ธนาคารทหารไทยธนชาต จำกัด (มหาชน)
TMBThanachart Bank Public Company Limited

Management Discussion and Analysis

For the 2nd quarter and 6-month period ended 30 June 2023

(Unaudited financial statements)

TMBThanachart Bank Public Company Limited

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Management Discussion and Analysis

Executive summary: Economic review & outlook

Thai economy in 2Q23: Thai economy continuously rebounded mainly driven by the steady recovery of foreign tourists as can be reflected by the average monthly figure of inbound foreign tourist of April and May 2023 standing at 2.1 million persons. The main contributions came from those tourist groups of Asia, East Asia and European, assisting the evident recovery in tourism-related businesses. Regarding domestic economy, both private consumption and domestic tourism have steadily recovered as gaining supports from government's stimulus measures and steadily improvement in employment conditions as well as better consumer sentiments. With respect to living cost, price pressure steadily subsided as showed by the deceleration of inflation rate to be at 0.23% in June in accordance with a steady decline in fresh foods and energy prices as well as a high base effect last year. Likewise, private investment expressed a continuous improvement. Meantime, the growth of merchandise exports significantly contracted as the exports of petroleum-related products remained in a high degree of contraction amid a softening path of key trading partners' economic recovery. The average value of monthly merchandise exports in April and May 2023 were at 23.0 billion US dollar, slightly dropped from the average of 23.4 billion US dollar in the previous quarter. With respect to overall economic components, Thai economy in the second quarter is about to expand 3.2 percent from the same period last year, accelerating from 2.7% in the previous quarter.

Financial market & banking industry: The Monetary Policy Committee (MPC) decided to raise the policy rate by another 0.25% to recently stand at 2.0% in May 2023, regarding as the sixth consecutive hiking decision since the onset of pandemic crisis. The decision based on the assessment that Thai economy would continue to expand, mainly driven by tourism and private consumption. Headline inflation has returned into the target range since the first quarter of 2023 due to a steady drop in the prices of fresh food and energy. Meantime, core inflation slowly decelerated. In accordance with the current economic assessment, extraordinarily accommodative monetary policy is therefore less necessary, and the policy rate should be gradually raised to a level appropriated to long-term economic activities. Since January 1st, 2023, Bank of Thailand has revoked the temporary reduction of bank's periodic FIDF contribution, making the latest contribution rate getting back to a normal rate of 0.46% per annum, causing the deposit rate and the lending rate to gradually rise in association with increasing financial cost. Regarding Thai baht in the second quarter 2023, it was on an average of 34.45 baht per U.S. dollar, depreciated by 1.6% from the previous quarter and appreciated by 0.3% as compared to the end of 2022. The recent Thai Baht's depreciation reflected market concerns regarding Thailand's general election and the potential delay of new government formation, causing periodical outflows from Thai stock and bond market. However, Thai baht movement was in accordance with other Asian reginal currencies especially after market perceived a clear direction of Federal Reserves (Fed)' future policy stance and turned into a risk-on mode. Regarding commercial banking, total loans at the end of April 2023 grew by 1.3% from the same period last year (YoY). Meantime, deposits expanded 1.2% (YoY), mainly attributing to the development of saving deposits on both business and individual account.

Economic outlook for 3Q23: Thai economy is projected to steady recover. Regarding tourism sector, the annual 2023 figure for foreign tourist arrivals could be slightly below the previous forecast of 29.5 million persons mainly due to global economic slowdown, especially China which is the key foreign tourist market of Thailand. Moreover, global pent-up demands for travelling have gradually dissipated. Headline inflation would steadily decelerate both in energy and fresh food prices. The growth of merchandise exports is expected to decline in line with a current slowdown of global economy as well as international trade activities. Primarily, the projection of 2023 annual merchandise export value is slightly decrease by 0.5% from the same period last year. With respect to private investment, its momentum is projected to be stable going forwards in line with the softening conditions of goods export and productions. With the prospective of economic components, ttb analytics estimates that Thai economy in 2023 would still expand 3.4% with the possibility of revising down the current projection if foreign demands and private investment clearly weakened than expected. With respect to financial market, Monetary policy committee is likely to raise the policy rate by another 25 basis points to be at 2.25% by the end of this third quarter to maintain a medium-term domestic price stability. Thai baht would marginally appreciate with respect to Thailand's steady economic recovery, and for the third quarter of 2023 it would move within the range of 34.00-35.00 baht per US dollar.

