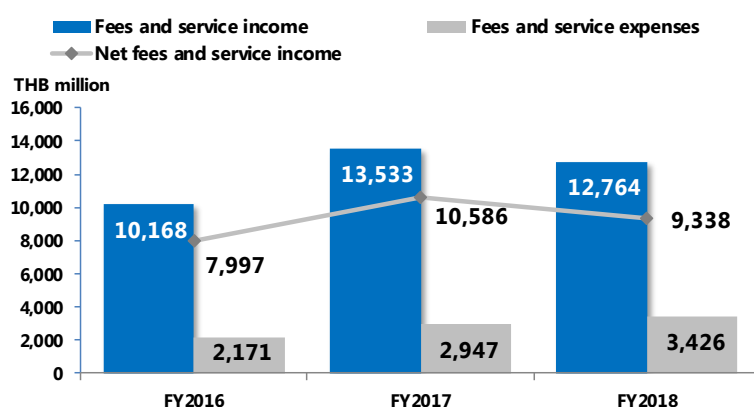
(Unit: THB million)

	For the year ended December 31	
	2018	2017
Fees and service income	12,764	13,533
Fee receive credit.....	484	568
Others	12,280	12,965
Fees and service expenses	3,426	2,947
Net fees and service income	9,338	10,586
Gains (losses) on trading and foreign exchange transactions	1,529	1,147
Gains (losses) on financial instrument designated at fair value.....	(11)	(24)
Gains (losses) on investments	11,963	64
Share of profit from investment using equity method.....	64	-
Gains on sale of assets.....	70	209
Dividend income.....	19	32
Others	574	691
Total non-interest income.....	23,545	12,705

In 2018, total non-interest income of the Bank and its subsidiaries was THB23,545 million, an increase of THB10,840 million or 85.3% over-year, driven mainly by an increase in gains on investment from selling 65% stake in TMBAM in 3Q18 and gains on trading and FX transactions. Key items are as follows.

- Net fees and service income was reported at THB9,338 million, declined by THB1,248 million or 11.8% from last year. Such decrease was primarily due to a slowdown in retail fees from mutual fund and Bancassurance sales while commercial fee maintained a positive momentum when compared to the same period last year.
- Gain on foreign exchange transactions rose by THB382 million or 33.3% YoY.
- Gain on investment was THB11,963 million which increased from gain on TMBAM deal at THB11.8 billion in 3Q18.
- Gain on sales of assets declined by THB139 million or 66.5% YoY.
- Dividend income declined by THB13 million or 40.6% YoY.

Net fees and service income



Note: Consolidated financial statement

14.1.3 Non-interest expenses

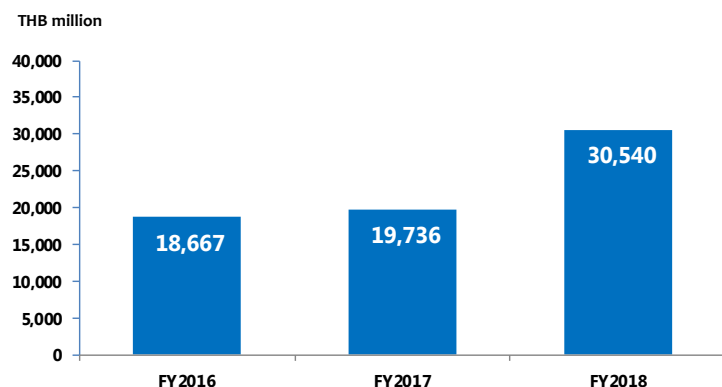
(Unit: THB million)

	For the year ended December 31	
	2018	2017
Non-interest expense		
Personnel expenses.....	8,198	8,511
Premises and equipment expenses	3,431	3,384
Taxes and duties.....	1,264	1,250
Directors' remuneration.....	44	45
Loss on impairment of properties foreclosed.....	26	114
Loss on diminution in value of other assets	98	172
Provisions for other liabilities (reversal)	(124)	(166)
Other expense	4,537	4,482
Total non-interest expense	17,475	17,792

At the end of 2018, total non-interest expenses of the Bank and its subsidiaries was THB17,475 million, a decrease of THB317 million or 1.8% from last year, due to;

- Personnel expenses dropped by THB313 million or 3.7% YoY, mainly resulted in lower incentive, offsetting the annual salary incremental.
- Premise expenses increased by THB47 million or 1.4% from previous year.
- Other expenses rose by THB55 million or 1.2% mainly from computer software rental.

