

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, 2018-2020 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, 2018-2020**

Mr. Chanchai Sakulkoedsin of KPMG Phoomchai Audit Limited audited the consolidated and bank only financial statements for the year ended December 31, 2018-2020 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

Assets	As at December 31,					
	2020	As % of total Assets	2019	As % of total assets	2018	As % of total assets
Assets						
Cash	21,943	1.2	23,853	1.3	15,234	1.7
Interbank and money market items, net	211,185	11.7	236,311	12.7	113,522	12.7
Financial assets measured at fair value through profit or loss	3,788	0.2	-	-	-	-
Derivative assets	11,959	0.7	10,399	0.6	7,917	1.0
Investments, net	134,351	7.5	166,265	8.9	73,477	8.2
Investments in subsidiaries and associate, net	8,599	0.5	8,953	0.5	4,577	0.5
Loans to customers	1,392,925	77.0	1,392,225	74.9	685,707	77.0
Add accrued interest receivables and undue interest income	8,533	0.5	1,882	0.1	1,308	0.1
Less allowance for expected credit loss	(52,978)	(2.9)	-	-	-	-
Less allowance for doubtful accounts & revaluation allowance for debt restructuring	-	-	(45,477)	(2.5)	(32,975)	(3.7)
Total loans to customers and accrued interest receivables, net	1,348,480	74.6	1,348,630	72.5	654,040	73.4
Properties for sale, net	6,037	0.3	4,810	0.3	2,614	0.3
Premises and equipment, net	24,039	1.3	23,642	1.3	11,876	1.3
Goodwill and other intangible assets, net	22,546	1.2	22,363	1.2	2,592	0.3
Deferred tax assets	1,980	0.1	1,496	0.1	401	-
Other assets, net	13,425	0.7	11,468	0.6	5,463	0.6
Total assets	1,808,332	100.0	1,858,190	100.0	891,713	100.0

Consolidated statements of financial position (continued)

(Unit: THB million except percentages)

Liabilities and equity	As at December 31,					
	2020	As % of total assets	2019	As % of total assets	2018	As % of total assets
Liabilities						
Deposits	1,373,408	76.0	1,398,112	75.2	649,568	72.9
Interbank and money market items	75,909	4.2	86,626	4.7	64,267	7.2
Liabilities payable on demand	3,895	0.2	3,382	0.2	3,505	0.4
Financial liabilities designated at fair value through profit or loss	432	-	418	-	396	-
Derivative liabilities	9,268	0.5	9,719	0.5	7,328	0.8
Debts issued and borrowings	88,965	4.9	108,835	5.9	35,124	4.0
Provisions for employee benefits	4,366	0.2	5,150	0.3	1,221	0.1
Provisions for other liabilities	2,820	0.2	1,855	0.1	630	0.1
Deferred tax liabilities	3,500	0.2	4,730	0.3	-	-
Deferred revenue	20,885	1.2	18,186	1.0	17,594	2.0
Other liabilities	20,134	1.1	26,366	1.4	13,301	1.5
Total liabilities	1,603,582	88.7	1,663,379	89.6	792,934	89.0
Equity						
Share capital						
Authorised share capital						
106,223,552,373 ordinary shares of Baht 0.95 each (31 December 2018: 44,108,738,479 ordinary shares)	100,912	5.6	100,912	5.4	41,903	4.7
Issued and paid-up share capital						
96,409,416,880 ordinary shares of Baht 0.95 each (31 December 2019: 96,359,354,380 ordinary shares and 31 December 2018: 43,851,893,110 ordinary shares)	91,589	5.1	91,541	4.9	41,659	4.7
Premium on share capital	43,322	2.4	43,217	2.3	404	-
Other reserves	5,798	0.3	6,042	0.3	4,811	0.5
Retained earnings						
Appropriated - legal reserve	10,091	0.6	3,360	0.2	3,000	0.3
Unappropriated	53,913	2.9	50,617	2.7	48,905	5.5
Equity attributable to equity holders of the Bank	204,713	11.3	194,777	10.4	98,779	11.0
Non-controlling interest	37	-	34	-	-	-
Total equity	204,750	11.3	194,811	10.4	98,779	11.0
Total liabilities and equity	1,808,332	100.0	1,858,190	100.0	891,713	100.0

Consolidated statements of profit or loss and other comprehensive income

Unit: THB million

	For the year ended December 31,					
	2020	As % of total income	2019	As % of total income	2018	As % of total income
Interest income	72,320	78.1	39,837	71.1	35,128	56.6
Interest expenses	18,515	20.0	12,972	23.2	10,631	17.1
Net interest income	53,805	58.1	26,865	47.9	24,497	39.5
Fees and service income	15,921	17.2	11,343	20.2	12,764	20.6
Fees and service expenses	5,346	5.8	3,245	5.7	3,427	5.5
Net fees and service income	10,575	11.4	8,098	14.5	9,337	15.1
Gains on trading and foreign exchange transactions, net	-	-	1,528	2.7	1,529	2.4
Losses on financial liabilities designated at fair value through profit or loss, net	-	-	(22)	-	(11)	-
Gains on financial instruments measured at fair value through profit or loss	1,726	1.9	-	-	-	-
Gains on investments, net	678	0.7	1,956	3.5	11,963	19.2
Share of profit from investment using equity method	363	0.4	324	0.6	64	0.1
Other operating income	1,644	1.7	1,072	1.9	663	1.1
Total operating income	68,791	74.2	39,821	71.1	48,042	77.4
Other operating expenses						
Employee expenses	16,536	17.8	9,629	17.2	8,198	13.2
Directors' remuneration	66	0.1	48	0.1	44	0.1
Premises and equipment expenses	6,170	6.7	3,597	6.4	3,431	5.5
Taxes and duties	1,799	1.9	1,358	2.4	1,264	2.1
Others	7,051	7.6	6,042	10.8	4,538	7.3
Total other operating expenses	31,622	34.1	20,674	36.9	17,475	28.2
Profit from operations before expected credit loss, impairment loss on loans and debt securities and income tax	37,169	40.1	19,147	34.2	30,567	49.2
Impairment loss on loans and debt securities	-	-	10,337	18.5	16,100	25.9
Expected credit loss	24,831	26.8	-	-	-	-
Profit from operations before income tax	12,338	13.3	8,810	15.7	14,467	23.3
Income tax	2,223	2.4	1,588	2.8	2,866	4.6
Profit for the year	10,115	10.9	7,222	12.9	11,601	18.7

