
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, 2017-2019 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, 2017 - 2019**

Mr. Chanchai Sakulkoedsin of KPMG Phoomchai Audit Limited audited the consolidated and bank only financial statements for the year ended December 31, 2017-2019 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,					
	2019	As % of total Assets	2018	As % of total assets	2017	As % of total assets
Assets						
Cash	23,853	1.3	15,234	1.7	17,872	2.1
Interbank and money market items, net	236,11	12.7	113,522	12.7	112,534	13.3
Derivative assets	10,399	0.6	7,917	1.0	8,674	1.0
Investments, net	166,265	8.9	73,477	8.2	61,305	7.3
Investments in subsidiaries and associate, net	8,953	0.5	4,577	0.5	-	-
Loans to customers and accrued interest receivables, net						
Loans to customers	1,458,961	78.5	685,793	77.0	643,425	76.2
Accrued interest receivables	1,883	0.1	1,308	0.1	969	0.1
Total loans to customers and accrued interest receivables	1,460,844	78.6	687,101	77.1	644,394	76.3
Less deferred revenue	(66,736)	(3.6)	(86)	-	(52)	-
Less allowance for doubtful accounts	(44,538)	(2.4)	(31,976)	(3.6)	(24,639)	(2.9)
Less revaluation allowance for debt restructuring	(939)	(0.1)	(999)	(0.1)	(330)	-
Total loans to customers and accrued interest receivables, net	1,348,630	72.5	654,040	73.4	619,373	73.4
Properties for sale, net	4,810	0.3	2,614	0.3	2,213	0.3
Premises and equipment, net	23,642	1.3	11,876	1.3	12,071	1.4
Goodwill and other intangible assets, net	22,363	1.2	2,592	0.3	2,132	0.3
Deferred tax assets	1,496	0.1	401	-	683	0.1
Other receivables, net	4,969	0.3	1,251	0.1	1,690	0.2
Other assets, net	6,499	0.3	4,212	0.5	5,325	0.6
Total assets	1,858,190	100.0	891,713	100.0	843,872	100.0

Consolidated statements of financial position (continued)

(Unit: THB million except percentages)

Liabilities and equity	As at December 31,					
	2019	As % of total assets	2018	As % of total assets	2017	As % of total assets
Liabilities						
Deposits	1,398,112	75.2	649,568	72.9	611,430	72.5
Interbank and money market items	86,626	4.7	64,267	7.2	60,349	7.2
Liabilities payable on demand	3,382	0.2	3,505	0.4	3,665	0.4
Financial liabilities designated at fair value through profit or loss	418	-	396	-	386	-
Derivative liabilities	9,719	0.5	7,328	0.8	8,559	1.0
Debts issued and borrowings, net	108,835	5.9	35,124	4.0	33,351	4.0
Provisions for employee benefits	5,150	0.3	1,221	0.1	1,301	0.2
Provisions for other liabilities	1,855	0.1	630	0.1	544	0.1
Deferred tax liabilities	4,730	0.3	-	-	-	-
Deferred revenue	18,186	1.0	17,594	2.0	18,908	2.2
Other liabilities	26,366	1.4	13,301	1.5	15,523	1.8
Total liabilities	1,663,379	89.6	792,934	89.0	754,016	89.4
Equity						
Share capital						
Authorised share capital						
106,223,552,373 ordinary shares of Baht 0.95 each (31 December 2018 and 2017: 44,108,738,479 ordinary shares)	100,912	5.4	41,903	4.7	41,903	5.0
Issued and paid-up share capital						
96,359,354,380 ordinary shares of Baht 0.95 each (31 December 2018: 43,851,893,110 ordinary shares and 31 December 2017: 43,839,858,871 ordinary shares)	91,541	4.9	41,659	4.7	41,648	4.9
Premium on share capital	43,217	2.3	404	-	379	-
Other reserves	6,042	0.3	4,811	0.5	5,097	0.6
Retained earnings						
Appropriated - Legal reserve	3,360	0.2	3,000	0.3	2,550	0.3
Unappropriated	50,617	2.7	48,905	5.5	40,182	4.8
Equity attributable to equity holders of the Bank	194,777	10.4	98,779	11.0	89,856	10.6
Non-controlling interest	34	-	-	-	-	-
Total equity	194,811	10.4	98,779	11.0	89,856	10.6
Total liabilities and equity	1,858,190	100.0	891,713	100.0	843,872	100.0

Consolidated statements of profit or loss and other comprehensive income

(Unit: THB million except percentages)

	For the year ended December 31,					
	2019	As % of total income	2018	As % of total income	2017	As % of total income
Interest income	39,837	71.1	35,128	56.6	34,713	68.9
Interest expenses	12,972	23.2	10,631	17.1	9,979	19.8
Net interest income	26,865	47.9	24,497	39.5	24,734	49.1
Fees and service income	11,343	20.2	12,764	20.6	13,533	26.9
Fees and service expenses	3,245	5.7	3,427	5.5	2,947	5.9
Net fees and service income	8,098	14.5	9,337	15.1	10,586	21.0
Gains on trading and foreign exchange transactions, net	1,528	2.7	1,529	2.4	1,147	2.3
Losses on financial liabilities designated at fair value through profit or loss, net	(22)	-	(11)	-	(24)	-
Gains on investments, net	1,956	3.5	11,963	19.2	64	0.1
Share of profit from investment using equity method	324	0.6	64	0.1	-	-
Other operating income	1,072	1.9	663	1.1	932	1.8
Total operating income	39,821	71.1	48,042	77.4	37,439	74.3
Other operating expenses						
Employee expenses	9,629	17.2	8,198	13.2	8,511	16.9
Directors' remuneration	48	0.1	44	0.1	45	0.1
Premises and equipment expenses	3,597	6.4	3,431	5.5	3,384	6.7
Taxes and duties	1,358	2.4	1,264	2.1	1,250	2.5
Others	6,042	10.8	4,538	7.3	4,602	9.1
Total other operating expenses	20,674	36.9	17,475	28.2	17,792	35.3
Profit from operations before impairment loss on loans and debt securities and income tax	19,147	34.2	30,567	49.2	19,647	39.0
Impairment loss on loans and debt securities	10,337	18.5	16,100	25.9	8,915	17.7
Profit from operations before income tax	8,810	15.7	14,467	23.3	10,732	21.3
Income tax	1,588	2.8	2,866	4.6	2,004	4.0
Profit for the year	7,222	12.9	11,601	18.7	8,728	17.3

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

(Unit: THB million except percentages)