14.1.4 Pre-provision operating profit (PPOP)



The pre-provision operating profit of the Bank and subsidiaries was THB30,540 million grew by THB1,069 million or 54.7%.

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 THB16,100 million, an increase of THB7,185 million or 80.6% from last year. In 3Q18, TMB set aside additional provision from its normal business level for prudent qualitative loan downgrade and in preparation for implementation of IFRS 9 in 2020. As a result, coverage ratio of the Bank and its subsidiaries stood at 152% as of December 2018, compared with 143% as of December 2017.

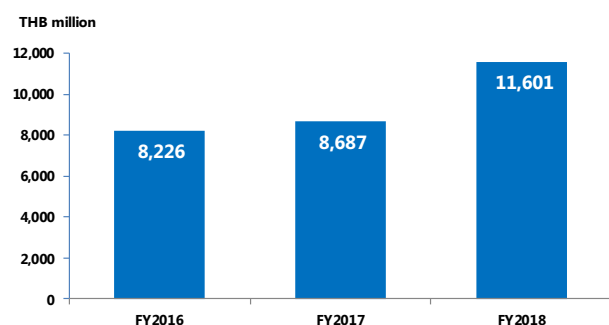
14.1.6 Profit before income tax

The Bank and its subsidiaries recorded profit before income tax at THB14,467 million, rose by THB3,735 million or 34.8% compared to the previous year. Income tax expense in 2018 was THB 2,866 million, an increase of THB862 million or 43.0%.

14.1.7 Net profit

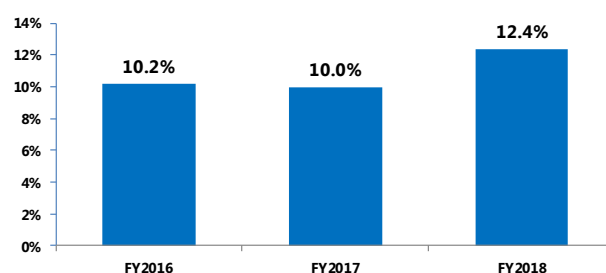
After provision and tax profit, consolidated net profit for the period attributable to equity holders of the Bank was recorded at THB11,601 million, grew by 33.6% from previous year. This represented a ROE of 12.4%.

Net profit



Note: Consolidated financial statement

Return on equity (ROE)



Note: Consolidated financial statement

14.2 Financial Position

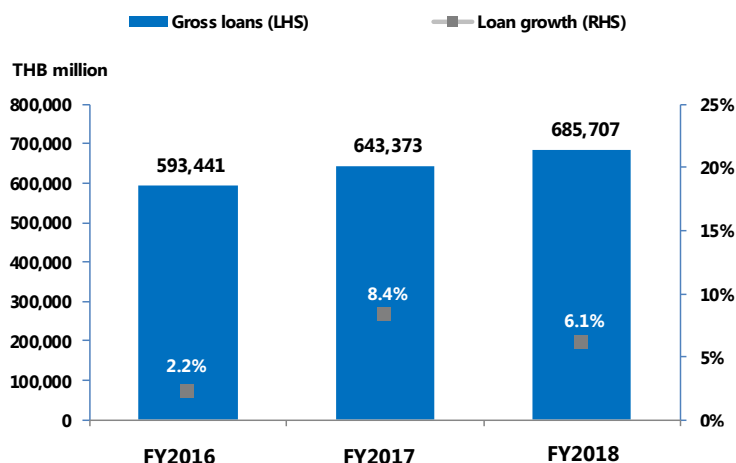
For the year ended 31 December

(Unit: THB million)	2018	2017
Cash, Interbank and derivative assets	136,673	139,080
Investments	78,054	61,305
Loans and accrued interest receivables - net	685,707	643,373
Accrued interest receivables	1,308	969
Less Allowance for doubtful accounts & Revaluation allowance	32,975	24,969
Loans and Allowance - net	654,040	619,373
Properties for sale - net	2,614	2,214
Premises and equipment - net	11,876	12,071
Goodwill from transferred business and other intangible - net	2,592	2,132
Deferred tax assets	401	683
Other receivables - net	1,251	1,690
Other assets	4,212	5,325
Total Assets	891,713	843,872
Deposits	649,568	611,430
Interbank and Money Market Items	64,267	60,349
Borrowings	35,124	33,352
Deferred tax liabilities	17,594	18,908
Other liabilities	26,382	29,978
Total Liabilities	792,934	754,016
Equity attributable to equity holders of the Bank	98,779	89,856
Non-controlling interest	-	-
Total equity	98,779	89,856
Total liabilities & equity	891,713	843,872