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

Unit: THB million

	For the year ended December 31,					
	2020	As % of total income	2019	As % of total income	2018	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)
Gains on investments in debt instruments at fair value through other comprehensive income	114	0.1	-	-	-	-
Losses on cash flow hedges	(21)	-	-	-	-	-
Losses arising from translating the financial statements of foreign operations	(21)	-	(41)	(0.1)	(10)	-
Income tax relating to items that will be reclassified subsequently to profit or loss	(14)	-	(76)	(0.1)	18	-
	58	0.1	306	0.5	(72)	(0.1)
Items that will not be reclassified subsequently to profit or loss						
Change in revaluation surplus on assets	(179)	(0.2)	1,338	2.4	(48)	(0.1)
Losses on investments in equity instruments designated at fair value through other comprehensive income	(187)	(0.2)	-	-	-	-
Actuarial gains (losses) on post-employment benefit plan	680	0.7	(112)	(0.2)	79	0.1
Income tax relating to items that will not be reclassified subsequently to profit or loss	(63)	(0.1)	(245)	(0.4)	(6)	-
	251	0.2	981	1.8	25	-
Total other comprehensive income for the year, net of income tax	309	0.3	1,287	2.3	(47)	(0.1)
Total comprehensive income for the year	10,424	11.2	8,509	15.2	11,554	18.6

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

Unit: THB million

	For the year ended December 31,					
	2020	As % of total income	2019	As % of total income	2018	As % of total income
Profit attributable to:						
Equity holders of the Bank	10,112	10.9	7,222	12.9	11,601	18.7
Non-controlling interest	3	-	-	-	-	-
Profit for the year	10,115	10.9	7,222	12.9	11,601	18.7
Total comprehensive income attributable to:						
Equity holders of the Bank	10,421	11.2	8,509	15.2	11,554	18.6
Non-controlling interest	3	-	-	-	-	-
Total comprehensive income for the year	10,424	11.2	8,509	15.2	11,554	18.6
Earnings per share						
Basic earnings per share (in Baht)	0.1049		0.1485		0.2646	
Diluted earnings per share (in Baht)	0.1047		0.1485		0.2646	

Consolidated statements of cash flows

Unit: THB million

	For the year ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Profits from operations before income tax	12,338	8,810	14,467
Adjustments to reconcile profit from operations before income tax to net cash provided by (used in) operating activities			
Depreciation and amortisation	4,311	1,730	1,425
Impairment loss on loans and debt securities	-	10,337	16,100
Expected credit loss	24,831	-	-
Impairment loss on premises and equipment (reversal of)	23	(68)	10
Impairment loss on properties for sale and other assets	4	579	124
Reversal of impairment loss on intangible assets	(30)	-	-
Provisions for liabilities	353	661	157
Impairment losses on investment	-	-	1
Gains on revaluation of investments measured at FVTPL	(29)	-	-
Losses (gains) on revaluation of investments	-	(5)	2
Losses on disposal of intangible assets	17	14	-
Losses (gains) on disposal of premises and equipment	19	(80)	(17)
Gains on disposal of investments	(678)	(1,956)	(113)
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
Unrealised gains on exchange rate	(289)	(289)	(545)
Expenses in relation to share-based payments	70	-	1
Share of profit from investments accounted for using the equity method	(363)	(324)	(64)
Deferred revenue	(2,831)	(1,940)	(1,310)
Net interest income	(53,805)	(26,865)	(24,497)
Dividend income	(84)	(261)	(19)
Interest received	65,775	38,639	33,593
Interest paid	(19,955)	(11,078)	(9,339)
Income tax paid	(8,341)	(2,792)	(1,288)
Profits from operations before changes in operating assets and liabilities	21,336	15,134	16,848

Consolidated statements of cash flows (continued)

Unit: THB million

	For the year ended December 31,		
	2020	2019	2018
Decrease (increase) in operating assets			
Interbank and money market items	25,540	42,464	(5,032)
Financial assets measured at fair value through profit or loss	3,505	-	-
Trading investments	-	(3,999)	(674)
Loans to customers	(23,733)	(9,525)	(50,469)
Properties for sale	4,699	778	(209)
Other assets	1,549	(534)	293
Increase (decrease) in operating liabilities			
Deposits	(24,659)	5,193	38,073
Interbank and money market items	(10,717)	(26,659)	3,917
Liabilities payable on demand	513	(1,857)	(160)
Financial liabilities designated at fair value through profit or loss	12	(1)	-
Provisions for liabilities	(2,728)	(1,746)	(297)
Other accrued expenses	109	(808)	(31)
Other liabilities	1,962	1,069	(2,094)
Net cash provided by (used in) operating activities	(2,612)	19,509	165

Consolidated statements of cash flows (continued)

Unit: THB million

	For the year ended December 31,		
	2020	2019	2018
Cash flows from investing activities			
Interest received	2,048	1,229	1,373
Dividend received	801	405	19
Purchase of investments measured at FVOCI	(160,923)	-	-
Proceeds from investments measured at FVOCI	186,172	-	-
Purchase of available-for-sale investments	-	(78,465)	(80,860)
Proceeds from sales of available-for-sale investments	-	111,714	76,805
Purchase of held to maturity debt securities	-	(18,617)	(12,900)
Proceeds from redemption of matured held to maturity debt securities	-	7,716	5,286
Purchase of general investments	-	(34)	-
Proceeds from sales of general investments	-	79	102
Purchase of investments in subsidiaries	(859)	(167,070)	-
Proceeds from reduction and sales of investment in a subsidiary	-	-	11,438
Purchase of premises and equipment	(1,877)	(1,250)	(1,068)
Purchase of intangible assets	(1,804)	(1,171)	(1,024)
Proceeds from disposals of premises and equipment	1,917	207	141
Net cash provided by (used in) investing activities	25,475	(145,257)	(688)
Cash flows from financing activities			
Proceeds from long-term borrowings	13	20	-
Repayments of long-term borrowings	(10)	(14)	(13)
Interest paid on long-term debts issued and borrowings	(2,324)	(1,850)	(1,320)
Cash receipts on debenture issued	14,945	59,661	4,868
Cash paid for redemption of debenture	(36,560)	(19,622)	(3,009)
Increase in issued and fully paid-up - ordinary shares	152	92,549	-
Expenses in relation to issuance of ordinary shares to employees	-	-	(1)
Dividend paid to equity holders of the Bank	(968)	(5,207)	(2,630)
Net cash provided by (used in) financing activities	(24,752)	125,537	(2,105)
Change in translation adjustments of foreign operations	(21)	(41)	(10)
Net decrease in cash	(1,910)	(252)	(2,638)
Cash at 1 January / 4 December for a subsidiary acquisition through business combination	23,853	24,105	17,872
Cash at 31 December	21,943	23,853	15,234

