

# Bangkok Bank Public Company Limited

## Management Discussion and Analysis

for the Quarter and Six-month Period Ended June 30, 2020

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## **Management Discussion and Analysis**

### **Overview of the Economy and Banking Industry**

#### *Thai Economy in the Second Quarter of 2020*

The Thai economy in the second quarter of 2020 contracted more severely than in the first quarter as a result of strict measures implemented worldwide to contain the Coronavirus Disease 2019 (Covid-19) pandemic which disrupted economic activities in many sectors. Tourism was heavily affected by airspace and border closures, while merchandise exports fell sharply as demand from major trading partners fell, impacting both manufacturing production and domestic demand. Private consumption plummeted due to increasing unemployment, lower household income and higher household debt. Some business sectors have delayed investments in order to maintain some liquidity, and this, coupled with high excess production capacity, resulted in a contraction in private investment. However, public spending continued to grow from current expenditure through disbursements for public health measures to prevent and contain the Covid-19 outbreak, as well as from ongoing infrastructure investment.

Headline inflation in the second quarter of 2020 was -2.66 percent, down from 1.08 percent in the same quarter last year and below the Bank of Thailand's (BOT) target range of 1-3 percent. Core inflation was 0.13 percent, down from 0.54 percent in the same quarter last year. The average exchange rate was 31.94 THB/USD, weaker than the 31.59 THB/USD and 31.30 THB/USD from the same period last year and the previous quarter respectively.

The Monetary Policy Committee (MPC) lowered the policy interest rate from 0.75 to 0.50 percent at its meeting on May 20, 2020 (previous cuts were made on February 5 and at an emergency meeting on March 20). The global economy has been impacted by the Covid-19 pandemic, resulting in a downward revision for Thailand's GDP forecast. The outbreak disrupted employment and increased financial system vulnerabilities. However, at its meetings on June 24 and August 5, the MPC resolved to maintain the policy interest rate at 0.50 percent. Though the economy is expected to contract more than in previous assessments, it is also likely to gradually recover in the second half of 2020. The MPC deemed the easing in monetary policy since the beginning of the year, as well as additional fiscal, financial and credit measures, will help mitigate the effects of the pandemic and support economic recovery once the outbreak is contained. Looking forward, the Thai economy will continue to face a high level of uncertainty so the MPC is standing ready to use additional appropriate monetary policy tools if needed.

The BOT has forecast an -8.1 percent for the Thai economy this year, a sharper contraction than the previous projection of -5.3 percent, due to lockdown measures for the strong containment of Covid-19 both in Thailand and abroad, disrupting economic activities across many business sectors, including tourism and exports. This has led to lower incomes and employment and affected private consumption. Private investment also contracted due to a decline in both domestic and foreign demand. Meanwhile, businesses must maintain liquidity to cope with future uncertainty. Against this backdrop, government spending will play an important role in supporting the economy through relief measures to help mitigate the impact of the Covid-19 pandemic, while infrastructure investment continues to proceed. The economy is expected to gradually recover in the second half of the year as the government gradually relaxes pandemic control measures and implements stimulus measures to boost domestic travel and demand.

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*Thai Banking Industry*

In the second quarter, the commercial banking system in Thailand faced challenges as the Covid-19 outbreak affected economic and financial systems. At the end of June 2020, deposits grew at a higher rate than loans and, as a result, the ratio of loans to deposits declined from the end of last year. The ratio of non-performing loans (NPL) to total loans is likely to increase from the end of last year and will continue to grow. As a result, commercial banks will have to set aside substantial provisions to accommodate the uncertainties caused by the Covid-19 pandemic.

The BOT's Senior Loan Officer Survey indicated that in the second quarter of 2020, credit demand from business sectors improved from the previous quarter, due mainly to loan demand for working capital and mainly from wholesale and retail businesses. This was due partly to the fact that businesses had less working capital during the Covid-19 lockdown, while fundraising by large corporates from bond markets declined. The improvement in credit demand also came from the government's measures to provide loans to small and medium sized enterprises (SME) as well as loan interest rate cuts. However, loan demand for investment purposes by business sectors tended to decline. Demand for consumer loans declined in all categories due to the impact of pandemic control measures, especially auto-leasing loans, as labor incomes fell in the tourism and agricultural sectors. Demand for credit card loans and other consumer loans also declined in line with lower consumer spending. Looking forward, financial institutions expect increasing demand for loans from large corporates and SME, especially for working capital. However, demand for loans may slow as some businesses have already applied for loans to maintain liquidity in the previous quarter. Demand for consumer loans is likely to increase from the gradual relaxation of pandemic control measures, which is likely to stimulate spending and, consequently, demand for credit card loans and other consumer loans is likely to pick up. Meanwhile, auto-leasing loans will be driven by demand for automobiles from groups that have not been badly affected by the Covid-19 situation, and from the purchases during the motor show in July.

In 2020, commercial banks accelerated their assistance to debtors, in particular for SME. The BOT has provided a six-month loan payment holiday for both principal and interest for all SME with a credit line not exceeding Baht 100 million per each financial institution to maintain their liquidity. This loan payment holiday granted under the BOT's measures will not jeopardize the credit history of debtors. Additionally, soft loan options were given to SME with a credit line not exceeding Baht 500 million per each commercial bank, with an interest rate of not more than 2.00 percent annually for two years and being interest-free for the first 6 months.

Commercial banks continued to place greater emphasis on liquidity management with a focus on restructuring their deposits and appropriately managing costs by increasing the proportion of CASA and maintaining liquid assets to cope with a severe liquidity situation in compliance with BOT guidelines including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The BOT has granted a temporary relaxation on liquidity, adjusting the LCR and NSFR to lower than 100 percent until 31 December 2021, in order to reduce commercial banks' burdens when assisting customers during the Covid-19 pandemic.

The adoption of TFRS 9 since January 2020 requires financial institutions to set aside provisions or expected credit losses by considering economic conditions in the past, present and future under various assumptions and circumstances. Meanwhile, the impact of the Covid-19 outbreak on the Thai and global economies has caused a dramatic slowdown in economic activities in many sectors and may lead to an economic recession. These situations may impact the commercial banking system's loan quality, so commercial banks will continue to focus on managing loan quality. However, with a relatively high level of capital and the regular setting aside of additional provisions, commercial banks will be able to handle credit demand and the economic volatility caused by Covid-19.