	For the year ended December 31,					
	2019	As % of total income	2018	As % of total income	2017	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	423	0.7	(80)	(0.1)	103	0.2
Losses arising from translating the financial statements of foreign operations	(41)	(0.1)	(10)	-	(51)	(0.1)
Income tax relating to items that will be reclassified subsequently to profit or loss	(76)	(0.1)	18	-	(10)	-
	306	0.5	(72)	(0.1)	42	0.1
Items that will not be reclassified subsequently to profit or loss						
Change in revaluation surplus on assets	1,338	2.4	(48)	(0.1)	(40)	(0.1)
Actuarial gains (losses) on post-employment benefit plan	(112)	(0.2)	79	0.1	193	0.4
Income tax relating to items that will not be reclassified subsequently to profit or loss	(245)	(0.4)	(6)	-	(31)	(0.1)
	981	1.8	25	-	122	0.2
Total other comprehensive income for the year, net of income tax	1,287	2.3	(47)	(0.1)	164	0.3
Total comprehensive income for the year	8,509	15.2	11,554	18.6	8,892	17.7
Profit attributable to:						
Equity holders of the Bank	7,222	12.9	11,601	18.7	8,687	17.2
Non-controlling interest	-	-	-	-	41	0.1
Profit for the year	7,222	12.9	11,601	18.7	8,728	17.3
Total comprehensive income attributable to:						
Equity holders of the Bank	8,509	15.2	11,554	18.6	8,851	17.6
Non-controlling interest	-	-	-	-	41	0.1
Total comprehensive income for the year	8,509	15.2	11,554	18.6	8,892	17.7
Earnings per share						
Basic earnings per share (in Baht)	0.1485		0.2646		0.1982	
Diluted earnings per share (in Baht)	0.1485		0.2646		0.1981	

Due to the change in the shareholding structure during the period that on December 3, 2019, the bank has acquired shares in TBANK, as a result, TBANK is currently a subsidiary of the Bank. If the acquisition had occurred on 1 January 2019, management estimates that consolidated profit for the year would have increased by approximately Baht 10,000 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019. The consolidated profit is estimated by not include profit or loss which is relevant to business restructuring of acquired subsidiary.

Consolidated statements of cash flows

(Unit: THB million)

	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Profits from operations before income tax	8,810	14,467	10,732
Adjustments to reconcile profit from operations before income tax to net cash provided by (used in) operating activities			
Depreciation and amortisation	1,730	1,425	1,340
Impairment loss on loans and debt securities	10,337	16,100	8,915
Impairment loss on premises and equipment (reversal of)	(68)	10	23
Impairment loss on properties for sale and other assets	579	124	286
Provisions for employee benefits and other liabilities	661	157	19
Impairment losses on investment (reversal of)	-	1	(22)
Losses (gains) on revaluation of trading investments	(5)	2	-
Losses on written-off of intangible assets	14	-	9
Gains on disposal of premises and equipment	(80)	(17)	(43)
Gains on disposal of investments	(1,956)	(113)	(43)
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	22	11	24
Unrealised losses (gains) on exchange on derivatives	526	(471)	(383)
Unrealised gains on exchange on debentures and long-term borrowings	(815)	(74)	(1,027)
Expenses in relation to share-based payments	-	1	15
Share of profit from investments accounted for using the equity method	(324)	(64)	-
Deferred revenue	(1,940)	(1,310)	-
Net interest income	(26,865)	(24,497)	(24,734)
Dividend income	(261)	(19)	(32)
Interest received	38,639	33,593	33,783
Interest paid	(11,078)	(9,339)	(8,626)
Income tax paid	(2,792)	(1,288)	(2,252)
Profits from operations before changes in operating assets and liabilities	15,134	16,848	17,984

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2019	2018	2017
Decrease (increase) in operating assets			
Interbank and money market items	42,464	(5,032)	1,327
Trading investments	(3,999)	(674)	9,594
Loans to customers	(9,525)	(50,469)	(59,532)
Properties for sale	778	(209)	252
Other receivables	(159)	358	166
Other accrued income	(155)	249	(198)
Other assets	(220)	(314)	551
Increase (decrease) in operating liabilities			
Deposits	5,193	38,073	12,416
Interbank and money market items	(26,659)	3,917	14,932
Liabilities payable on demand	(1,857)	(160)	(367)
Financial liabilities designated at fair value through profit or loss	(1)	-	-
Short-term debts issued and borrowings	-	-	(749)
Provision for obligations or transfers of non-performing assets	-	-	(1,317)
Provisions for employee benefits	(100)	(246)	(144)
Provisions for other liabilities	(1,646)	(51)	(19)
Account payables	(960)	183	323
Other accrued expenses	152	(214)	991
Other liabilities	1,069	(2,094)	22,349
Net cash provided by operating activities	19,509	165	18,559

Consolidated statements of cash flows (continued)

(Unit: THB million)

	For the year ended December 31,		
	2019	2018	2017
Cash flows from investing activities			
Interest received	1,229	1,373	1,302
Dividend received	405	19	32
Purchase of available-for-sale investments	(78,465)	(80,860)	(50,780)
Proceeds from sales of available-for-sale investments	111,714	76,805	41,535
Purchase of held to maturity debt securities	(18,617)	(12,900)	(3,984)
Proceeds from redemption of matured held to maturity debt securities	7,716	5,286	5,285
Purchase of general investments	(34)	-	-
Proceeds from sales of general investments	79	102	121
Purchase of investments in subsidiaries	(167,070)	-	(258)
Proceeds from reduction and sales of investment in a subsidiary	-	11,438	-
Purchase of premises and equipment	(1,250)	(1,068)	(1,020)
Purchase of leasehold rights	(3)	(5)	(2)
Purchase of intangible assets	(1,168)	(1,019)	(761)
Proceeds from disposals of premises and equipment	207	141	132
Net cash used in investing activities	(145,257)	(688)	(8,398)
Cash flows from financing activities			
Proceeds from long-term borrowings	20	-	-
Repayments of long-term borrowings	(14)	(13)	(12)
Interest paid on long-term debts issued and borrowings	(1,850)	(1,320)	(1,195)
Cash receipts on debenture issued	59,661	4,868	5,430
Cash paid for redemption of debenture	(19,622)	(3,009)	(10,350)
Increase in issued and fully paid-up - ordinary shares	92,549	-	-
Expenses in relation to issuance of ordinary shares to employees	-	(1)	(1)
Dividend paid to equity holders of the Bank	(5,207)	(2,630)	(2,623)
Dividend paid to non-controlling interest	-	-	(18)
Net cash provided by (used in) financing activities	125,537	(2,105)	(8,769)
Change in translation adjustments of foreign operations	(41)	(10)	(51)
Net increase (decrease) in cash	(252)	(2,638)	1,341
Cash at 1 January / 4 December for a subsidiary acquisition through Business combination	24,105	17,872	16,531
Cash at 31 December	23,853	15,234	17,872

13.4 Key financial ratios

Consolidated financial statements	For the year ended December 31,		
	2019	2018	2017
Profitability ratio			
Gross profit margin (%) ⁽¹⁾	67.4	69.7	71.3
Net profit margin (%)	12.9	18.7	17.3
Return on equity (%)	6.5	12.4	10.0
Interest income (%) ⁽²⁾	4.4	4.4	4.5
Interest expenses (%) ⁽³⁾	1.5	1.5	1.4
Interest margin (%)	2.8	2.9	3.1
Return on investment (%)	4.3	19.7	2.3
Efficiency ratio			
Cost to income (%) ⁽⁴⁾	50.6	36.4	47.3
Net interest income to assets (%)	2.8	2.8	3.0
Return on assets (%)	0.7	1.4	1.1
Asset turnover (time)	0.06	0.07	0.06
Financial policy ratio			
Debt to equity ratio (time)	8.5	8.0	8.4
Loans to borrowings (%)	92.2	99.6	99.2
Loans to deposits (%)	99.6	105.6	105.2
Deposits to total liabilities (%)	84.1	81.9	81.1
Dividend payout ratio (%) ⁽⁵⁾	43.7	34.8	31.1
Capital adequacy ratio (%) ⁽⁶⁾	18.9	17.3	17.4
Asset quality ratio			
Allowance for doubtful debts to total loans (%)	3.3	4.8	3.9
Bad debt to total loans (%)	1.1	1.1	1.4
NPLs coverage (%) ⁽⁷⁾	120	152	143
NPLs to total loans (%) ⁽⁸⁾	2.3	2.8	2.4
Accrued interest receivable to total loans (%)	0.1	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**Economic conditions and outlook****Thai Economy in 2019**