13.4 Key financial ratios

Consolidated financial statements	For the year ended December 31,		
	2020	2019	2018
Profitability ratio			
Gross profit margin (%) ⁽¹⁾	74.4	67.4	69.7
Net profit margin (%)	10.9	12.9	18.7
Return on equity (%)	5.1	6.5	12.4
Interest income (%) ⁽²⁾	4.2	4.4	4.4
Interest expenses (%) ⁽³⁾	1.2	1.5	1.5
Interest margin (%)	3.0	2.8	2.9
Return on investment (%)	1.8	4.3	19.7
Efficiency ratio			
Cost to income (%) ⁽⁴⁾	45.8	50.6	36.4
Net interest income to assets (%)	2.9	2.8	2.8
Return on assets (%)	0.5	0.7	1.4
Asset turnover (time)	0.05	0.06	0.07
Financial policy ratio			
Debt to equity ratio (time)	7.8	8.5	8.0
Loans to borrowings (%)	95.0	92.2	99.6
Loans to deposits (%)	101.4	99.6	105.6
Deposits to total liabilities (%)	85.6	84.1	81.9
Dividend payout ratio (%) ⁽⁵⁾	33.8	43.7	34.8
Capital adequacy ratio (%) ⁽⁶⁾	19.6	18.9	17.3
Asset quality ratio			
Allowance for doubtful debts to total loans (%)	3.8	3.3	4.8
Bad debt to total loans (%)	1.0	1.1	1.1
NPLs coverage (%) ⁽⁷⁾	134	120	152
NPLs to total loans (%) ⁽⁸⁾	2.5	2.3	2.8
Accrued interest receivable to total loans (%)	0.5	0.1	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 2020 is in accordance with the proposition to the Annual General Meeting of Shareholders in April 2021

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

(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

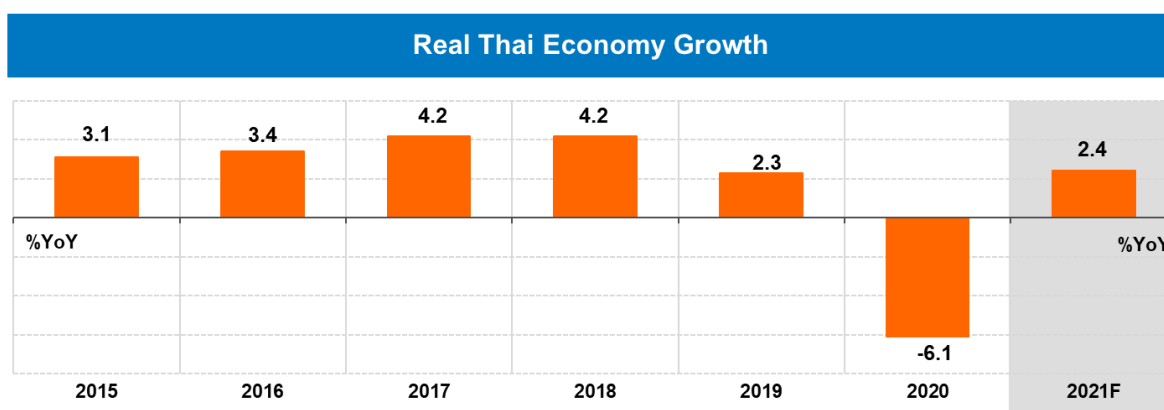
(9) Average earning assets = average loans + average interest-bearing interbank and money market items (assets) + average investments in debt securities

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

14. Management Discussion & Analysis**Economic conditions and outlook****Economic Outlook for 2021: A new round of domestic COVID-19 outbreak put pressure Thailand's recovering path**

In 2021, Thai economy is projected to continuously encounter uncertainty and challenges, particularly from the potential new rounds of COVID-19 outbreaks both in Thailand and other countries. Thai economy will thus possess a slower recovery path. Even though, with the positive factors of less restriction in outbreak controlling measures compared to that in last year and inoculations already taking place in several nations leading to the new round outbreak become less severe, there will be a further drag on already feeble economic recovering momentum and turn economy to a weaker recovering path. TMB Analytics accordingly forecasts that Thai economy in 2021 will steadily expand by 2.4 percent, of which its main driver would be government spending especially through continuously launched stimulus programs. This is either by extending the executing periods of launched programs last year, namely second phase copayment scheme, we travel together or by introducing new relief measures for broader range of impacted groups, amounting to more than 250 billion baht, such as those labors under 33 Article. It is estimated to sustain, but not accelerate, private consumption growth due to prevailing drags from softer purchasing powers and fragile labor market. The Bank of Thailand thus estimated that the new round of domestic outbreak would pose additional risk on more than 4.7 million labors, who are mostly in hotel businesses, retailers, and restaurants. Furthermore, Public investment is expected to continuously progress, mainly the EEC infrastructure projects which are about to begin the construction phase within this year. This would yield further supports on private investment to move in line with gradual rebound of production capacity in several industries with respect to higher demands in pandemic prevention products and working from home essentials. About merchandise exports, it is projected to turn positive number due to better global trade and investment surroundings. However, it will be with the limited extent of 3.4 percent growth figure owing to remaining uncertainty in global economic recovery and Thai baht appreciation trend. On the contrary, tourism sector would still encounter the main challenges in foreign tourist rebounds, which significantly depend on border openness in both Thailand and original countries, global COVID-19 situation development as well as effectiveness and availability of vaccine. For Thailand, there is an inoculating target of 50 percent population within 2021. Accordingly, inbound foreign tourists are projected to be only 3.5 million persons for 2021, causing employment and tourism-related businesses to remain in fragile condition.

Regarding financial market, the Monetary policy committee would maintain the policy rate at 0.5% throughout the year to provide supports for Thailand's economic recovery under high uncertainty and deteriorating qualities in household debts. For Thai baht, it is projected to continue in an appreciating trend due to US dollar' depreciation, foreign capital inflows and economic structural issues arising from persisting current account surplus partly due to low domestic investment. TMB Analytics thus projected Thai baht to move between 29.5 to 30.5 baht per dollar in 2021.



Source : NESDC and TMB Analytics

The adoption of Thai Financial Reporting Standard (TFRS9) and the impact of COVID-19 pandemic

Since 1 Jan 2020, TMB has initially adopted Thai Financial Reporting Standards (TFRS9). This new accounting standard has significant implications on asset classification and impairment, income recognition, and hedge accounting. Key changes are summarized as follows:

1. Classification and measurement of financial assets and financial liabilities

- Financial assets are measured at amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification is based on cash flow characteristics of the financial asset and the business model in which they are managed.
- Financial liabilities are measured at amortized cost and fair value through profit or loss (FVTPL). A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

2. Impairment model of financial assets and contract assets

- Impairment model applied to the financial instruments that are not measured at FVTPL which are financial assets that are debt instruments, lease receivables and loan commitments and financial guarantee contracts issued.
- Loans are classified into 3 stages based on changes in credit quality since initial recognition.
 - Stage 1 (performing): 12-month ECL (expected credit loss)
 - Stage 2 (under-performing): Lifetime ECL not credit impaired
 - Stage 3 (non-performing): Lifetime ECL credit impaired

3. Income recognition

- Step-up loans are measured at amortized cost using the effective interest rate (EIR) which reflected the recognition of interest income and interest expense.
- Front end fee income is recognized as interest income on amortization basis.