## Overall Picture of the Bank and its Subsidiaries

Million Baht

Item	Quarter			Change (%)		H1		Change (%)
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	
Net profit <sup>/1</sup>	<b>3,095</b>	7,671	9,347	(59.7)%	(66.9)%	<b>10,765</b>	18,375	(41.4)%
Earnings per share (Baht)	<b>1.62</b>	4.02	4.90	(59.7)%	(66.9)%	<b>5.64</b>	9.63	(41.4)%
Net interest margin	<b>2.13%</b>	2.52%	2.36%	(0.39)%	(0.23)%	<b>2.31%</b>	2.42%	(0.11)%
Net fees and service income to operating income ratio	<b>17.4%</b>	24.1%	21.2%	(6.7)%	(3.8)%	<b>20.4%</b>	22.5%	(2.1)%
Cost to income ratio	<b>46.5%</b>	43.1%	45.3%	3.4%	1.2%	<b>45.0%</b>	44.0%	1.0%
Return on average assets <sup>/1</sup>	<b>0.35%</b>	0.93%	1.19%	(0.58)%	(0.84)%	<b>0.62%</b>	1.18%	(0.56)%
Return on average equity <sup>/1</sup>	<b>2.92%</b>	7.32%	8.84%	(4.40)%	(5.92)%	<b>5.07%</b>	8.81%	(3.74)%

<sup>/1</sup> Attributable to owners of the Bank

Million Baht

Item	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Loans	<b>2,353,848</b>	2,115,950	2,061,309	11.2%	14.2%
Deposits	<b>2,852,295</b>	2,514,331	2,370,792	13.4%	20.3%
Loan to deposit ratio	<b>82.5%</b>	84.2%	86.9%	(1.7)%	(4.4)%
Non-performing loan (Gross NPL) <sup>/1</sup>	<b>108,604</b>	85,240	79,149	27.4%	37.2%
Gross NPL to total loans ratio <sup>/1</sup>	<b>4.1%</b>	3.5%	3.4%	0.6%	0.7%
Allowance for expected credit losses to NPL ratio <sup>/1</sup>	<b>170.5%</b>	203.9%	220.2%	(33.4)%	(49.7)%
Total capital adequacy ratio	<b>16.55%</b>	18.48%	20.04%	(1.93)%	(3.49)%

<sup>/1</sup> Including interbank and money market lending

At the end of June 2020, the Bank's loans amounted to Baht 2,353,848 million, an increase of 14.2 percent from the end of 2019. When excluding Permata, loans grew by 3.4 percent from increases in loans to businesses, in line with the projection late last year. The ratio of non-performing loan (NPL) to total loans was 4.1 percent. The ratio of loan loss reserves to NPL was 170.5 percent. The Bank continues to work closely side by side and take good care of customers to help them withstand the economic crisis and move forward to the "New Normal", while maintaining close control of credit underwriting and risk management. The Bank also set aside an appropriate level of expected credit losses in accordance with its conservative business management approach across business cycle.

In terms of capital and liquidity, as of June 30, 2020, the Bank's total deposits amounted to Baht 2,852,295 million, an increase of 20.3 percent from the end of 2019. When excluding Permata, total deposits increased by 8.9 percent from all types of deposits. This is due to customers' focus on quality in their asset management. The loan to deposit ratio was 82.5 percent, reflecting an adequate liquidity position to cushion against economic uncertainties. The total capital adequacy ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of the Bank and its subsidiaries were 16.55 percent, 13.96 percent, and 13.96 percent respectively, comfortably above the BOT's minimum capital requirements.



In the first half of 2020, Bangkok Bank and its subsidiaries reported a net profit of Baht 10,765 million including Permata's net profit since the date the acquisition was completed. The Bank's net profit decreased from the first half of 2019, primarily due to additional reserve made for expected credit losses in line with prudent management. The reserves are to provide a cushion against the increasing uncertainty from the economic contraction due to the impacts from Covid-19 which are still difficult to predict the final outcome given it is a widespread public health crisis affecting the global economics which is different from economic crises happened in the past.

Net interest income increased by 5.6 percent from the first half of last year. When excluding Permata, the Bank's net interest income increased by 1.8 percent, in line with an increase in loan volume. The net interest margin stood at 2.31 percent. Non-interest income decreased mainly due to lower gains on investments and net fees and service income. The main reason for the decrease in net fees and service income was the change in recognition of fee income from loan-related services in accordance with the TFRS 9. Operating expenses were similar to the first half of 2019, and the cost to income ratio was 45.0 percent. The Bank continues to take a well-disciplined approach for cost management focusing on spending to enhance public health, improve working efficiency, as well as slowdown discretionary spending during the period of economic stagnation.

### **Implementation of new financial reporting standards (group of financial instruments)**

The Bank and its subsidiaries adopted the TFRS 9 from January 1, 2020 onwards, without restating previous financial statements. The principal changes can be summarized into classification and measurement of financial assets and liabilities, calculation of impairment using the concept of expected credit losses, hedge accounting, and the change in recognition of interest income from loans using the effective interest rate (EIR) method.

### **Effects of Covid-19 on classification and provisioning for expected credit losses**

In term of classification, the Bank adheres to accounting guidelines regarding providing temporary relief measures to debtors affected by adverse Thai economic conditions. In this regard, the Bank is allowed to provide assistance measures to non-NPL debtors with no significant increase in credit risk (Stage 1), if it is believed that they can comply with the debt restructuring agreement after assessing their financial status and business. The Bank is also allowed to provide assistance measures to debtors with credit impairment, if it is believed that their businesses have the potential to be viable. The Bank will classify them under Stage 1, if they can repay their debts under the restructuring agreement for three consecutive months or periods, whichever is longer.

In terms of provisioning, the Bank adheres to the TFRS 9 principle, which requires financial institutions to calculate expected credit losses by considering economic conditions in the past, present, and future under various assumptions and circumstances in estimating the provision for credit loss. Meanwhile, the Bank has considered additional potential factors from the Covid-19 pandemic affecting the Thai and global economy. The uncontrollable pandemic and the lack of vaccine, causes a severe slowdown in economic activity. The Bank, therefore, takes into consideration the impact of the public health crisis on the economy, both in the short and long term, as well as management discretion to increase additional provision (Management Overlay) above the amount calculated from the model. This will enable the Bank's provisioning to effectively cope with this highly uncertain situation.