In 2019, Thai economy faced several ongoing challenges including global economic slowdown, prolonged trade war and heightened financial market volatility. This resulted in decelerating growth in several economic activities. With clearer sign of global slowdown, heightened pressure from US-China trade war as well as continuing Thai baht appreciation, Thai merchandise exports in the first six months contracted 2.9%, particularly the exports to China which contracted 10% from the previous year. Electronics was the mostly affected manufacturing sector due to being parts of China's supply chain. Likewise, Thai tourism sector was impacted by global economic slowdown, reflected by the growth of inbound tourists remaining at only 0.7%. This was a consequence of slow recovery of Chinese tourists after the boat accident in Phuket in the second half of 2018. For domestic economy, there were signals of declining growth momentums especially in private investment, both capital investment and construction. However, private consumption continuously expands due to the supporting factors of growing farm incomes, expanding durable consumption and government's stimulus measures in the second quarter. These factors helped shoring up Thailand's GDP in the first half to be at 2.7%.

In the second half of the year, the US-China trade dispute became more intensified due to tax retaliation that resulted in additional tariff on \$300 billion worth of exported Chinese goods to the US from July 2018 to August 2019, posing widely negative impacts on China's supply chains. In November 2019, Thai exports of goods contracted 7.4%, hitting the lowest point in the past 3 years. For 2019, the values of merchandise exports were worth 264 billion dollar or decreased by 2.7%, while exports to China contracted 4%. The continuing contraction in goods exports clearly posed negative impact on domestic economy. Private investment decelerated both in manufacturing and construction, associating with low budget disbursement in the fourth quarter at only 4% due to the prolonged delay in 2020 government budget bill. Private consumption which gained temporary supports from government stimulus measures remained as a significant economic growth driver. This was reflected by the expansion in non-durables and services. In addition, tourism sector recovered due to the rebound of Chinese tourists, leading to the total inbound tourists of 39.8 million persons or rose by 3.9% in 2019. Due to merchandise exports contraction and domestic slowdown, the launch of government stimulus package in the fourth quarter together with the rebound of foreign tourists in the second half of the year however could not compensate all the negative impacts. Thai economy accordingly grew at slower pace at only 2.4%, hitting the record low in the last 5 year. For financial sector, the monetary policy committee decided to cut rate 2 times, in August and November 2019, resulting in the policy rate moving down from 1.75% to be at 1.25% due to a clearer signal of economic decline. The annual average of Thai baht was at 31.05 baht per dollar, appreciated by 3.9% from the previous year because of strong fundamentals of current account surplus and continuing capital inflows from abroad according to the perception of Thai baht as safe haven.

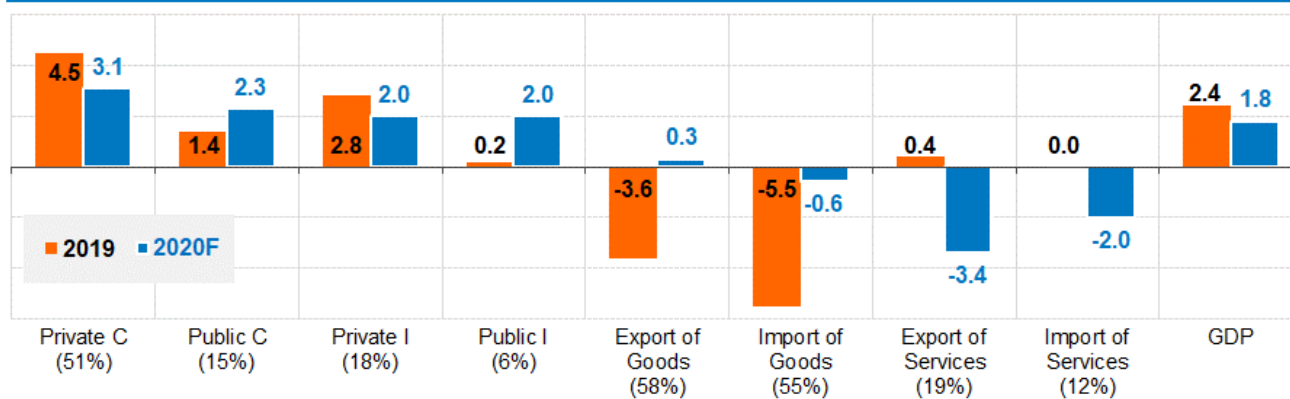
Economic Outlook for 2020

In 2020, Thai economy is projected to consistently encounter headwinds from both external and internal sides with stronger impacts. This will lead to slower momentums in each growth driver. For external side, global economy is forecasted to recover with slower pace, reflecting in the IMF's global economic growth outlook at 3.4% which is even though higher from the previous year but mainly due to the lower base effect in the growth of emerging markets. For developed economies including US eurozone and Japan, as well as Chinese economy will expand at a slower pace. Regarding trade war between US and China, though there is a better signal from the agreement in the first phase of trade deal, the uncertainties however remain in future negotiations. This will result in most of the imported goods from China to the US consistently facing high tariff rates. In addition, the COVID-19 outbreak, originating in China to many countries at the beginning of this year, has led to the launch of Chinese government's several restricted controlling measures so as to prevent further spreading of the virus e.g. transportation lockdown in several Chinese towns with high risks and bans of Chinese outbound tours. These incidents are estimated to pose severe impacts on Thai tourism sector and the recovery of Thai merchandise exports. TMB Analytics therefore projects Thai merchandise exports in dollar term to contract 0.5% in 2020. Meanwhile, the estimated foreign tourist numbers of 2020 are at 38.7 million persons, contracting 2.8% from previous year.

Domestic economic activities also tend to be weaker in most aspects. Private consumption will be affected by decelerating rate of durables consumption and severe drought which is seemed to be at the same degree impact as the incident in 2005 and to pose negative impacts on farm incomes. Public investment is expected to decline with a great extent particularly in the first half of 2020 due to the delayed government budget bill; however, the budget is expected to be disbursed in the second quarter. Coupling with prolonged infrastructure investments in the EEC project which are accounting for 30% of annual government budget, these factors are expected to result in a decline in public expenditures of more than 60 billion dollars. Private investment is also forecasted to expand by only 2.0% in line with low capital utilization and fragile exports recovery. Due to stronger headwinds, Thailand's government has launched some economic stimulus packages such as farmers' income guarantee schemes, soft loans by government's special financial institutions as well as tax measures. These public stimulus programs are however evaluated not being able to offset all negative impacts on Thai economy. TMB Analytics accordingly forecasts that Thai economy's growth in 2020 will decelerate to be at 1.8%.