4. Hedge accounting

- There are 3 hedge accounting models and the type of model applied depends on the hedged exposures consisting of a fair value exposure, a cash flow exposure or a foreign currency exposure on a net investment in a foreign operation.

The impact of COVID-19

At the onset of the COVID-19 pandemic, the Bank has provided its relief measure for all customer segments in the form of payment holiday for principal and interest, a reduction of interest payment, extension of installment period, and soft loan facilities. At the end of December 2020, approximate 15% of total loan portfolio was under the relief program which decreased from 20% as of Sep 20 and 40% as of Jun 20. For those customers remaining in the relief program, most of them were in the 2nd phrase of relief measures. As of Dec 2020, commercial customer under forbearance accounted for 25% of total commercial loans and retail customers accounted for 9% of total retail loans respectively. According to the new round of pandemic outbreak, TMB continues to be vigilant and keeps monitoring customers to ensure the Bank's asset quality as well as support customers through pre-emptive debt restructuring to ensure that customers can recover in the long run.

In relation to financial reporting, the Bank and its subsidiaries have adopted accounting relief on the use of new effective interest rate (EIR) at the time contracts are changed. This has been applied for all customers under relief program.

As of the COVID-19 pandemic is ongoing, management considered the impact of the COVID-19 impact to the financial assets based on available information and the potential impact on the initial ECL estimates. As at 31 December 2020, management provided additional ECL as management overlay especially for the customers under relief programs and impact from economic condition. To maintain prudent management, The Bank's provisioning level is kept at an elevated level with sufficient capital cushion and is continuously adjusted to reflect changing environments. Given the second wave of pandemic in Thailand, 2020 provision was set at THB24,831 million, or equivalent to a credit cost of 179 bps. The higher provisioning also reflected weakening macroeconomic variable during the economic downturn. Moreover, capital and liquidity positions were at strong level under COVID-19 situation and well above regulatory requirement.

In terms of employee, TMB managed our employees the protocol by at least 50% of total headcount to work from home according to BCP plan and social distancing policy. Additionally, the Bank also provided COVID insurance to TMB and Thanachart staffs and family. TMB donated 6 million Baht to the Office of Prime Minister aiding to support COVID-19 and 8,000 face shields are to be donated to hospitals. Fund Raising from the Merged Bank employees and public for COVID-19 relief. All the donated money will be transferred to government hospitals under Punboon to help Thai people affected from COVID-19.

Discussion of operating performance

Thai economy for the year 2020 contracted drastically amid the spread of COVID-19. The pace of recovery remained sluggish. TMB continued to grow loan and deposit very selectively to ensure on portfolio quality. Quality-hybrid deposit grew well. NII and NIM improvement was in line with Bank's direction to optimize its balance sheet synergy from post-merger. The operating efficiency and cost synergy realization was reflected by higher PPOP. TMB remained prudence with elevated ECL for the uncertainties ahead while NPL ratio was low at 2.50%.

Quality-hybrid deposit continued to grow, boosted by No-Fixed and Ultra Saving: TMB continued to focus on deposit-led strategy and build strong deposit franchise as well as proactively optimize deposit mix by running high-cost deposit with CASA and quality-hybrid deposits. As of December 2020, total deposit contracted by 1.8% YTD to THB1,373 billion. Retail flagship product continued its positive momentum, led by No-Fixed, Ultra-saving and TMB All Free respectively while TD and Certificate Deposit significantly dropped, in line with balance sheet optimization. As a result, retail deposit represented 76% from 66% of total deposit as of Dec 2019. With strong retail franchise and the substantial growth in hybrid deposits reflected capability to retain and attract affluent segment thru our flagship products.

Continued to focus on quality loan portfolio against economic headwinds: Amidst the slow economic activities recovering from the COVID-19 pandemic and the new round of virus outbreak, TMB continued to grow loan very selectively. Total loan as of December 2020, therefore, was stable YTD at THB1,393 billion, in line with Merged Bank's B/S optimization strategy to run down low yield portfolio and improve loan quality. Retail loans marginally declined, backed by unsecured loan and credit card while hire purchase was relatively stable YTD. However, the Bank saw a recovery sign in new auto loan booking especially in new car segment in this quarter. Mortgage continued its moderate growth pace. Corporate loans grew YTD primarily from government loan granted in 4Q20. Post-merger loan portfolio was well-diversified and shifted to retail lending, given retail loans represented 56% of total portfolio and around 90% of retail loans are secured lending.

Solid core operating profit, driven by top-line growth: Given the challenging economic environment from COVID-19, TMB reported 12M20 net interest income of THB53,805 million, significantly rose by 100.3% YoY, thanks to recognition of NII from TBANK and balance sheet synergy realization while NIM improved to 3.00% in 2020, resulting from higher yield on earning assets from consolidation with TBANK and optimize its balance sheet. Non-NII increased by 15.7% YoY to THB14,986 million mainly from the consolidation with TBANK. Total operating income, therefore, rose by 72.8% YoY to THB68,791 million in 2020.

With operating efficiency and cost synergy realization, PPOP improved: With the significant progress in balance sheet optimization and cost synergy realization, core operating profit remains a positive momentum amid the pressures on income generation from COVID-19 pandemic. Operating expenses were well-managed with the major cost saving in HR cost and branch rationalization after consolidation with TBANK. Cost-to-income ratio excluded purchase price allocation (PPA) impact improved to 45% which achieved financial target in 2020. As a result, Pre-Provision Operating Profit (PPOP), improved by 89.6% YoY to THB37,266 million in 12M20.

Higher expected credit loss was for prudent management and uncertainty ahead: With higher PPOP, TMB continued its prudent management and decided to add more ECL in preparation for the uncertainties arising from COVID-19 outbreak and pressure on asset quality from the post financial relief program. In total, TMB set aside expected credit loss of THB24,831 million in 2020. The Bank's provisioning is kept at an elevated level with sufficient capital cushion and is continuously adjusted to reflect changing environments. Stage 3 loans, as a result, totaled THB 39,594 million, representing NPL ratio of 2.50%. TMB continued to de-risk loan portfolio to clear up headroom ahead for economic uncertainties. After provision, TMB reported THB10,112 million of net profit in 2020. The figure increased by 40.0% YoY and represented a return on equity (ROE) of 5.1%.