14.2.1 Assets

Total assets of the Bank and its subsidiaries as of 31 December 2018 were THB891,713 million, an increase of THB47,842 million or 5.7% 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

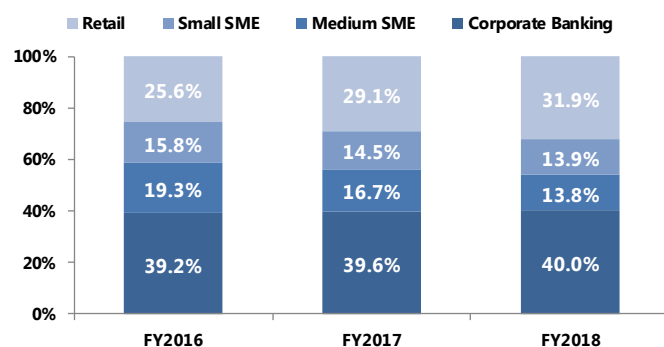
As of 31 December 2018, total loan on bank-only basis was reported at THB685,661 million which expanded by THB42,336 million or 6.6% due to growth in retail lending, especially mortgage loan and corporate loan whereas small SME on the other hand continued to recover at a gradual pace.

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

	(THB million, %)			
	As at December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate Banking ⁽¹⁾	265,548	40.0%	249,056	38.7%
Business Banking ⁽²⁾	91,918	13.8%	109,334	17.0%
Small Enterprise ⁽³⁾	92,544	13.9%	99,773	15.5%
Retail ⁽⁴⁾	211,987	31.9%	185,163	28.8%
Total	663,987	100.0%	643,325	100.0%

(Bank only)

Loans by customer segments



Note: Bank-only financial statements

Segment definition

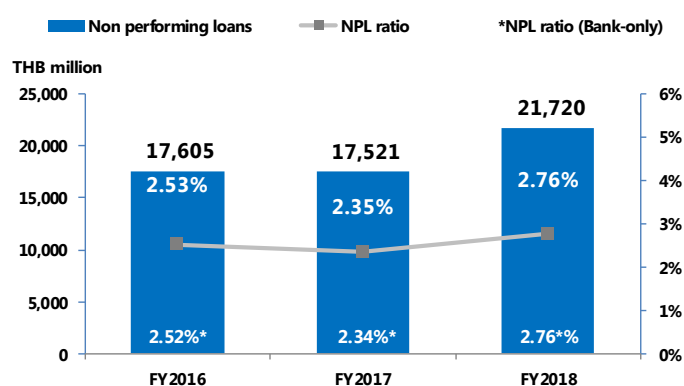
1. Multi-Corporate Banking (MB): customer with annual sales volume more than THB5 billion
Corporate Banking (CB): customer with annual sales volume more than THB1 billion to THB5 billion
2. Business Banking (BB): customer with total annual sales volume more than THB100 million to 1 billion
3. Small Enterprise (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 2018, the Bank and its subsidiaries' non-performing loans ("NPLs") classified as substandard, doubtful, and doubtful of loss were THB21,720 million, increased by THB4,199 million. The Bank's NPL (on bank-only basis) were THB21,674 million, also rose by THB4,201 million from 31 December 2017. The rise was mainly due to qualitative NPL classification for prudent management.

The Bank continued to proactive NPL management, especially by write-off and sale to reduce future downside risks and keep balance sheet clean. In 2018, the Bank wrote-off its NPLs by THB7.5 billion and NPL sale of THB1.3 billion.

Non-performing loans and NPL ratio



NPL ratio of the Bank and subsidiaries (include interbank loans) was 2.76%, compared with 2.35% as of 31 December 2017 due to prudent portfolio management. On bank-only basis, NPL ratio (include interbank loans) also stood at 2.76%, compared with 2.34% as of 31 December 2017.