## Operating Income and Expenses of the Bank and its Subsidiaries

Million Baht

	Quarter			Change (%)		H1		Change
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	(%)
Net interest income	<b>18,110</b>	19,820	17,635	(8.6)%	2.7%	<b>37,930</b>	35,935	5.6%
Non-interest income	<b>14,175</b>	6,574	13,534	115.6%	4.7%	<b>20,749</b>	23,861	(13.0)%
Operating expenses	<b>15,026</b>	11,377	14,108	32.1%	6.5%	<b>26,403</b>	26,310	0.4%
Expected credit losses	<b>13,238</b>	5,087	-	160.2%	N/A	<b>18,325</b>	-	N/A
Impairment loss of loans and debt securities	-	-	5,549	-	N/A	-	10,627	N/A
Operating profit before tax	<b>4,021</b>	9,930	11,512	(59.5)%	(65.1)%	<b>13,951</b>	22,859	(39.0)%
Income tax expenses	<b>834</b>	2,169	2,065	(61.5)%	(59.6)%	<b>3,003</b>	4,289	(30.0)%
Net profit	<b>3,187</b>	7,761	9,447	(58.9)%	(66.3)%	<b>10,948</b>	18,570	(41.0)%
Net profit <sup>/1</sup>	<b>3,095</b>	7,671	9,347	(59.7)%	(66.9)%	<b>10,765</b>	18,375	(41.4)%
Total comprehensive income (losses) <sup>/1</sup>	<b>23,662</b>	(5,516)	6,276	529.0%	277.0%	<b>18,146</b>	18,717	(3.1)%

<sup>/1</sup> Attributable to owners of the Bank

In the second quarter of 2020, Bangkok Bank and its subsidiaries reported a net profit attributable to owners of the Bank of Baht 3,095 million, a decrease of Baht 4,576 million from the first quarter of 2020. This was due to an increase of Baht 8,151 million in expected credit losses from the previous quarter to further strengthen the Bank's reserve level amid global economic uncertainties. Amid a record low interest rate environment, the Bank cut loan interest rates twice totaling 62.5-75.0 basis points (bps) during this quarter and as a result, net interest income fell by Baht 1,710 million. Non-interest income rose by Baht 7,601 million due predominantly to an increase in gains on financial instruments measured at Fair Value Through Profit or Loss (FVTPL) due to the improvement in financial and capital markets from the previous quarter. Operating expenses rose by Baht 3,649 million.

Compared with the second quarter of 2019, net profit attributable to owners of the Bank fell by Baht 6,252 million from an increase of Baht 7,689 million in expected credit losses. Net interest income increased by Baht 475 million due to a reduction in the contribution rate to the Financial Institutions Development Fund (FIDF) from 0.46 percent to 0.23 percent per annum and higher loan volume from the acquisition of Permata. Non-interest income rose by Baht 641 million due to an increase in gains on financial instruments measured at FVTPL, while gains on investments declined. There was also a decline in net fees and service income due partly to the change in recognition of fee income directly related to lending according to the TFRS 9.

In the first half of 2020, net profit attributable to owners of the Bank amounted to Baht 10,765 million, down by Baht 7,610 million from the first half of last year, predominantly due to an increase of Baht 7,698 million in expected credit losses, so that the Bank's reserves will be able to efficiently cope with higher risks resulting from worsening economic conditions stemming from the impact of Covid-19. Net interest income increased by Baht 1,995 million due to a reduction in the contribution rate to the FIDF and higher loan volume as mentioned above. Non-interest income declined by Baht 3,112 million, due to a decline in gains on investment, and a decline in net fees and service income resulting from the change in recognition of loan related fees according to the TFRS 9, while fee income from the securities business and investment banking services increased.

### Net Interest Income

In the second quarter of 2020, net interest income fell by Baht 1,710 million or 8.6 percent from the previous quarter, due to the policy interest rate cut of 25 bps in May, 2020 and an increase in deposit volume. In the second quarter of 2020, the net interest margin stood at 2.13 percent.

Compared with the second quarter of 2019, net interest income rose by Baht 475 million or 2.7 percent and in the first half of 2020, net interest income rose by Baht 1,995 million or 5.6 percent from the same period last year. The main reason was the reduction in the contribution rate to the FIDF and higher loan volume from the acquisition of Permata, net of the three cuts in the policy interest rate of 25 bps each in February, March and May, 2020.

Item	Quarter			Change (%)		H1		Change (%)
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	
Million Baht								
<b>Interest Income</b>								
Loans	23,226	24,369	22,964	(4.7)%	1.1%	47,595	46,660	2.0%
Interbank and money market items	1,371	1,728	2,429	(20.7)%	(43.6)%	3,098	4,751	(34.8)%
Investments	2,603	2,528	2,621	3.0%	(0.7)%	5,132	4,969	3.3%
<b>Total interest income</b>	<b>27,200</b>	<b>28,625</b>	<b>28,014</b>	<b>(5.0)%</b>	<b>(2.9)%</b>	<b>55,825</b>	<b>56,380</b>	<b>(1.0)%</b>
<b>Interest expenses</b>								
Deposits	5,832	5,596	5,769	4.2%	1.1%	11,428	11,296	1.2%
Interbank and money market items	237	375	573	(36.8)%	(58.6)%	611	1,130	(45.9)%
Contributions to the Deposit Protection Agency and Financial Institutions Development Fund	1,469	1,314	2,504	11.8%	(41.3)%	2,783	4,956	(43.8)%
Debt issued and borrowings	1,552	1,520	1,533	2.1%	1.2%	3,073	3,063	0.3%
<b>Total interest expenses</b>	<b>9,090</b>	<b>8,805</b>	<b>10,379</b>	<b>3.2%</b>	<b>(12.4)%</b>	<b>17,895</b>	<b>20,445</b>	<b>(12.5)%</b>
<b>Net interest income</b>	<b>18,110</b>	<b>19,820</b>	<b>17,635</b>	<b>(8.6)%</b>	<b>2.7%</b>	<b>37,930</b>	<b>35,935</b>	<b>5.6%</b>
Yield on earning assets	3.20%	3.64%	3.74%	(0.44)%	(0.54)%	3.40%	3.80%	(0.40)%
Cost of funds	1.23%	1.31%	1.61%	(0.08)%	(0.38)%	1.26%	1.59%	(0.33)%
Net interest margin	2.13%	2.52%	2.36%	(0.39)%	(0.23)%	2.31%	2.42%	(0.11)%