Analysis of operating performance for the accounting year as of 31 December 2020, in comparison to 31 December 2019 is as follows;

Statement of comprehensive income

(THB million)	FY2020	FY2019	% YoY
Interest income	72,321	39,837	81.5%
Interest expenses	18,515	12,972	42.7%
Net interest income	53,805	26,865	100.3%
Fees and service income	15,921	11,343	40.4%
Fees and service expenses	5,346	3,245	64.7%
Net fees and service income	10,575	8,098	30.6%
Other operating income	4,411	4,858	-9.2%
Non-interest income	14,986	12,956	15.7%
Total operating income	68,791	39,821	72.8%
Total other operating expenses	31,623	20,674	53.0%
Impairment loss on loans and debt securities	-	10,337	-100.0%
Expected credit loss	24,831	-	NA
Profit before income tax expense	12,338	8,810	40.0%
Income tax expense	2,223	1,588	40.0%
Profit for the period	10,115	7,222	40.0%
Profit to non-controlling interest of subsidiaries	3	0	NA
Profit to equity holders of the Bank	10,112	7,222	40.0%
Other comprehensive income	310	1,287	-75.9%
Total comprehensive income	10,424	8,509	22.5%
Basic earnings per share (THB/share)	0.1049	0.1485	-29.4%

Note: Consolidated financial statements

14.1 Operating income

In 2020, TMB generated THB68,791 million of total operating income which increased 72.8% from last year because the bank fully recognized TBANK's operating income this year. Net interest income increased by 100.3% from the same period last year, resulting from the recognition of interest on hire purchase and financial lease from TBANK while non-interest income increased YoY due to the consolidation with TBANK. 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

(THB million)	FY2020	FY2019	% YoY
Interest income	72,321	39,837	81.5%
Interest on interbank and money market items	1,922	1,965	-2.2%
Investments and trading transactions	109	131	-16.7%
Investments in debt securities	1,920	1,555	23.5%
Interest on loans	45,633	34,334	32.9%
Interest on hire purchase and financial lease	22,734	1,823	1147.4%
Others	2	30	-93.7%
Interest expenses	18,515	12,972	42.7%
Interest on deposits	11,553	6,896	67.5%
Interest on interbank and money market items	538	781	-31.1%
Contributions to the Deposit Protection Agency	3,445	3,371	2.2%
Interest on debt issued and borrowings	2,928	1,900	54.1%
Borrowing fee	37	22	71.6%
Others	14	2	812.1%
Net interest income (NII)	53,805	26,865	100.3%

Note: Consolidated financial statements

➤ Interest income

As of 31 December 2020, total interest income of the Bank and its subsidiaries was THB72,321 million, rose by 81.5% from 2019. Such increase was due largely to the recognition of interest on hire purchase and financial lease from TBANK and higher interest income on loans. Key items are as follows.

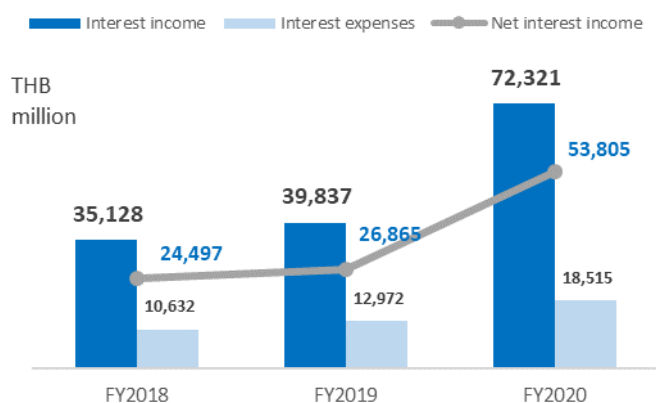
- Interest on loans rose by 32.9% YoY to THB45,633 million from previous year
- Interest on hire purchase and financial lease rose by 1,147.4% YoY to THB22,734 million due mainly to the fully consolidation of TBANK.
- Interest on interbank and money market items dropped by 2.2% YoY to THB1,922 million.
- Interest on investments in debt securities increased by 23.5% YoY to THB1,920 million.

➤ Interest expense

At the end of 2020, total interest expenses of the Bank and its subsidiaries was THB18,515 million, an increase of 42.7% from last year, due mainly to the substantial inflow of retail hybrid deposit reflected the Bank's strategy to acquire quality deposits and build strong deposit franchise. Details are shown below.

- Interest expense on deposits increased by 67.5% YoY to THB11,553 million mainly from deposit expansion.
- Interest expense on interbank and money market items fell by 31.1% YoY to THB538 million.
- Interest on debt issued and borrowing rose by 54.1% YoY to THB2,928 million.

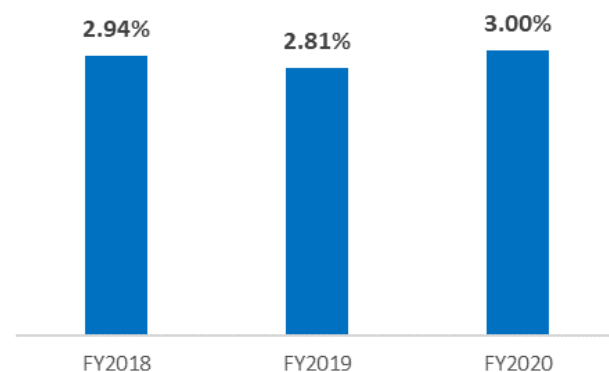
Net interest income (NII)



Note: Consolidated financial statements

Net interest income recorded at THB53,805 million, or rose by 100.3% YoY, due mainly to recognition of TBANK interest income for the whole year

Net interest margin (NIM)



Note: Consolidated financial statements

Net interest margin (NIM) expanded by 19 bps to 3.00% contributed by higher yield on earning assets from consolidation with TBANK and balance sheet synergy realization despite the multiple rate cuts during the year.

14.1.2 Non-interest income

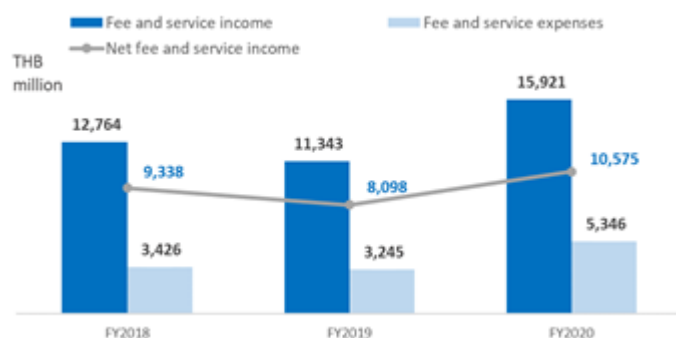
(THB million)	FY2020	FY2019	% YoY
Fees and service income	15,921	11,343	40.4%
Acceptance, Aval & Guarantee	566	362	56.0%
Other fee and service income	15,355	10,981	39.8%
Fees and service expenses	5,346	3,245	64.7%
Net fees and service income	10,575	8,098	30.6%
Gains on financial instrument designated at fair value through profit or loss	1,726	1,506	14.6%
Gains on investments, net	678	1,956	-65.3%
Share of profit from investment using equity method	363	324	11.8%
Gains on sale of properties foreclosed, assets & other assets	222	417	-46.7%
Dividend income	84	26	227.7%
Others	1,338	629	112.6%
Non-interest income	14,986	12,956	15.7%

Note: Consolidated financial statements

In 2020, total non-interest income of the Bank and its subsidiaries was THB14,986 million, an increase of 15.7% over-year, driven mainly by the higher net fee and service income. Key items are as follows.