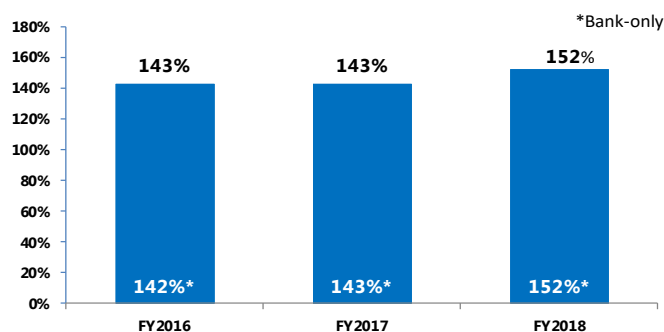
Note: Consolidated financial statements

➤ 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



As of 31 December 2018, the Bank and its subsidiaries had the allowance for debt restructuring of THB32,975 million, increased by THB8,006 million. In 3Q18, the Bank set aside additional provision as a cushion for prudent qualitative loan downgrade and in preparation for IFRS 9 implementation.

Note: Consolidated and Bank-only financial statements

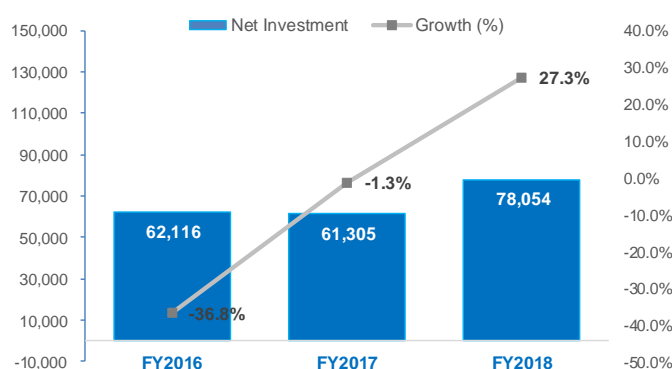
As a result of higher provisions, the ratio of allowance to total NPL or coverage ratio on both consolidated and bank-only basis increased to 152% from 143% at the end of 2017.

2) Interbank and money market

Net Interbank and money market reported THB113,522 million, a slight increase of THB988 million or 0.9% as a result of liquidity management.

3) Investment

Net investment and % growth



Note: Consolidated financial statement

As of December 2018, the Bank reported net investment at THB78,054 million, a slight decrease of THB16,749 million or 27.3%. It was mostly from an increase in HTM portfolio, AFS & Trading portfolio in line with balance sheet optimization plan and gain from change in control of investment as the Bank recognized 35% remaining of TMBAM stake.

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

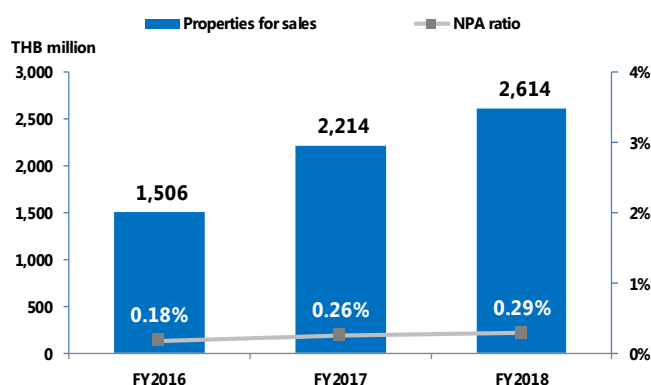
	Consolidated financial statements	
	31 December 2018	31 December 2017
<u>Trading securities - fair value</u>		
Government and state enterprise securities	1,293	620
Total trading securities	<u>1,293</u>	<u>620</u>
<u>Available-for-sale securities - fair value</u>		
Government and state enterprise securities	40,828	36,862
Domestic marketable equity securities	<u>2</u>	<u>3</u>
Total available-for-sale securities	<u>40,830</u>	<u>36,865</u>
<u>Held-to-maturity debt securities - cost/amortized cost</u>		
Government and state enterprise securities	<u>31,119</u>	<u>23,511</u>
Total held-to-maturity debt securities	<u>31,119</u>	<u>23,511</u>
<u>General investments - cost</u>		
Non-marketable equity securities		
- Domestic	1,024	1,098
Non-marketable equity securities		

	Consolidated financial statements	
	31 December 2018	31 December 2017
- Foreign	2	2
Total general investments	1,026	1,100
Less: Allowance for impairment	(791)	(791)
General investments - net	235	309
Investments – net	73,477	61,305

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 2018 were THB2,614 million which increased THB400million or 18.1% from December 2017.