Bangkok Bank Interest Rate	May'20	Apr'20	Mar'20	Feb'20	Dec'19	Sep'19	Jun'19	Mar'19
<b>Loans (%)</b>								
MOR	5.875	6.100	6.500	6.750	6.875	6.875	7.125	7.125
MRR	5.750	6.100	6.500	6.625	6.875	6.875	7.125	7.125
MLR	5.250	5.475	5.875	6.000	6.000	6.250	6.250	6.250
<b>Deposits (%)</b>								
Savings	0.250	0.375	0.375	0.500	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.625
3-month Fixed	0.375	0.500	0.500	0.625	1.000	1.000	1.000	1.000
6-month Fixed	0.500	0.625	0.625	0.875	1.250	1.250	1.250	1.250
12-month Fixed	0.500	0.750	0.750	1.000	1.375-1.500	1.500	1.500	1.500
	May'20	Mar'20	Feb'20	Dec'19	Sep'19	Jun'19	Mar'19	
<b>Bank of Thailand Policy Rate (%)</b>	0.500	0.750	1.000	1.250	1.500	1.750	1.750	

### Non-Interest Income

In the second quarter of 2020, non-interest income amounted to Baht 14,175 million, an increase of Baht 7,601 million or 115.6 percent from the previous quarter, due predominantly to an increase in gains on financial instruments measured at FVTPL as the financial and capital market situation started to improve from a sudden impact from Covid-19 in the previous quarter. Net fees and service income fell by Baht 733 million, due to the lockdown measures to control the spread of Covid-19.

Compared with the second quarter of 2019, non-interest income rose by Baht 641 million, due mainly to gains on financial instruments measured at FVTPL, while gains on investments declined. Meanwhile, net fees and service income declined due to the change in reporting of loan related fees as part of interest income from loans following the adoption of the TFRS 9. This was also combined with a decline in transaction volume, as measures to prevent the spread of Covid-19 led to consumers using more digital channels as part of their “new normal” lifestyle.

In the first half of 2020, non-interest income amounted to Baht 20,749 million, a decrease of Baht 3,112 million from the first half of 2019, due mainly to lower gains on investments and the change in the presentation of dividend income and loan related fees following the adoption of the TFRS 9, while fees from securities businesses continued to grow.

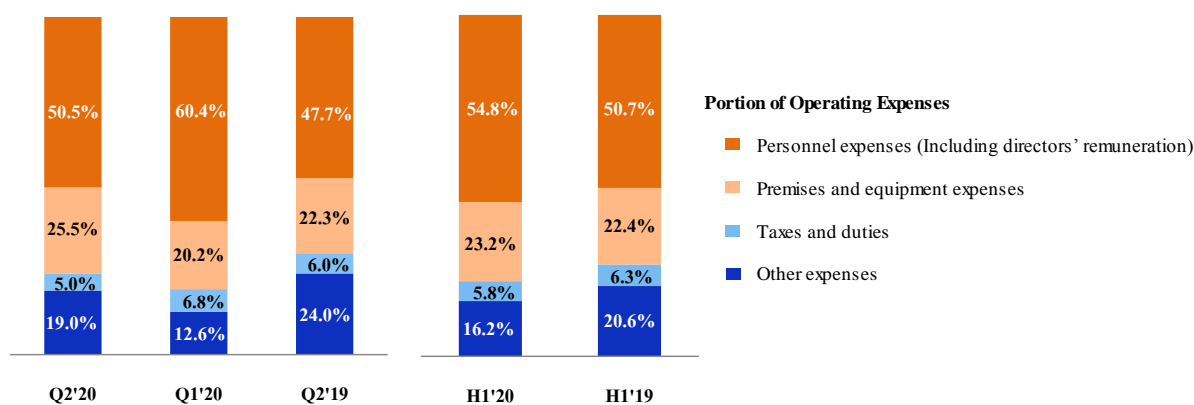
Item	Million Baht							
	Quarter			Change (%)		H1		Change (%)
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	
Fees and service income	<b>7,434</b>	9,083	9,140	(18.2)%	(18.7)%	<b>16,517</b>	18,727	(11.8)%
<u>Less</u> fees and service expenses	<b>1,813</b>	2,729	2,525	(33.6)%	(28.2)%	<b>4,542</b>	5,272	(13.8)%
<b>Net fees and service income</b>	<b>5,621</b>	6,354	6,615	(11.5)%	(15.0)%	<b>11,975</b>	13,455	(11.0)%
Gains (losses) on financial instruments measured at FVTPL	<b>7,062</b>	(1,689)	-	518.1%	N/A	<b>5,372</b>	-	N/A
Gains on tradings and foreign exchange transactions	-	-	1,865	-	N/A	-	3,623	N/A
Gains on investments	<b>317</b>	1,150	2,471	(72.4)%	(87.2)%	<b>1,467</b>	3,245	(54.8)%
Share of profit from investment for using equity method	<b>36</b>	12	46	200.0%	(21.7)%	<b>48</b>	90	(46.7)%
Gains on disposal of assets	<b>45</b>	58	522	(22.4)%	(91.4)%	<b>103</b>	679	(84.8)%
Dividend income	<b>882</b>	486	1,849	81.5%	(52.3)%	<b>1,368</b>	2,486	(45.0)%
Other operating income	<b>212</b>	203	166	4.4%	27.7%	<b>416</b>	283	47.0%
<b>Total other operating income</b>	<b>8,554</b>	220	6,919	3,788.2%	23.6%	<b>8,774</b>	10,406	(15.7)%
<b>Total non-interest income</b>	<b>14,175</b>	6,574	13,534	115.6%	4.7%	<b>20,749</b>	23,861	(13.0)%
Net fees and service income to operating income ratio	<b>17.4%</b>	24.1%	21.2%	(6.7)%	(3.8)%	<b>20.4%</b>	22.5%	(2.1)%



### Operating Expenses

In the second quarter of 2020, operating expenses increased from the consolidation of Permata's operating expenses into the Bank's consolidated financial statements. When excluding Permata, the Bank's operating expenses increased from the previous quarter, due to seasonality of expenses. Compared with the second quarter of 2019, operating expenses declined due to fewer marketing activities. In the first half of 2020, the Bank's operating expenses declined, from lower economic activities.