- Net fees and service income was reported at THB10,575 million, rose by 30.6% from last year, mainly attributed to growth in bancassurance fees from auto businesses and non-auto business and mutual fund fees, outweighed the lower fee income in loan related fee.
- Share of profit from investment using equity method was recorded at THB363 million.

Net fees and service income



Note: Consolidated financial statements

14.1.3 Non-interest expenses

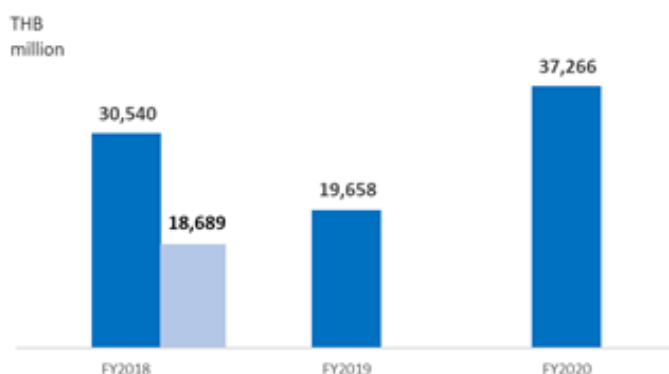
(THB million)	FY 2020	FY2019	% YoY
Employee expenses	16,536	9,629	71.7%
Directors' remuneration	66	48	37.0%
Premises and equipment expenses	6,171	3,598	71.5%
Taxes and duties	1,799	1,358	32.5%
Other expenses	7,051	6,042	16.7%
Non-interest expenses	31,623	20,674	53.0%

Note: Consolidated financial statement

At the end of 2020, total non-interest expenses of the Bank and its subsidiaries was THB31,623 million, a rise of 53.0% from last year, due to;

- Employee expenses grew by 71.7% YoY to THB16,536 million which largely came from the recognition of employee expenses of TBANK after the consolidation with TBANK.
- Premises and equipment expenses rose by 71.5% YoY to THB6,171 million.
- Other expenses rose by 16.7% YoY to THB7,051 million, due owing to the recognition of other expenses of TBANK, offsetting lower marketing expense from a slowdown in business activities during COVID-19 outbreak.

14.1.4 Pre-provision operating profit (PPOP)



Note: Consolidated financial statements

The pre-provision operating profit of the Bank and subsidiaries was THB37,266 million, increased by 89.6% YoY.

14.1.5 Expected credit loss (ECL)

TMB remained prudent in its operation and asset quality management. In 2020, impairment loss on loans and securities was THB24,831 million, compared to THB10,337 million in the same period last year. The higher provision reflected the stringent forward-looking Expected Credit Loss (ECL) models and Management Overlay to cover macro downside risks and pressure on asset quality from the post financial relief program.

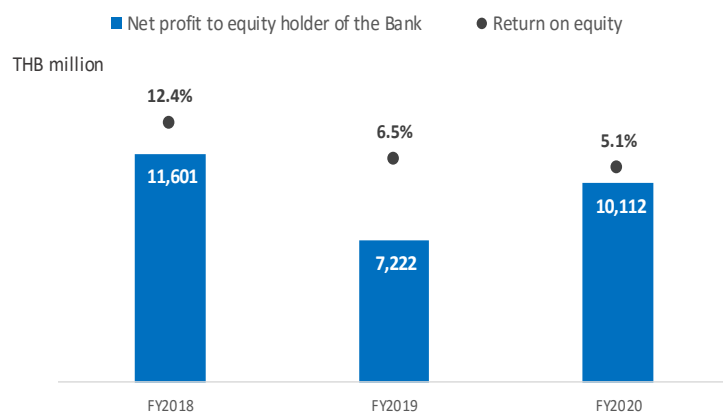
14.1.6 Profit before income tax

The Bank and its subsidiaries recorded profit before income tax at THB12,338 million, increased by 40.0% compared to the previous year. Income tax expense in 2020 was THB 2,223 million, an increase of 40.0% YoY.

14.1.7 Net profit

After the provision and tax, net profit to equity holders of the Bank was THB10,112 million, grew by 40.0% from the same period of last year. The Bank generated ROE of 5.1%.

Net profit and Return on equity (ROE)



Note: Consolidated financial statements

Financial Position

The Bank aims to maintain strong financial position as it is a foundation for quality and sustainable growth in the long run. To achieve this, the Bank focuses on Balance Sheet Optimization in order to create the optimal financial structure for sustainable returns of the merged bank. During the time of an economic downturn, the Bank carefully managed and closely monitored asset quality by building an appropriate expected credit loss level (ECL) and accelerating NPL resolution through proactive write-off and sales. This was to prepare headroom of the balance sheet to deal with unforeseen future risks. Liquidity was also well-managed, and capital was ensured at the strong level. Key areas of 2020 financial position are as follows.

14.2 Selected financial position

Unit: THB million	Dec-20	Dec-19	%YTD
Cash	21,943	23,853	-8.0%
Interbank and money market items, net	211,185	236,311	-10.6%
Financial assets measured at fair value through profit or loss	3,788	-	N/A
Derivative assets	11,959	10,399	15.0%
Investments, net	134,351	166,265	-19.2%
Investments in subsidiaries and associate, net	8,599	8,953	-4.0%
Total loans to customers	1,392,925	1,392,225	0.1%
Add accrued interest receivables and undue interest receivables	8,533	1,883	353.2%
Less allowance for expected credit loss	52,978	-	N/A
Less allowance for doubtful accounts & revaluation allowance for debt restructuring	-	45,477	-100.0%
Total loans to customers and accrued interest receivables, net	1,348,480	1,348,630	0.0%
Properties for sale, net	6,037	4,810	25.5%
Premises and equipment, net	24,039	23,642	1.7%
Goodwill and other intangible assets, net	22,546	22,363	0.8%
Deferred tax assets	1,980	1,496	32.4%
Other assets, net	13,425	11,468	17.1%
Total Assets	1,808,332	1,858,190	-2.7%
Deposits	1,373,408	1,398,112	-1.8%
Interbank and money market items	75,909	86,626	-12.4%
Financial liabilities designated at fair value through profit or loss	432	418	3.4%
Debts issued and borrowings, net	88,965	108,835	-18.3%
Deferred revenue	20,885	18,186	14.8%
Other liabilities	43,984	51,201	-14.1%
Total Liabilities	1,603,582	1,663,379	-3.6%
Equity attributable to equity holders of the Bank	204,713	194,777	5.1%
Non-controlling interest	37	35	7.2%
Total equity	204,750	194,811	5.1%
Total liabilities and equity	1,808,332	1,858,190	-2.7%
Book value per share (Baht)	2.12	2.02	5.0%

Note: Consolidated financial statements

14.2.1 Assets

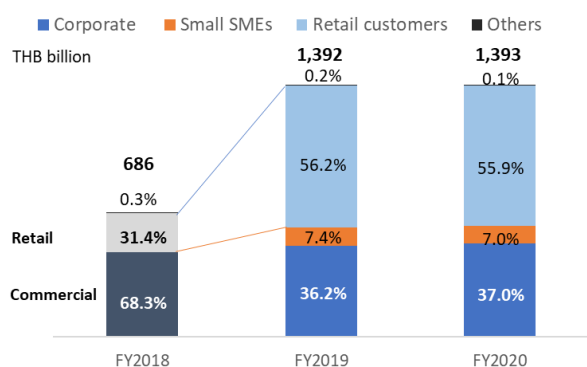
As of 31 December 2020, total assets on consolidated basis amounted to THB1,808,332 million, a decrease of 2.7% from 31 December 2019 (YTD) mainly due to interbank and money market and investment. Details are as follows.