Regarding financial market, the Monetary policy committee decided to cut the policy rate further to the record low from 1.25% to 1.0% in February 2020. TMB Analytics views that the rate will remain at 1% till the end of the year in order to support Thailand's economic recovery. For Thai baht, it is projected to be in a depreciation trend, moving between 31.0 to 31.7 baht per dollar, due to heightened risks in Thai economy, less current account surplus and the US dollar's appreciating trend.

Thai Economic Growth in 2020



Source : NESDB, MOC and TMB Analytics

() indicates percentage share to GDP

Discussion of operating performance

Executive summary

2019 Deposit and loan doubled in size largely from consolidation with TBANK and provide its opportunity to prepare on balance sheet optimization after merger. Capital position still healthy to support for future growth. TMB remained prudent in setting provision while TBANK set higher provision for conservation risk alignment. The Bank continued to extra NPL write off to reduce future downside risk. As a result, NPL ratio reduced to 2.30% while coverage ratio on bank-only was maintained high at 140%.

THB 1,398 billion of deposit led by the consolidation of TBANK and TMB's flagship products: TMB remained to focus on deposit-led strategy and to extend value proposition to deliver better customer experience after merger. Overall, deposit expanded 115.2% YTD to THB1,398 billion as of December 2019. The substantial growth was led by a consolidating financial statement with TBANK while transactional deposit and non-transactional deposit also grew on track. TMB's retail flagship product continued its positive momentum, supported by TMB All Free +9.2% YTD, ME Save +7.2% YTD and TMB No-Fixed +4.4% YTD growth. Nevertheless, total deposit on bank-only rose at moderate pace at 2.1% YTD, primarily driven by retail and large corporates. After consolidation with TBANK, the Bank continued to optimize deposit mix by replacing TD of Merged Bank with No-Fixed deposit.

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.

Doubled in size of loan contributed by fully integrating TBANK's loan: As of December 2019, total loan totaled THB1,392 billion, significantly grew by 103.0% YTD. The notable increase was mainly from the integrating TBANK's loans after merger especially in hire purchase segment. After consolidated with TBANK, the loan mix has changed and shift towards retail loans which accounted for 56% of total loan from 31% as of December 2018. While commercial loans reduced to 44% from 68% of total loans. On bank-only basis, mortgage loans remained the key driver and registered 10.9% YTD growth while commercial loans still slowed down which contracted by 8.2% YTD. The decrease was in line with Bank's strategy in preparation for balance sheets optimization after merger.

10% growth in NII was driven by the HP loans while Non-NII contracted by gain from TMBAM: TMB reported 12M19 net interest income of THB26,865 million, rose by 9.7% YoY. Key driver was due to the recognition of interest income on hire purchase into TMB account despite NIM declined to 2.81% in 2019. NIM reduction was due mainly to high end-balance of balance sheet with 28 days profit and loss of TBANK together with a marginal decline in yield on loan owing to interest rate cuts. Meanwhile, Non-NII dropped YoY largely by TMB's TMBAM one-time profit booked in 2018 and slowing mutual fund and bancassurance fees. Operating income, therefore, recorded at THB39,821 million, decreased by 17.1% in 2019. If excluded one-time gain on TMBAM, Non-NII registered 10.8% growth.

Lower PPOP was largely pressured by top line growth and high OPEX: Total operating income declined by 17.1% YoY while operating expense rose by 18.3% YoY, largely from higher operating expense on TMB and the recognition of TBANK's expenses as subsidiary company. As a result, PPOP for the 12 month decreased by 35.6% YoY to THB19,658 million.

Asset quality remained in line with target: To mitigate and limited downside risk, prudent risk and asset quality management has been one of the Bank's priorities. TMB remained prudent in setting provision while TBANK set higher provision for conservation risk alignment. In total, the Bank set aside provision of THB10.3 billion in 2019, of which THB1.4 billion coming from provision of TBANK. Meanwhile the Bank has continued to proactively wrote off NPLs of THB4.0 billion in this quarter. NPL ratio, as a result, reduced to 2.30% while coverage ratio on bank-only was maintained at 140%, still in target. After provision, TMB reported THB7,222 million of net profit. The figure decreased by 37.7% YoY and represented a return on equity (ROE) of 6.5%.

Analysis of operating performance for the accounting year as of 31 December 2019, in comparison to 31 December 2018 is as follows;

Statement of comprehensive income

(Unit: THB million)

For the year ended December 31

	2019	2018
Interest income.....	39,837	35,128
Interest expense.....	12,972	10,632
Net interest income	26,865	24,497
Fees and service income.....	11,343	12,764
Fees and service expenses	3,245	3,426
Net fees and services income	8,098	9,338
Other operating income.....	4,858	14,208
Non-interest income	12,956	23,545
Total income.....	39,821	48,042
Total other operating expenses	20,674	17,475
Impairment loss on loans and debt securities	10,337	16,100
Profit before income tax	8,810	14,467
Income tax	1,588	2,866
Profit for the year	7,222	11,601
Other comprehensive income(loss)	1,287	-48
Total comprehensive income	8,509	11,554
Net profit for the period attributable to equity holders of the parent	7,222	11,554

Note: Consolidated financial statements, included TBANK's result for 28 days

14.1 Operating income

For the year 2019, TMB reported operating income of THB39,821 million, a decrease of THB8,221 million or 17.1% from last year. Net interest income increased by 9.7% from the same period last year, resulting from non-transactional deposit expansion while non-interest income contracted YoY due primarily to the recognition of gain from TMBAM deal in 2018 and lower net fees and service income from mutual fund and Bancassurance sales. Operating expense increased from the same period last year. Details of the Bank's operating performance was as follows.

14.1.1 Net interest income

	For the year ended December 31	
	2019	2018
(Unit: THB million)		
Interest income		
Interest on loans	34,334	32,082
Interest on interbank and money market items	1,965	1,761
Investments in debt securities	1,555	1,220
Investments and trading transactions	131	56
Other.....	30	10
Total interest income	39,837	35,128
Interest expense		
Interest on deposits	6,896	5,627
Interest on interbank and money market items	781	686
Contributions to the Deposit Protection Agency	3,371	2,965
Interest on debt issued and borrowings.....	1,900	1,278
Borrowing fee and others	24	76
Total interest expense	12,972	10,632
Net interest income	26,865	24,497

Note: Consolidated financial statements, included TBANK's result for 28 days

➤ Interest income

As of 31 December 2019, total interest income of the Bank and its subsidiaries was THB39,837 million, an increase of THB4,709 million or 13.4% from 2018. Such increase was due largely to the recognition of interest on hire purchase and financial lease of THB1,823 million and moderate loan growth. Key items are as follows.

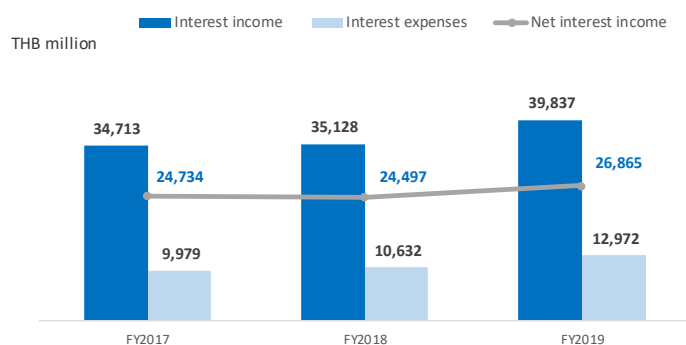
- Interest on loans rose by THB2,253 million or 7.0% from previous year, largely attributed by moderate loan growth.
- Interest on hire purchase and financial lease was THB1,823 million, due to the consolidation of TBANK.
- Interest on interbank and money market items grew by THB203 million or 11.6% YoY.
- Interest on investments in debt securities increased by THB335 million or 27.5% from last year.