Item	Million Baht							
	Quarter			Change (%)		H1		Change (%)
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	
Personnel expenses	7,519	6,836	6,676	10.0%	12.6%	14,356	13,239	8.4%
Directors' remuneration	66	33	54	100.0%	22.2%	99	89	11.2%
Premises and equipment expenses	3,829	2,296	3,147	66.8%	21.7%	6,124	5,885	4.1%
Taxes and duties	763	781	850	(2.3)%	(10.2)%	1,543	1,666	(7.4)%
Other expenses	2,849	1,431	3,381	99.1%	(15.7)%	4,281	5,431	(21.2)%
<b>Total operating expenses</b>	<b>15,026</b>	<b>11,377</b>	<b>14,108</b>	<b>32.1%</b>	<b>6.5%</b>	<b>26,403</b>	<b>26,310</b>	<b>0.4%</b>
Cost to income ratio	46.5%	43.1%	45.3%	3.4%	1.2%	45.0%	44.0%	1.0%



### Expected Credit Losses

In 2020, the Bank's expected credit losses covers loans, interbank and money market items, debt securities which are not measured at fair value through profit or loss, loan commitments, and financial guarantee contracts. In the second quarter of 2020, expected credit losses amounted to Baht 13,238 million, increasing from Baht 5,087 million in the first quarter of 2020. In the first half of 2020, the expected credit losses was Baht 18,325 million compared to the impairment loss of loans and debt securities of Baht 10,627 million in the first half of 2019, due to consideration of future economic factors that reflect the impact of the prolonged Covid-19 pandemic.

Item	Million Baht							
	Quarter			Change (%)		H1		Change (%)
	2/2020	1/2020	2/2019	1/2020	2/2019	2020	2019	
Expected credit losses	13,238	5,087	-	160.2%	N/A	18,325	-	N/A
Impairment loss of loans and debt securities	-	-	5,549	-	N/A	-	10,627	N/A

## Significant Items in the Financial Position

### Assets

Total assets as of June 30, 2020 amounted to Baht 3,806,363 million, an increase of Baht 411,073 million from the end of March 2020, due mainly to the consolidation of Permata's assets. When excluding Permata, loans rose by 0.7 percent, and investments rose by 2.0 percent from the end of March 2020. Compared with the end of December 2019, loans rose by 3.4 percent and investments rose by 8.3 percent.

Million Baht

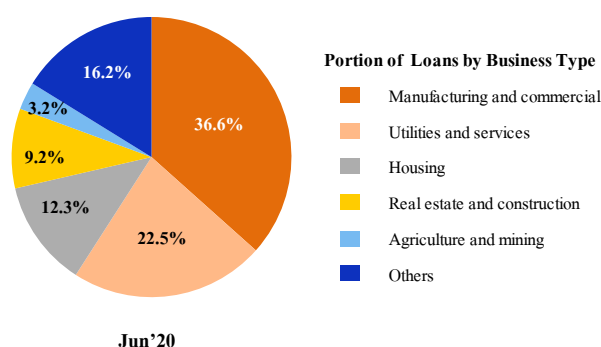
Item	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Net interbank and money market items	586,911	505,156	472,349	16.2%	24.3%
Financial assets measured at FVTPL	65,168	71,634	-	(9.0)%	N/A
Net investments	683,587	615,788	647,697	11.0%	5.5%
Net investments in associates	1,745	1,750	1,737	(0.3)%	0.5%
Loans	2,353,848	2,115,950	2,061,309	11.2%	14.2%
Net properties for sale	10,315	9,503	9,363	8.5%	10.2%
<b>Total assets</b>	<b>3,806,363</b>	<b>3,395,290</b>	<b>3,216,743</b>	<b>12.1%</b>	<b>18.3%</b>

### Loans

Loans, excluding Permata, as of June 30, 2020, rose by 0.7 percent from the end of March 2020 due to increases in loans to businesses and consumer loans. Compared with the end of December 2019, loans rose by 3.4 percent due to increases in loans to businesses in line with the projection late last year.

Million Baht

Loans by Business Type	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Manufacturing and commercial	862,124	801,718	755,979	7.5%	14.0%
Utilities and services	528,731	495,693	470,159	6.7%	12.5%
Housing	290,133	249,845	251,197	16.1%	15.5%
Real estate and construction	216,516	205,235	200,736	5.5%	7.9%
Agriculture and mining	76,307	62,654	61,569	21.8%	23.9%
Others	380,037	300,805	321,669	26.3%	18.1%
<b>Total</b>	<b>2,353,848</b>	<b>2,115,950</b>	<b>2,061,309</b>	<b>11.2%</b>	<b>14.2%</b>



The Bank and its subsidiaries had loans distributed across business sectors, with 36.6 percent in the manufacturing and commercial sector, 22.5 percent in the utilities and services sector, 12.3 percent in the housing sector, and 9.2 percent in the real estate and construction sector. The increase in loans from the end of March 2020 were mainly driven by other sectors and manufacturing and commercial sector. The increase in loans from the end of December 2019 were mainly driven by manufacturing and commercial sector.

### Classified Loans and Allowance for Expected Credit Losses

Non-performing loan (Gross NPL) at the end of June 2020 was Baht 108,604 million. The gross NPL to total loans ratio was 4.1 percent.

Allowance for expected credit losses was Baht 185,162 million and the allowance for expected credit losses to NPL ratio was 170.5 percent.