1) Total loans to customers

As of Dec-20, TMB recorded total loans to customers (less deferred revenue) on consolidated basis of THB1,392,925 million, stable YTD. With balance sheet synergy initiative, the Bank optimized loan mix by reducing low-yielding loans and replacing with retail high-yielding loans. However, amid the situation of COVID-19 pandemic and sluggish economic recovery, the Bank grew loans selectively resulting in relatively flat loan growth this year. Details are as follows.

- Retail lending on consolidated basis contracted by 0.6% YTD. The YTD decline was mainly due to unsecured loans and credit card while hire purchase remained flat. However, the Bank saw a recovery sign in new auto loan booking especially in new car segment in the last quarter of 2020. Mortgage continued its moderate growth rate of 0.4% YTD as property market continued to recover at a gradual pace.
- Corporate lending on consolidated basis increased 2.2% YTD mainly from government loan granted in 4Q20 while small SME loans remained contraction against unfavorable business environment. However, the Bank continued to optimize its balance sheet with an aim to run down low yield portfolio and improve loan quality of the Merged Bank.

Total loan breakdown by segment



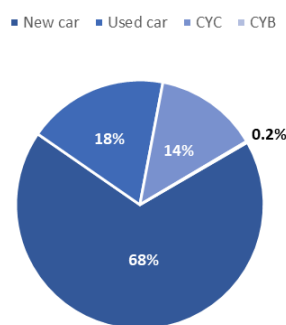
Note: Consolidated financial statements

In terms of loan breakdown by customer segments, the loan portfolio has diversified and shifted to retail segment since the merger. As of 31 December 2020, retail loans accounted for 56% while corporate loans were 37% and small SMEs were 7% of total portfolio.

In terms of key products, 29% of total loan was hire purchase; followed by mortgage of 22%, term loan of 18%, working capital (OD) of 18%, trade finance of 5%, personal loan & credit card of 4% and others 3%.

For hire purchase loan as of 31 December 2020, the portfolio consisted of new car 68%, used car 18%, cash your car (CYC) 14%, cash your book (CYB) of 0.2% respectively.

Hire purchase portfolio breakdown



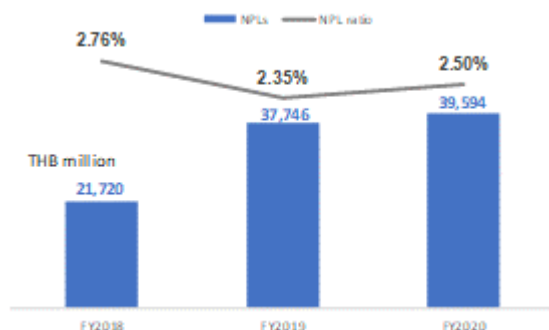
Note: Consolidated financial statements

Stage 3 loans/Non-performing loans (NPLs), excluded accrued interest receivables: According to the new accounting standard under TFRS9 which implemented on 1 January 2020, non-performing loans is classified as stage 3 loans.

The Bank has put priority on asset quality monitoring and continued to manage NPLs with prudence. As of 31 December 2020, Stage 3 loans (NPLs), excluded accrued interest receivables on consolidated basis, was reported at THB39,594 million which increased from THB37,746 million as of 31 December 2019. Stage 3 loans (NPLs) on bank-only basis amounted to THB22,005 million, increased from THB18,150 million at the end of 2019. However, the Bank will proactively manage flow to stage 3 and continued to resolve stage 3 loans through sales, write-offs and the pre-emptive debt restructuring to maintain NPL ratio at relatively low level in preparation for the unforeseen headwinds in the future. In 2020, the Bank wrote off NPLs amounting to approximately THB14 billion and sold roughly THB7 billion of NPLs to prepare headroom against uncertainty.

As of 31 December 2020, NPL ratio on consolidated basis was recorded at 2.50%, compared with 2.35% at the end of 2019. Meanwhile, NPL ratio on bank-only basis stood at 2.38% when compared with 2.33% as of 31 December 2019.

Non-performing loans and NPL ratio



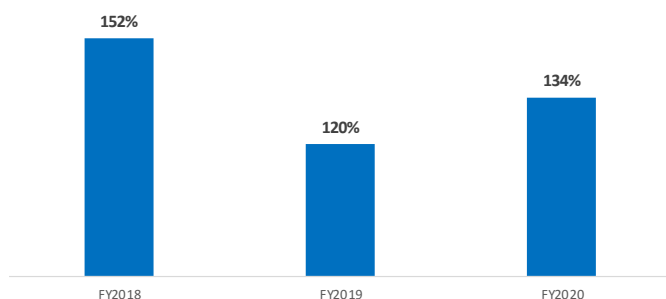
Note: Consolidated financial statements

➤ Allowance for loan losses

As of 31 December 2020, the Bank and its subsidiaries reported the allowance for expected credit loss at THB52,978 million, which rose by 16.5% YoY due to the additional provision buffer set throughout the year to preemptively limit future downside risks from COVID-19 outbreak and debt relief program.

Given the current unfavorable economic conditions and heightened uncertainty around COVID-19, the Bank has proactively reviewed its loan portfolio and set aside management overlay to cover both Probability of default (PD) and Loss given default (LGD) shift. Consequently, allowance for expected credit loss was set at the prudent level, preparing for the future uncertainties. Moreover, the Bank closely monitors customers under debt relief program and offers further assistance to those in need after the resurgence of COVID-19 cases.

Coverage ratio



Note: Consolidated financial statements

As a result of higher allowance for ECL, coverage ratio on consolidated basis was recorded at 134%, improving from 120% as of Dec-19. TMB consistently maintained coverage ratio at prudent level.

2) Interbank and money market

As of 31 December 2020, Net interbank and money market item decreased by 10.6% YTD to THB211,185 million, due mainly to liquidity management.