➤ Interest expense

At the end of 2019, total interest expenses of the Bank and its subsidiaries was THB12,972 million, an increase of THB2,340 million or 22.0% from last year, due mainly to interest expenses on debt issued and borrowing and interest expense on deposits. Details are shown below.

- Interest expense on deposits increased by THB1,269 million or 22.6% YoY due mainly to deposit expansion.
- Interest expense on interbank and money market items fell by THB95 million or 13.9% YoY.
- Interest on debt issued and borrowing rose by THB622 million or 48.7% YoY, mainly from the issuance of sub-debt and senior EUR bond to support merger activities in 2019.

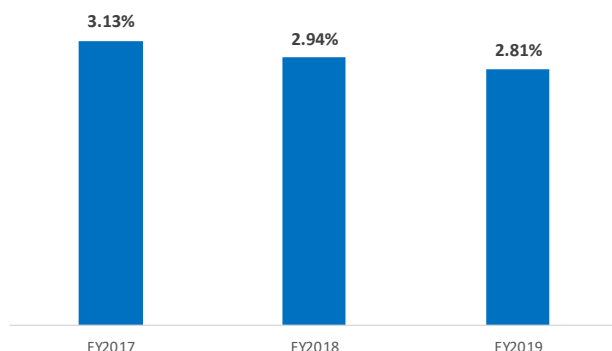
➤ Net interest income



Note: Consolidated financial statement, included TBANK's result for 28 days

The Bank reported THB26,865 million of net interest income, an increase of 9.7% when compared to previous year.

➤ Net interest margin (NIM)



Note: Consolidated financial statement, included TBANK's result for 28 days

Due to an increase in earning assets from the consolidation with TBANK and marginal drop in loan yield, partly to interest rate cuts during the year. Therefore, net interest margin (NIM) dropped to 2.81% from 2.94% in 2018.

14.1.2 Non-interest income

(Unit: THB million)

Fees and service income	
Fee receive credit.....	
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	
Share of profit from investment using equity method.....	
Gains on sale of assets.....	
Dividend income.....	
Others	
Total non-interest income.....	

Note: Consolidated financial statement, included TBANK's result for 28 days

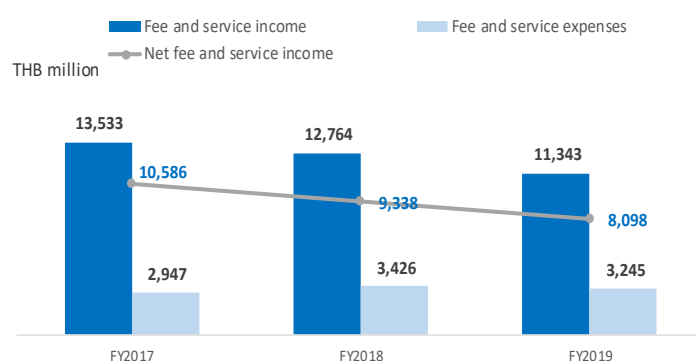
For the year ended December 31

	2019	2018
Fees and service income	11,343	12,764
Fee receive credit.....	362	484
Others	10,981	12,280
Fees and service expenses	3,245	3,426
Net fees and service income	8,098	9,338
Gains (losses) on trading and foreign exchange transactions.....	1,528	1,529
Gains (losses) on financial instrument designated at fair value.....	(22)	(11)
Gains (losses) on investments	1,956	11,963
Share of profit from investment using equity method.....	324	64
Gains on sale of assets.....	417	70
Dividend income.....	26	19
Others	629	574
Total non-interest income.....	12,956	23,545

In 2019, total non-interest income of the Bank and its subsidiaries was THB12,956 million, a decrease of THB10,589 million or 45.0% over-year, driven mainly by the recognition of gain from TMBAM deal in 2018 and lower net fees and service income from Bancassurance and mutual sales. Key items are as follows.

- Net fees and service income was reported at THB8,098 million, declined by THB1,240 million or 13.3% from last year. Such decrease was primarily due to a slowdown in retail fees from mutual fund and Bancassurance sales, offsetting with higher net fee income from auto loan business from TBANK.
- Gain on foreign exchange transactions relatively flat YoY to THB1,528 million.
- Share of profit from investment using equity method was recorded at THB324 million, consisted of the recognition 35% in TMBAM stake and profit sharing from 49.9% holding in TFUND as associated company.

Net fees and service income



Note: Consolidated financial statement, included TBANK's result for 28 days

14.1.3 Non-interest expenses

(Unit: THB million)

	For the year ended December 31	
	2019	2018
Non-interest expense		
Personnel expenses.....	9,629	8,198
Premises and equipment expenses	3,598	3,431
Taxes and duties.....	1,358	1,264
Directors' remuneration.....	48	44
Other expense	6,042	4,538
Total non-interest expense	20,674	17,475

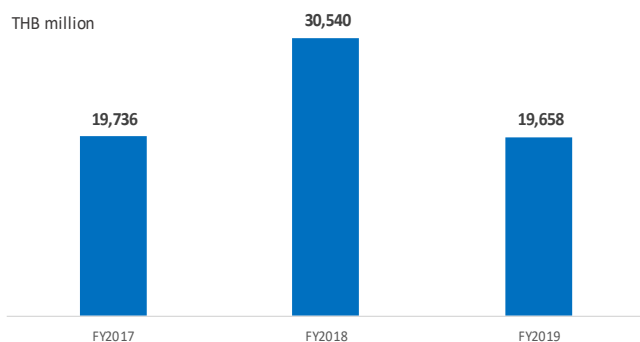
Note: Consolidated financial statement, included TBANK's result for 28 days

At the end of 2019, total non-interest expenses of the Bank and its subsidiaries was THB20,674 million, a rise of THB3,200 million or 18.3% from last year, due to;

- Personnel expenses rose by THB1,430 million or 17.4% YoY, largely came from the one-off set up related to employee retirement benefit due to the new Labor Protection Act booked in 1Q19, HR cost and the recognition of HR expenses of TBANK of 28 days.

- Premise expenses increased by THB167 million or 4.9% from previous year.
- Other expenses rose by THB1,504 million or 33.2% resulting from higher expense from accelerating litigation process, advisory fee related to M&A transaction and computer software amortization.

14.1.4 Pre-provision operating profit (PPOP)



Note: Consolidated financial statement, included TBANK's result for 28 days

The pre-provision operating profit of the Bank and subsidiaries was THB19,658 million contracted by THB10,882 million or 35.6% YoY. If exclude one-time gain from selling TMBAM, PPOP grew by 5.2% YoY.