Item	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Million Baht					
<b>Consolidated</b>					
Non-performing loan (Gross NPL) <sup>/1</sup>	<b>108,604</b>	85,240	79,149	27.4%	37.2%
Gross NPL to total loans ratio <sup>/1</sup>	<b>4.1%</b>	3.5%	3.4%	0.6%	0.7%
Net NPL to net total loans ratio <sup>/1</sup>	<b>1.5%</b>	1.5%	1.2%	-	0.3%
Allowance for expected credit losses to NPL ratio <sup>/2</sup>	<b>170.5%</b>	203.9%	220.2%	(33.4)%	(49.7)%
<b>The Bank</b>					
Non-performing loan (Gross NPL) <sup>/1</sup>	<b>96,524</b>	83,941	78,093	15.0%	23.6%
Gross NPL to total loans ratio <sup>/1</sup>	<b>4.0%</b>	3.5%	3.4%	0.5%	0.6%

<sup>/1</sup> Including interbank and money market lending

<sup>/2</sup> Before the adoption of the TFRS 9, calculating from allowance for expected credit losses of loans

Item	Loans and		Allowance for	
	Interbank & Money Market		Expected Credit Losses <sup>/1</sup>	
	June 2020	March 2020	June 2020	March 2020
Million Baht				
Non credit-impaired	<b>2,832,464</b>	2,536,194	<b>113,956</b>	122,564
Credit-impaired	<b>108,604</b>	85,240	<b>71,206</b>	51,224
<b>Total</b>	<b>2,941,068</b>	2,621,434	<b>185,162</b>	173,788

<sup>/1</sup> Including allowance for expected credit losses of loans, interbank and money market items, loan commitments and financial guarantee contracts

Item	Loans & Accrued Interest Receivables	Allowance for Doubtful Accounts Classified to Bank of Thailand Criteria
	December 2019	December 2019
Million Baht		
Normal	1,918,520	16,119
Special mentioned	67,596	848
Substandard	9,783	1,359
Doubtful	14,522	6,259
Doubtful of loss	54,901	30,087
<b>Total</b>	<b>2,065,322</b>	<b>54,672</b>
<u>Add</u> Excess allowance for doubtful accounts		113,094
<b>Total allowance for doubtful accounts from loan classification</b>		<b>167,766</b>
<u>Add</u> Revaluation allowance for debt restructuring		6,510
<b>Total allowance for doubtful accounts</b>		<b>174,276</b>

### Investments

Investments as of June 30, 2020 amounted to Baht 748,755 million, an increase of Baht 61,333 million from the end of March 2020 and Baht 101,058 million from the end of December 2019 due to higher investment in Thai government and state enterprise securities, and partly due to an increase in the value of domestic marketable equity securities.

Most investments were in Thai government and state enterprise securities. As of June 30, 2020, these amounted to Baht 396,826 million, accounting for 53.0 percent of total investments. The remaining investments were foreign debt securities of Baht 162,680 million, private enterprise debt securities of Baht 57,985 million, and net investment in equity securities of Baht 89,194 million.

Million Baht

Investments by Investment Holding	June 2020	March 2020	Change (%)
Trading securities	20,485	28,267	(27.5)%
Securities measured at FVTPL	44,683	43,367	3.0%
Debt securities measured at amortized cost	27,157	26,966	0.7%
Debt securities measured at FVOCI	578,630	526,858	9.8%
Equity securities measured at FVOCI	77,800	61,964	25.6%
<b>Total investments</b>	<b>748,755</b>	<b>687,422</b>	<b>8.9%</b>

Million Baht

Investments by Investment Holding	December 2019
Trading securities	13,613
Available-for-sale securities	574,720
Held-to-maturity debt securities	23,257
General investments	36,107
<b>Total investments</b>	<b>647,697</b>

### Liabilities and Shareholders' Equity

Total liabilities as of June 30, 2020 amounted to Baht 3,367,650 million, an increase of Baht 387,665 million from the end of March 2020 due mainly to the consolidation of Permata's liabilities. When excluding Permata, deposits rose by 2.6 percent and interbank and money market items rose by 50.2 percent, due largely to an increase in borrowing transactions. Debt issued and borrowings declined by 5.6 percent from the appreciation of baht. Compared with the end of December 2019, deposits rose by 8.9 percent and interbank and money market items rose by 21.4 percent, due largely to higher borrowing transactions.

Million Baht

Item	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Deposits	2,852,295	2,514,331	2,370,792	13.4%	20.3%
Interbank and money market items	167,336	108,595	134,346	54.1%	24.6%
Financial liabilities measured at FVTPL	19,204	21,046	-	(8.8)%	N/A
Debt issued and borrowings	142,657	147,693	144,681	(3.4)%	(1.4)%
<b>Total liabilities</b>	<b>3,367,650</b>	<b>2,979,985</b>	<b>2,788,627</b>	<b>13.0%</b>	<b>20.8%</b>
<b>Shareholders' equity</b> <sup>/1</sup>	<b>438,340</b>	<b>414,848</b>	<b>427,751</b>	<b>5.7%</b>	<b>2.5%</b>

<sup>/1</sup> Attributable to owners of the Bank

### Deposits

Total deposits, excluding Permata, as of June 30, 2020, rose by 2.6 percent from the end of March 2020, due to increases in current and savings deposits, and rose by 8.9 percent from the end of December 2019, from increases in all types of deposits.

Million Baht

Deposits Classified by Product Type	June 2020		March 2020		December 2019		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	March 2020	December 2019
Current	188,577	6.6%	110,991	4.4%	113,067	4.8%	69.9%	66.8%
Savings	1,398,148	49.0%	1,251,301	49.8%	1,145,106	48.3%	11.7%	22.1%
Fixed	1,265,570	44.4%	1,152,039	45.8%	1,112,619	46.9%	9.9%	13.7%
<b>Total</b>	<b>2,852,295</b>	<b>100.0%</b>	<b>2,514,331</b>	<b>100.0%</b>	<b>2,370,792</b>	<b>100.0%</b>	<b>13.4%</b>	<b>20.3%</b>
Loan to deposit ratio		<b>82.5%</b>		<b>84.2%</b>		<b>86.9%</b>	<b>(1.7)%</b>	<b>(4.4)%</b>

### Debt Issued and Borrowings

Total debt issued and borrowings as of June 30, 2020 amounted to Baht 142,657 million, a decrease of Baht 5,036 million from the end of March 2020, due to a decrease in the value of foreign debentures resulting from the appreciation of baht.