The NPA ratio therefore increased to 0.29% compared to 0.26% in 2017, still in line with the Bank's target.

Note: Consolidated financial statements

Consolidated financial statement	As of December 31, 2018	As of December 31, 2017
	(THB million)	(THB million)
Beginning balance	2,367	1,572
Net decrease	397	795
Ending balance	2,764	2,367
Provision for impairment	(150)	(153)
Total NPAs-net	2,614	2,214

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

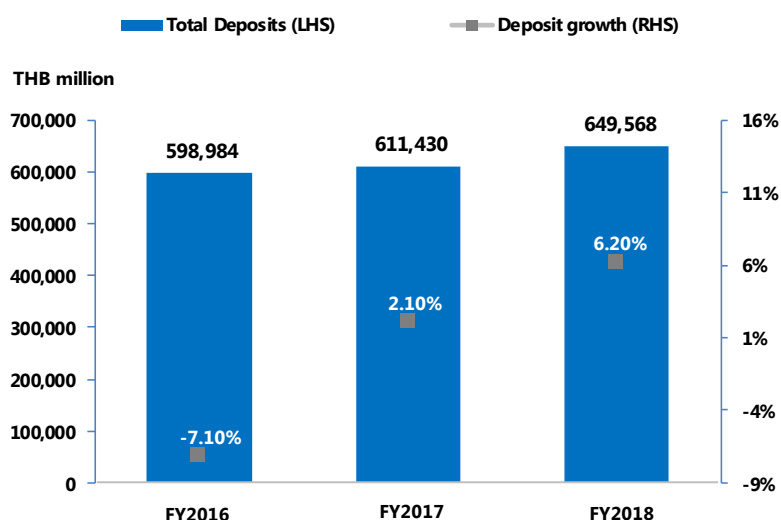
As of 31 December 2018, total liabilities of the Bank and its subsidiaries reported THB792,934 million, an increase of THB38,918 million or 5.2%, in comparison to last year. Details are shown below;

1) Deposits

Total deposits reported THB649,568 million, an increase of THB38,138 million or 6.2%, driven by mainly retail and commercial segments. This reflected TMB's value proposition of "Get More with TMB". Overall, the deposit has expanded as planned, backed by No-Fixed and One Bank which rose by 14.3% and 14.6%. The increase was in line with Bank's strategy to acquire new customers.

As of December 2018, non-transactional deposits grew by 13.9% which led by No-Fixed 14.3% YTD, as well as ME Save, deposit on digital platform, expanded by 11.5%. While transactional deposit rose at moderate pace at 2.1%. This was attributed to One Bank of 14.6% growth from commercial customers and TMB All Free of 3.9% growth from retail customers. The ratio of transactional deposit (CASA-excluded No-Fixed and ME) to total deposit was reported at 40%, stable compared with 40% in 2017.

Total deposits and % growth



Note: Consolidated financial statement

Deposits breakdown by products

(Unit: THB billion)	Dec-18	% of total deposit	Dec-17	% of total deposit	% Change YoY
Current	58	9.0%	53	8.7%	9.4%
Saving	199	30.7%	195	32.0%	0.5%
No Fixed and ME	317	48.8%	278	45.7%	14.0%
Time Deposit	75	11.6%	83	13.6%	-9.6%
Total	649	100.0%	609	100.0%	6.2%

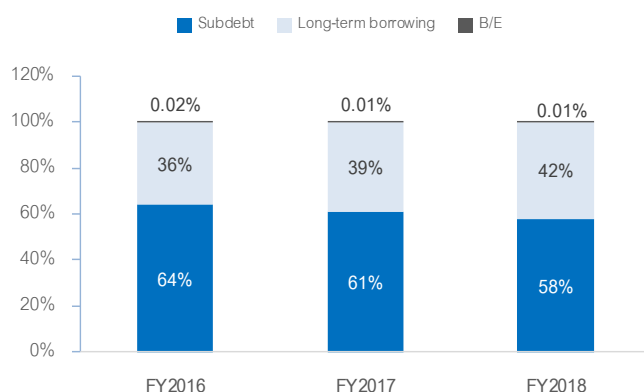
Note: Bank-only financial statements

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 THB35,124 million, an increase of THB1,773 million or 5.3%. An increase was mostly from the issuance of Green Bond USD, amounting to 60 million in June 2018 and amounting to USD90 million in December 2018, offsetting the redemption of CNH senior debt, amounting to CNY600 million in March 2018.