14.1.5 Bad debt, Doubtful accounts and impairment losses

Provisions for bad debt and doubtful accounts and impairment loss on debt securities were THB10,337 million, a decrease of THB5,764 million or 35.8% from last year. The total provision of THB10.3 billion, THB1.4 billion of which was from TBANK's provision. This is to strengthen balance sheet of the Combined Bank. TMB remained prudent in setting provision while TBANK set higher provision for conservation risk alignment. For coverage ratio, when combined with TBANK's coverage ratio of 102%. Coverage ratio on consolidated basis, therefore, reduced to 120% as of 31 December 2019, compared with 140% as of September 2019 and 152% as of December 2018. However, coverage ratio on bank-only basis stood at 140% as of December 2019.

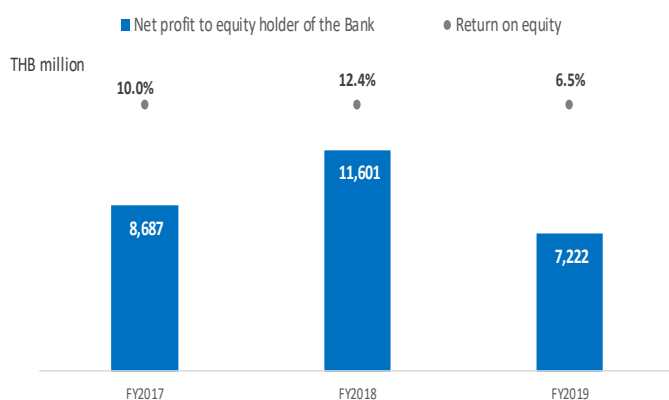
14.1.6 Profit before income tax

The Bank and its subsidiaries recorded profit before income tax at THB8,810 million, declined by THB5,657 million or 39.1% compared to the previous year. Income tax expense in 2019 was THB 1,588 million, a decrease of THB1,278 million or 44.6%.

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 THB7,222 million, contracted by 37.7% from previous year. This represented a ROE of 6.5%.

Net profit and Return on equity (ROE)



Note: Consolidated financial statement, included TBANK's result for 28 days

14.2 Financial Position

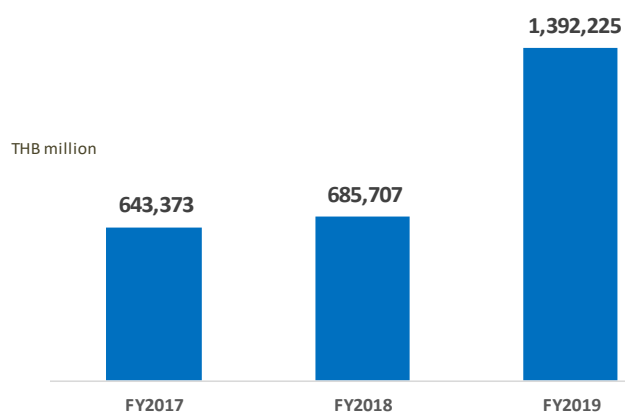
(Unit: THB million)	For the year ended 31 December	
	2019	2018
Cash, Interbank and derivative assets	270,563	136,673
Investments	175,218	78,054
Loans and accrued interest receivables - net	1,392,225	685,707
Accrued interest receivables	1,883	1,308
Less Allowance for doubtful accounts & Revaluation allowance	45,477	32,975
Loans and Allowance - net	1,348,630	654,040
Properties for sale - net	4,810	2,614
Premises and equipment - net	23,642	11,876
Goodwill from transferred business and other intangible - net	22,363	2,592
Deferred tax assets	1,496	401
Other receivables - net	4,969	1,251
Other assets	6,499	4,212
Total Assets	1,858,190	891,713
Deposits	1,398,112	649,568
Interbank and Money Market Items	86,626	64,267
Borrowings	108,835	35,124
Deferred tax liabilities	18,186	17,594
Other liabilities	51,619	26,382
Total Liabilities	1,663,379	792,934
Equity attributable to equity holders of the Bank	194,777	98,779
Non-controlling interest	35	-
Total equity	194,811	98,779
Total liabilities & equity	1,858,190	891,713

Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

14.2.1 Assets

Total assets of the Bank and its subsidiaries as of 31 December 2019 were THB1,858,190 million, an increase of THB966,477 million or 108.4% from last year. The significant increase was mainly resulted from full year consolidating total asset of TBANK of THB1,016 billion into account. Details are as follows.

Total loans



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

1) Loans

As of Dec-19, TMB reported THB1,392,225 million of total loans (excluding accrued interest receivable), an increase of THB706,518 million or 103.0% from last year which contributed to loans from TBANK of THB722 billion. Key growth driver was the fully integrating TBANK's loans after merger.

➤ Loan portfolio by customer segment

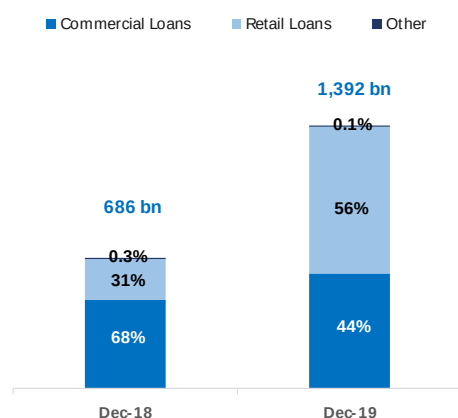
As of 31 December 2019, total loan on bank-only basis was reported at THB671,603 million which declined by THB14,058 million or 2.1% YTD. The contraction was mainly from large corporate and SME segments. However, retail segment especially mortgage loans continued to be the key driver.

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

	(THB million, %)			
	As at December 31,			
	2019		2018	
	Amount	% of total	Amount	% of total
Commercial Banking.....	606,825	43.6%	468,386	68.3%
Retail Banking.....	783,874	56.3%	215,268	31.4%
Total	663,987	100.0%	643,325	100.0%

Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

Loans by customer segments



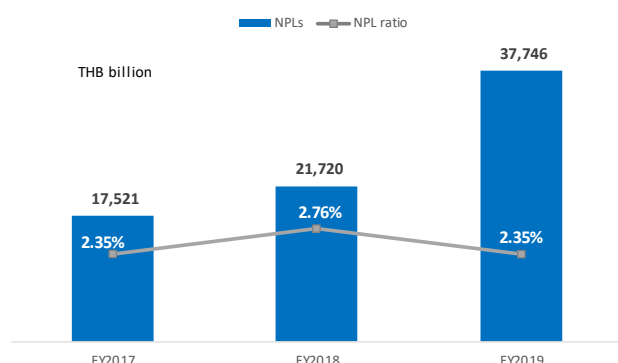
Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

➤ 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 2019, the Bank and its subsidiaries' non-performing loans ("NPLs") classified as substandard, doubtful, and doubtful of loss were THB37,746 million, increased by THB16,476 million from end of December 2018 due to the consolidation with TBANK. The Bank's NPL (on bank-only basis) were THB18,150 million, declined by THB3,524 million from 31 December 2018.

As the Bank continued to proactively resolve NPLs through write-off to reduce future downside risks and keep balance sheet clean. In the 4th quarter, the Bank further wrote off amounting to THB4.0 billion. For 2019, TMB made THB15.0 billion of write-off.