Million Baht

Debt Issued and Borrowings Classified by Type of Instruments	June 2020		March 2020		December 2019		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	March 2020	December 2019
Senior unsecured notes	101,989	71.4%	107,880	73.0%	99,530	66.3%	(5.5)%	2.5%
Subordinated notes	40,294	28.2%	39,228	26.5%	49,757	33.1%	2.7%	(19.0)%
Bills of exchange	7	0.1%	7	0.1%	8	0.1%	-	(12.5)%
Others	464	0.3%	690	0.4%	838	0.5%	(32.8)%	(44.6)%
<b>Total (before less discount on borrowings)</b>	<b>142,754</b>	<b>100.0%</b>	<b>147,805</b>	<b>100.0%</b>	<b>150,133</b>	<b>100.0%</b>	<b>(3.4)%</b>	<b>(4.9)%</b>
<u>Less</u> Discount on borrowings	97		112		5,452		(13.4)%	(98.2)%
<b>Total</b>	<b>142,657</b>		<b>147,693</b>		<b>144,681</b>		<b>(3.4)%</b>	<b>(1.4)%</b>

### Shareholders' Equity

Shareholders' equity attributable to owners of the Bank as of June 30, 2020 amounted to Baht 438,340 million, an increase of Baht 10,589 million or 2.5 percent from the end of 2019. This is due to net profit attributable to owners of the Bank for the first half of 2020 of Baht 10,765 million, net of an interim dividend payment of Baht 9,544 million (Baht 5 per share) according to a resolution from the Board of Directors' meeting on April 1, 2020, in combination with a surplus from the revaluation of land and buildings of Baht 11,020 million. Gains on investments measured at FVOCI declined by Baht 5,348 million.

### *Contingent Liabilities*

Contingent liabilities as of June 30, 2020 amounted to Baht 759,942 million, an increase of Baht 46,890 million or 6.6 percent from the end of March 2020, due mainly to the amount of unused bank overdrafts. When compared with the end of December 2019, contingent liabilities increased by Baht 134,051 million or 21.4 percent, due predominantly to an increase in “others” (under other commitments) and the amount of unused bank overdrafts.

Item	June 2020	March 2020	December 2019	Change (%)	
				March 2020	December 2019
Avals to bills	5,949	5,826	7,598	2.1%	(21.7)%
Guarantees of loans	31,121	31,737	27,513	(1.9)%	13.1%
Liability under unmatured import bills	17,224	20,753	17,745	(17.0)%	(2.9)%
Letters of credit	29,925	25,414	22,116	17.8%	35.3%
Other commitments					
Underwriting commitments	5,677	-	-	N/A	N/A
Amount of unused bank overdrafts	213,786	165,637	165,562	29.1%	29.1%
Other guarantees	266,829	243,939	247,490	9.4%	7.8%
Others	189,431	219,746	137,867	(13.8)%	37.4%
<b>Total</b>	<b>759,942</b>	<b>713,052</b>	<b>625,891</b>	<b>6.6%</b>	<b>21.4%</b>

### *Sources and Utilization of Funds*

The primary sources of funds as of June 30, 2020 were Baht 2,852,295 million or 74.9 percent in deposits, Baht 438,340 million or 11.5 percent in shareholders' equity attributable to owners of the Bank, Baht 167,336 million or 4.4 percent in interbank and money market liabilities, and Baht 161,861 million or 4.3 percent in debt issued and borrowings including financial liabilities measured at FVTPL.

The utilization of funds comprised Baht 2,353,848 million or 61.8 percent in loans, Baht 750,500 million or 19.7 percent in net investments including financial assets measured at FVTPL and net investments in associates, and Baht 586,911 million or 15.4 percent in net interbank and money market assets.

### *Capital Reserves and Capital Adequacy Ratio*

Under the principles of Basel III, the Bank of Thailand requires commercial banks registered in Thailand and members of their financial groups to maintain minimum levels of capital adequacy as measured by three ratios, including the Common Equity Tier 1 capital adequacy ratio at no less than 4.50 percent, the Tier 1 capital adequacy ratio at no less than 6.00 percent, and the Total capital adequacy ratio at no less than 8.50 percent – measured as a percentage of total risk-weighted assets. The Bank of Thailand also requires a capital conservation buffer of more than 2.50 percent. It requires the Bank, which is identified as a Domestic Systemically Important Bank (D-SIB), to have additional capital to meet the Higher Loss Absorbency (HLA) requirement, which gradually raised the Common Equity Tier 1 ratio by 1.00 percent, beginning with a 0.50 percent increase from January 1, 2019, rising to 1.00 percent from January 1, 2020 onwards. To satisfy the Bank of Thailand's minimum levels and capital buffer requirements, the Bank in 2020 is required to maintain the Common Equity Tier 1 capital adequacy ratio at more than 8.00 percent, the Tier 1 capital adequacy ratio at more than 9.50 percent, and the Total capital adequacy ratio at more than 12.00 percent – measured as percentages of total risk-weighted assets.

As of June 30, 2020, the regulatory capital position of the Bank's financial group according to the consolidated financial statements was Baht 454,249 million, Common Equity Tier 1 capital adequacy was Baht 383,208 million, and Tier 1 capital adequacy was Baht 383,284 million. The total capital adequacy ratio was 16.55 percent, the Common Equity Tier 1 capital adequacy ratio was 13.96 percent, and the Tier 1 capital adequacy ratio was 13.96 percent.