3) Investment

Under TFRS9, investment items are classified into 3 categories; fair value to profit and loss (FVTPL), fair value to other comprehensive income (FVOCI) and measured at amortized cost. As of 31 December 2020, investments were classified as follows:

(THB million)	31 Dec 2020	31 Dec 2019
Financial assets measured at FVTPL	3,788	N.A.
Investments in debt securities measured at amortized cost	621	N.A.
Investments in debt securities measured at FVOCI	132,213	N.A.
Investments in equity securities measured at FVOCI	1,517	N.A.
Net Investment*	134,351	N.A.
Total Investment	138,139	N.A.

* Net investments comprised of investments measured at amortised cost and measured at FVOCI

Note: Consolidated financial statements

4) Properties for sales

As of 31 December 2020, net properties for sale increased to THB6,037 million, increasing by 25.5% YoY. The change was still in line with the business plan.

14.2.2 Liabilities

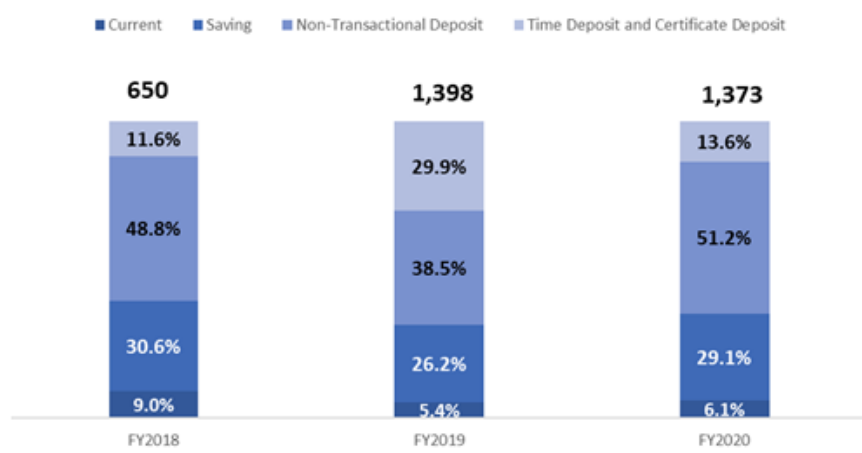
As of 31 December 2020, total liabilities on consolidated basis was reported at THB1,808,332 million which declined by 2.7% YTD. Details are shown below;

1) Deposits

As of 31 December 2020, the Bank and its subsidiaries reported total deposits on consolidated basis of THB1,373,408 million which dropped 1.8% from the end of 2019, driven by reduction in TD & Deposit certificate, partly offsetting the increase in hybrid deposits. This was in line with the Bank's balance sheet synergy initiatives to optimize deposit mix.

TMB continued to focus on deposit-led strategy and build strong deposit franchise as well as proactively optimize deposit mix. After the merger with TBANK, the Bank continued to run down high-cost deposit and replace with CASA and quality-hybrid deposits. Overall, the deposit was in line with such a direction. The Bank's high-yield deposit products continued to grow despite low interest rate environment and interest rate reduction. This was attributed to TMB No-Fixed which expanded noticeably by 42.6% YTD while Ultra Saving also rose further by 24.0% YTD. The Bank's flagship retail transactional deposit, TMB All Free, also grew on track at 23.1% YTD. Nonetheless, Time Deposit and Certificate Deposit significantly dropped by 55.4% YTD, in line with balance sheet optimization by replacing high cost deposit with hybrid products. With strong retail franchise and the substantial growth in hybrid deposits reflected capability to retain and attract affluent segment thru our flagship products.

Deposits breakdown by products



Note: Consolidated financial statements

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

As of 31 December 2020, total borrowings of the Bank and its subsidiaries recorded at THB88,965 million which contracted by 18.3% YTD. The YTD change was resulted from the redemption of TBANK's bond, amounting to THB31 billion and TMB's EUR bond, amounting to THB5 billion, offsetting the issuance of TMB's EUR bond, amounting to THB15 billion.

3) Interbank and money market

Net interbank and money market item decreased by 12.4% YTD to THB75,909 million, mainly due to the Bank's liquidity management. The Bank strategically managed excess liquidity by shifting some of interbank to short-term government loan in 4Q20.

14.2.3 Shareholder's equity

As of 31 December 2020, the consolidated equity was THB204,750 million which rose by 5.1% YTD mainly due to the accumulation of the net profit during the period.

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) decreased by 5.2% from THB 273,503 million as of December 31, 2019 to THB 259,309 million as of December 31, 2020.

	Consolidated		Bank only	
	2020	2019	2020	2019
	(in million Baht)			
Avals to bills	240	336	159	243
Guarantees of loans	2,382	2,386	38	38
Liability under unmatured import bills	1,935	2,392	1,878	2,226
Letters of credit	13,358	13,720	13,042	12,789
Other commitments				
- Other guarantees	63,324	63,368	63,324	63,368
- Amount of unused bank overdrafts	105,942	104,962	86,104	83,245
- Committed line	42,892	44,371	78,239	4,844
- Others ⁽¹⁾	29,236	41,968	17,029	23,028
Total	<u>259,309</u>	<u>273,503</u>	<u>259,813</u>	<u>189,781</u>

⁽¹⁾ As at 31 December 2020, this included the financial assets accepted as collateral that had been sold or pledged amounting to Baht 15,924 million (2019: 22,463 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)	2020	2019	2018
Net Liquid Assets	291,570	339,803	137,967
Loan to Deposit (%)	101.4	99.6	105.6
Net Liquid Assets to Total Assets	16.1	18.3	15.5
Net Liquid Assets	2020	2019	2018
Cash on Hand	21,943	23,853	15,234
Interbank and Money Market Assets	211,185	236,311	113,522
Investment	134,351	166,265	73,477
Deduct interbank and Money Market Liabilities	75,909	86,626	64,267
Total	291,570	339,803	137,967

Liquidity (Consolidated)

As of December 31, 2020, TMB had net liquid assets of THB 291,570 million, dropped from THB 339,803 million as of December 31, 2019 resulting from the proactive deposit cost management strategy by reducing high cost deposit to be in line with post-merger plan to optimize balance sheet.

14.5 Capital adequacy

The Bank maintained high capital ratios under Basel III. As of 31 December 2020, Capital Adequacy Ratio (CAR) on consolidated basis was at 19.5% while CET1 stayed at 14.4% and Tier 1 ratio was at 15.4%. Such levels were well above the Bank of Thailand's minimum requirement (including conservation buffer) of 11.0%, 7.0% and 8.5% of CAR, CET 1 and Tier 1 capital ratio, respectively. (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, continue leading in auto loan and lending products, build sustainable and recurring non-interest income, optimize capital utilization and liquidity management, enhance digital capability and solutions, and capture synergy realization. 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. COVID impact, 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 expenses 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 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 merger with Thanachart Bank, a leading automotive lending bank in Thailand. This move has created 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.