Non-performing loans and NPL ratio



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

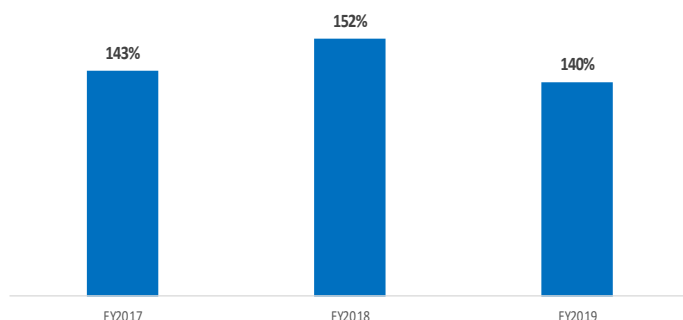
NPL ratio of the Bank and subsidiaries (include interbank loans) was 2.35%, compared with 2.76% as of 31 December 2018. On bank-only basis, NPL ratio (include interbank loans) also stood at 2.33%, compared with 2.76% as of 31 December 2018.

➤ 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 lending, 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 financial statements, included TBANK's financial position as of 31 December 2019

As of 31 December 2019, the Bank and its subsidiaries had the allowance for debt restructuring of THB45,477 million, increased by THB12,502 million, as a result of consolidation of TBANK of which the allowance for loan losses represented THB20 billion.

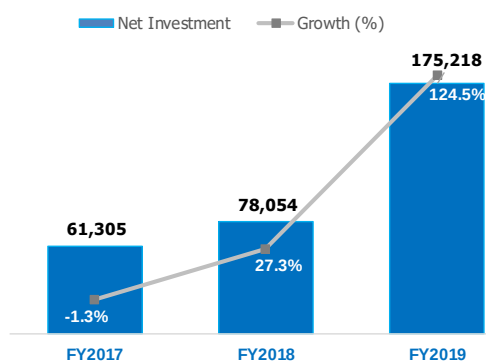
However, coverage ratio on bank-only basis was maintained at 140% as of December 2019. For coverage ratio on consolidated basis, when combined with TBANK's coverage ratio of 102%. Coverage ratio, therefore, was 120% as of 31 December 2019.

2) Interbank and money market

Net Interbank and money market was reported THB236,311 million, an increase of THB122,789 million or 108.2% as a result of consolidation and liquidity management.

3) Investment

Net investment and % growth



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

As of December 2019, the Bank reported net investment at THB175,218 million, an increase of THB97,164 million or 124.5%, resulting from the consolidation of TBANK and increase in TMB's AFS portfolio while the Bank has reduced investment in HTM portfolio due to change in investment strategy.

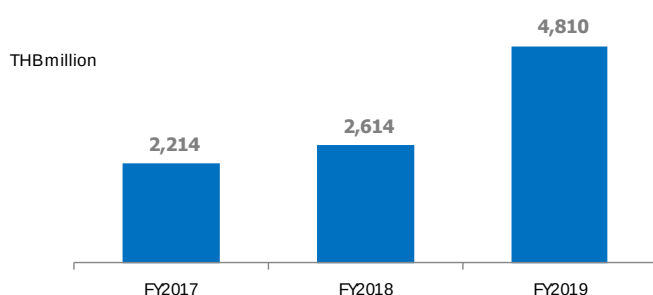
The table below illustrates TMB's investment portfolio for the periods indicated:

	Consolidated financial statements	
	31 December 2019	31 December 2018
<u>Trading securities - fair value</u>		
Government and state enterprise securities	6,159	1,293
Private debt securities	417	-
Total trading securities	<u>6,576</u>	<u>1,293</u>
<u>Available-for-sale securities - fair value</u>		
Government and state enterprise securities	137,906	40,828
Private debt securities	10,166	-
Foreign debt securities	9,193	-
Domestic marketable equity securities	1,129	2
Total available-for-sale securities	<u>158,394</u>	<u>40,830</u>
<u>Held-to-maturity debt securities - cost/amortized cost</u>		
Government and state enterprise securities	-	31,119
Private debt securities	682	-
Total held-to-maturity debt securities	<u>682</u>	<u>31,119</u>
<u>General investments - cost</u>		
Non-marketable equity securities		
- Domestic	1,410	1,024
Non-marketable equity securities		
- Foreign	3	2
Total general investments	<u>1,413</u>	<u>1,026</u>
Less: Allowance for impairment	<u>(800)</u>	<u>(791)</u>
General investments - net	<u>613</u>	<u>235</u>
Investments – net	<u>166,265</u>	<u>73,477</u>

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



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

Properties for sales as of December 2019 were THB4,810 million which increased THB2,196 million or 84.0% from December 2018.

Consolidated financial statement	As of December 31, 2019	As of December 31, 2018
	(THB million)	(THB million)
Beginning balance	3,562	2,306
Net decrease	1,597	458
Ending balance	5,159	2,764
Provision for impairment	(349)	(150)
Total NPAs-net	4,810	2,614

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

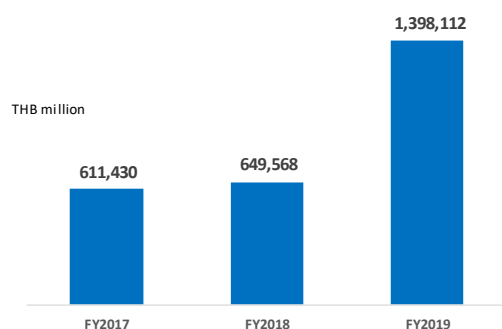
As of 31 December 2019, total liabilities of the Bank and its subsidiaries reported THB1,669,870 million, an increase of THB876,936 million or 110.6%, in comparison to last year. Details are shown below;

1) Deposits

Total deposits reported THB1,398,112 million, an increase of THB748,544 million or 115.2% YTD. The increase was mainly attributed from consolidating financial statement with TBANK which had deposits amounting THB735 billion while TMB retail flagship products continue to grow further.

Deposit-led strategy remained a key focus of TMB after the consolidation with TBANK. The Bank has continued to expand non-transactional deposits and transactional deposits. Overall, it favorable grew on track. Non-transactional deposit grew by 69.8% YTD mainly attributable to the inflow of TBANK's saving deposit while TMB No-Fixed continued to show its growth by 4.4% YTD. ME Save posted 7.2% YTD growth. Time Deposit (TD) robustly grew by 456.2% YTD mainly from the inflow of TD and certificate deposit of TBANK. Nevertheless, TMB All Free, retail transactional deposit, continued its growth momentum and expanded further by 9.2% YTD.

Total deposits



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

Deposits breakdown by products

(Unit: THB billion)	Dec-19	% of total deposit	Dec-18	% of total deposit	% Change YoY
Current	76	5.4%	58	9.0%	30.1%
Saving	365	26.1%	199	30.7%	83.5%
Non-Transactional Deposit	538	38.5%	317	48.8%	69.8%
Time Deposit and Certificate Deposit	419	29.9%	75	11.6%	456.2%
Total	649	100.0%	649	100.0%	115.2%

Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

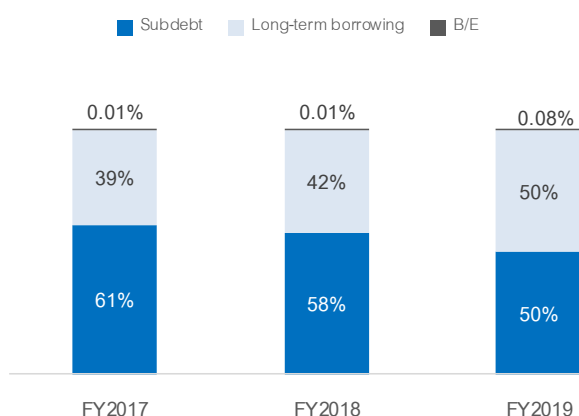
Remark: Non-transactional deposit consists of "TMB No Fixed", "ME" and "TBANK Ultra Saving".