### Consolidated

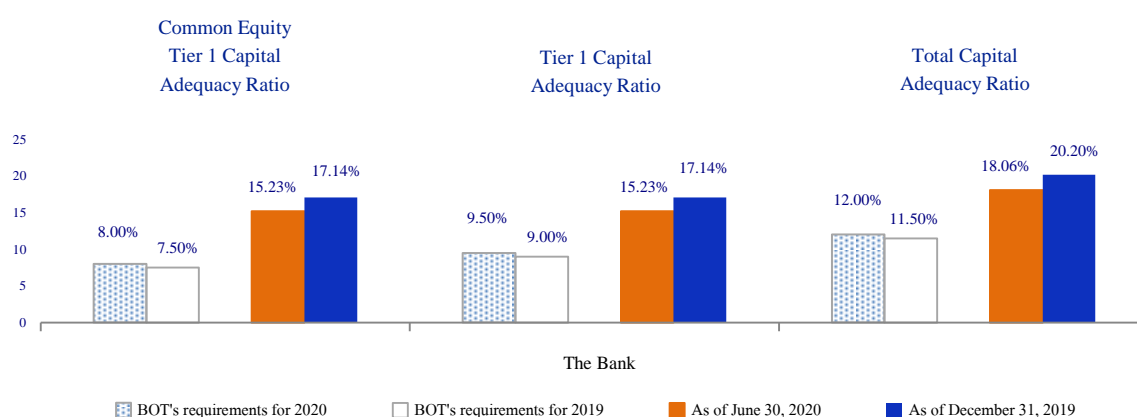
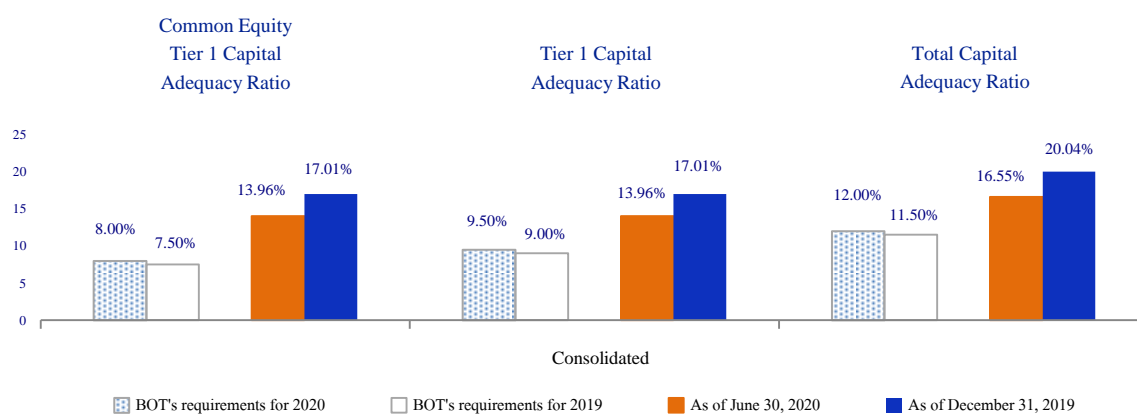
Million Baht

Item	Capital			Capital Adequacy Ratio		
	June 2020	March 2020	December 2019	June 2020	March 2020	December 2019
Total capital	454,249	463,299	478,740	16.55%	18.48%	20.04%
Tier 1 capital	383,284	392,914	406,529	13.96%	15.67%	17.01%
Common Equity Tier 1 capital	383,208	392,840	406,463	13.96%	15.67%	17.01%

### The Bank

Million Baht

Item	Capital			Capital Adequacy Ratio		
	June 2020	March 2020	December 2019	June 2020	March 2020	December 2019
Total capital	449,452	453,268	471,262	18.06%	18.58%	20.20%
Tier 1 capital	379,103	383,530	399,842	15.23%	15.72%	17.14%
Common Equity Tier 1 capital	379,103	383,530	399,842	15.23%	15.72%	17.14%



### Liquid Assets

Liquid assets consisted of cash, net interbank and money market items, debt securities, and marketable equity securities. As of June 30, 2020, liquid assets to total assets and liquid assets to deposits were 35.4 percent and 47.2 percent, respectively.

Item	June 2020	March 2020	December 2019
Liquid assets/Total assets (%)	35.4	35.7	35.5
Liquid assets/Deposits (%)	47.2	48.2	48.2

### Credit Ratings

As of June 30, 2020, Moody's Investors Service and S&P Global Ratings maintained the Bank's credit ratings from the end of March 2020 and the end of December 2019 and changed the outlook to stable from positive following sovereign outlook in April 2020. On April 2, 2020, Fitch Ratings revised BBL's ratings due to large-scale economic disruptions from the Covid-19 pandemic.

Details of the Bank's credit ratings are as follows:

Credit Rating Agency <sup>/1</sup>	June 2020	March 2020	December 2019
<b>Moody's Investors Service</b>			
Long-term Deposit	<b>Baa1</b>	Baa1	Baa1
Short-term Deposit	<b>P-2</b>	P-2	P-2
Senior Unsecured Debt Instrument	<b>Baa1</b>	Baa1	Baa1
Subordinated Debt Instrument	<b>Baa2</b>	Baa2	Baa2
Subordinated Debt (Basel III-compliant Tier 2 securities)	<b>Baa3</b>	Baa3	Baa3
Financial Strength (BCA)	<b>baa1</b>	baa1	baa1
Outlook	<b>Stable</b>	Positive	Positive
<b>S&amp;P Global Ratings</b>			
Long-term Issuer Credit Rating	<b>BBB+</b>	BBB+	BBB+
Short-term Issuer Credit Rating	<b>A-2</b>	A-2	A-2
Senior Unsecured Debt Instrument	<b>BBB+</b>	BBB+	BBB+
Subordinated Debt Instrument	<b>BBB</b>	BBB	BBB
Financial Strength (SACP)	<b>bbb</b>	bbb	bbb
Outlook	<b>Stable</b>	Positive	Positive
<b>Fitch Ratings</b>			
<b>International Rating</b>			
Long-term Issuer Default Rating	<b>BBB</b>	BBB+	BBB+
Short-term Issuer Default Rating	<b>F2</b>	F2	F2
Senior Unsecured Debt Instrument	<b>BBB</b>	BBB+	BBB+
Subordinated Debt Instrument	<b>BB+</b>	BBB	BBB
Subordinated Debt (Basel III-compliant Tier 2 securities)	<b>BB+</b>	BBB	BBB
Financial Strength (VR)	<b>bbb</b>	bbb+	bbb+
Outlook	<b>Stable</b>	Stable	Stable
<b>National Rating</b>			
Long-term	<b>AA+(tha)</b>	AA+(tha)	AA+(tha)
Short-term	<b>F1+(tha)</b>	F1+(tha)	F1+(tha)
Outlook	<b>Stable</b>	Stable	Stable

<sup>/1</sup> Long-term credit ratings classified as investment grade by Moody's Investors Service, S&P Global Ratings and Fitch Ratings are Baa3, BBB- and BBB-, or higher, respectively. Short-term credit ratings classified as investment grade by Moody's Investors Service, S&P Global Ratings and Fitch Ratings are P-3, A-3 and F3, or higher, respectively.