Borrowings breakdown



Note: Consolidated financial statement

3. Interbank and money market

Interbank and money market items as of 31 December 2018 reported THB64,267 million, an increase of 6.5%, in accordance to the liquidity management.

14.2.3 Shareholder's equity

As of 31 December 2018, the consolidated shareholders' equity was THB98,779 million, an increase of THB8,923 million or 9.9%. Diluted earnings per share increased to THB0.2646 as of 31 December 2018 from 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) increased by 3.0% from THB 194,151 million as of December 31, 2017 to THB 199,980 million as of December 31, 2018.

	Consolidated and Bank only	
	2018	2017
	(in million Baht)	
Avals to bills ⁽¹⁾	319	633
Liability under unmatured import bills	2,722	2,529
Letters of credit	15,772	19,360
Other commitments		
- Other guarantees	65,584	62,045
- Amount of unused bank overdrafts	81,632	80,908
- Committed line	3,882	5,566
- Others ⁽²⁾	30,069	23,615
Total	199,980	194,151

⁽¹⁾ As at 31 December 2018, this included bank acceptance amounting to Baht 5 million (2017: Baht 3 million).

⁽²⁾ As at 31 December 2018, this included the financial assets accepted as collateral that had been sold or pledged amounting to Baht 29,375 million (2017: Baht 22,641 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	As of December 31		
(Bank Only)	2561	2560	2559
Net Liquid Assets	137,963	126,978	143,998
Loan to Deposit (%)	105.6	105.2	99.1
Net Liquid Assets to Total Assets	15.5	15.1	18.1
Net Liquid Assets	2018	2017	2016
Cash on Hand	15,231	17,872	16,530
Interbank and Money Market Assets	113,522	111,275	112,925
Investment	73,477	58,180	59,960
Deduct Interbank and Money Market Liabilities	64,267	60,349	45,417
Total	137,963	126,978	143,998

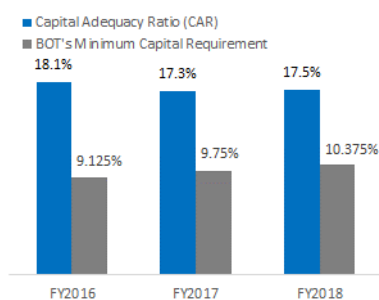
Liquidity (Bank-only)

As of December 31, 2018, TMB had net liquid assets of THB 137,963 million, shifted from THB 126,978 million as of December 31, 2017.

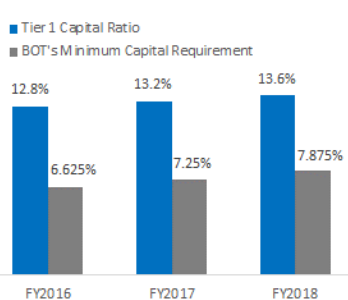
14.5 Capital adequacy

At the end of December 2018, Capital Adequacy Ratio (CAR) of the Bank under Basel III calculation was 17.5% while Tier 1 ratio and CET1 ratio were 13.6%. The Bank has maintained the robust capital well above the Bank of Thailand's minimum requirement (including conservation buffer) of 10.375%, 7.875% and 6.375% of CAR, Tier 1 and CET 1 capital ratio, respectively.

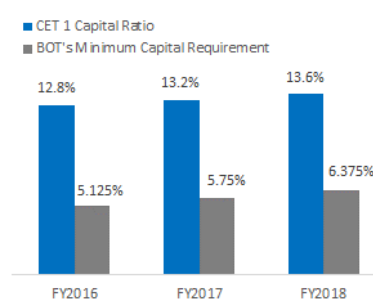
Capital adequacy ratio (CAR)



Tier 1 Capital



CET 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: building strong customer understanding; growing quality deposits; delivering transactional banking excellence; earning 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 and sales process.

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 in 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 which 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. Otherwise, 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 for 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 2020 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 benefit 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 matched customer needs and behaviors (at both individual and organizational levels), and create superior value propositions to customers, sustainable fee incomes and continuity of business growth.