"TMB No Fixed", "ME" and "TBANK Ultra Saving" are classified as savings account as they are not required to maintain minimum balance and have no restriction to term of deposit

2) Borrowings

Total borrowing was THB108,835 million, an increase of THB73,711 million or 209.9% YTD. The increase was mostly from TBANK's borrowings of THB31 billion and TMB's debt issuance to support the acquisition activity of TBANK which comprised of sub-debt of THB30 billion, senior EUR bond of approximately THB17 billion and Additional Tier 1 of approximately THB12 billion, offsetting with buy back and the early redemption of sub-debt of THB15 billion.

Borrowings breakdown



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

3. Interbank and money market

Interbank and money market items as of 31 December 2019 reported THB86,626 million, an increase of 34.8%, in accordance to the consolidation with TBANK.

14.2.3 Shareholder's equity

As of 31 December 2019, the consolidated shareholders' equity was THB194,777 million, an increase of THB95,998 million or 97.2%. Diluted earnings per share decreased to THB0.1485 as of 31 December 2019 from THB0.2646 as of 31 December 2018.

14.3 Off-balance sheet items

• Commitments

The Bank and its subsidiaries's commitments comprise aval to bills, guarantees of loans, liabilities under unmatured import bills, letters of credit, other guarantees, unused bank overdrafts, committed line and other commitments. The Bank and its subsidiaries's commitments (excluding commitments from derivative contracts) increased by 36.8% from THB 199,980 million as of December 31, 2018 to THB 273,503 million as of December 31, 2019.

	Consolidated		Bank only	
	2019	2018	2019	2018
	(in million Baht)			
Avals to bills ⁽¹⁾	336	319	243	319
Guarantees of loans	2,386	-	38	-
Liability under unmatured import bills	2,392	2,722	2,226	2,722
Letters of credit	13,720	15,772	12,789	15,772
Other commitments				
- Other guarantees	63,368	65,584	63,368	65,584
- Amount of unused bank overdrafts	104,962	81,632	83,245	81,632
- Committed line	44,371	3,882	4,844	3,882
- Others ⁽²⁾	41,968	30,069	23,028	30,069
Total	<u>273,503</u>	<u>199,980</u>	<u>189,781</u>	<u>199,980</u>

- ⁽¹⁾ As at 31 December 2019 and 2018, this included bank and its subsidiaries acceptance amounting to Baht 4 million and Baht 5 million, respectively (Bank only: Baht 2 million and Baht 5 million, respectively)
- ⁽²⁾ As at 31 December 2019, this included the financial assets accepted as collateral that had been sold or pledged amounting to Baht 22,463 million (2018: 29,375 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:

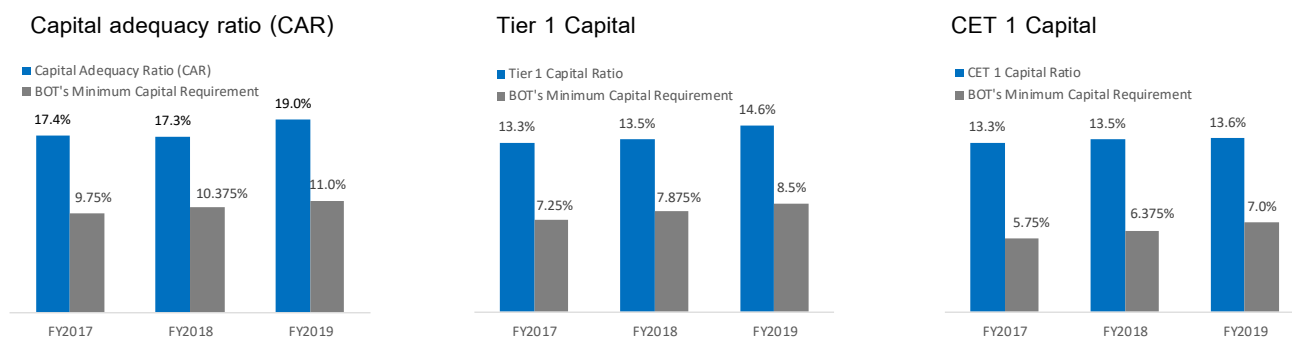
THB million	As of December 31		
(Consolidated)	2019	2018	2017
Net Liquid Assets	339,803	137,967	131,362
Loan to Deposit (%)	99.6	105.6	105.2
Net Liquid Assets to Total Assets	18.3	15.5	15.6
Net Liquid Assets	2019	2018	2017
Cash on Hand	23,853	15,234	17,872
Interbank and Money Market Assets	236,311	113,522	112,534
Investment	166,265	73,477	61,305
Deduct Interbank and Money Market Liabilities	86,626	64,267	60,349
Total	339,803	137,967	131,362

Liquidity (Bank-only)

As of December 31, 2019, TMB had net liquid assets of THB 339,803 million, rose from THB 137,967 million as of December 31, 2018, resulting from consolidation with TBANK.

14.5 Capital adequacy

At the end of December 2019, Capital Adequacy Ratio (CAR), Tier 1 ratio and CET1 ratio of the Bank under Basel III calculation were 19.0%, 14.6% and 13.6% respectively. The Bank has maintained the robust capital well above the Bank of Thailand's minimum requirement of 11.0%, 8.5% and 7.0% of CAR, Tier 1 and CET 1 capital ratio, respectively.



Note: Consolidated financial statements, included TBANK's financial position as of 31 December 2019

(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: customer centricity, build deposit and transactional banking products excellence, leading in comprehensive lending products, build sustainable and recurring non-interest income, optimize capital utilization and liquidity management, ensure cost efficiency and build readiness for digital transformation. 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, macroeconomic headwinds (e.g. trade war, geo-political uncertainty and strong THB), 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. 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 providing simple and easy transactional services as well as comprehensive investment products, TMB will be able to successfully sustain bottom line even in the current highly competitive environment.

In the current economic downturn situation, the loan growth rate is expected to be lower than the past as it seems to be a new normal, TMB will focus on acquiring good credit customer within targeted industries and 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 understanding customer in order to offer right products and services at the right time.

TMB, nonetheless, has prepared business plans both short-term and long-term goals with focus on increasing portion of non-interest income (e.g. mutual fund and bancassurance), which will help TMB to sustainably generate profits in a volatile economic environment. However, the competition in financial industry is not limited to banking players, but also non-banking players (e.g. tel-co, tech giants) are also entering this market, pressuring on the bank's ability to generate income. To remain competitive status, TMB has expanded into an automotive lending business thru acquiring Thanachart Bank, a leading automotive lending bank in Thailand. This move will create more comprehensive and variety of lending products to cover all customer's needs.

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, especially in a digital channel. 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. 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.