Research by ttb analytics

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Summary of TMBThanachart's operating performance

TMBThanachart Bank (TTB) posted another strong quarterly financial result with a 33% YoY increase in net profit. Thanks to the continuous efforts to optimize balance sheet structure since the merger, the Bank could manage funding and liquidity efficiently amid rising interest rate cycle. Thus, the Bank pursued recycling liquidity strategy to free up low-yield liquidity to high-yield spaces considering market conditions reflecting in shift in loan mix towards high-yield retail loans and increase in investment portfolio to achieve better return sustainably. For 2Q23, the Bank kept up good business performances especially in 3 key areas: topline growth, cost discipline and manageable asset quality. Operating income improved 12% YoY from both NII +14% YoY and Non-NII +6% YoY. NIM continued to expand (+35 bps YoY) as the cost of fund was contained and asset yield improved following interest rate policy uptrend. In terms of cost, the operating costs were efficiently controlled, maintaining C/I ratio at 44%. Asset quality was also manageable with lower risk cost at 125 bps, well-contained NPL ratio and stronger LLR buffer at 144% in 2Q23. Besides stringent risk management, this was a result of quality loan growth focus and prudent loan mix shift toward high-yield retail space. The healthy balance sheet was preemptively prepared to support business expansion and digital-first transformation which will become a key driver to help enhance business performance and returns in long run.

Strategically managing strong deposit level to accommodate loan growth: Maintaining efficiency in asset-liability management, the Bank always ensures strong and adequate funding base while optimizes deposit structure for well-managed cost of deposit level. As of Jun 23, total deposit reported at THB1,395 billion, slightly declined 0.5% QoQ. Under rising interest rate market, customers demand for high-cost deposits so our tactical products namely time deposit called Up and Up and ME grew 12% and 7% QoQ. TD proportion rose to 22% of total deposit while low-cost deposit like CASA proportion remained stable at 40%, thanks to current account growth (+3% QoQ). The pressure on funding cost from rising rate was contained from the pre-funding strategy locking lower rate before the rate hike. TTB continues to strengthen deposit franchise and encourages customers to use TTB as a main bank by leveraging new digital ecosystem plays available on the mobile banking platform.

Recycling liquidity to grow high-yield retail loans progressing on track: TTB has been selectively growing loans, focusing on quality loan and freeing up low-yield loan to redeploy in higher yield in retail segment especially consumer lending. As of Jun 2023, total loan to customers slightly increased by 0.4% QoQ to THB1,364 billion from both large corporate and retail loan growth while SME continued to shrink aligned with the Bank strategy. Overall, HP and mortgage portfolio remain our key focus segment to maintain the leading position in the market. Zooming in retail portfolio, high yield products expanded as planned: Cash Your Car (CYC) (+6% QoQ), Cash Your Home (+4% QoQ), and personal loans (+6% QoQ). As growing towards high-yield products, TTB aims to grow new loan on existing customer base to ensure appropriated risk-adjusted return while enhancing loan yield sustainably.

Improving core operating income from liquidity management amid interest rate rise cycle: The Bank's flexibility and healthy balance sheet structure allowed TTB to free up low yield liquidity to higher-yield assets under interest rate hike environment to enhance overall returns. As a result, 2Q23 NII showed a good traction with 14% YoY growth from better investment return and increase in interest on interbank and loan. Thus, higher yield on earning asset and well-managed funding cost helped NIM to expand 35 bps YoY. Non-NII resumed its moderate growth pace at 6% YoY, mainly from improving net fees and service income and dividend income. Net fees rose from commercial fees, driven mainly by BA and IB fees while key strategic fees such as retail BA fees and mutual fund fees remained challenging due to unfavorable market sentiment. Total operating income, therefore, increased by 12% YoY to THB17,760 million in 2Q23.

Rising PPOP YoY due to topline growth and efficient operational cost management: In 2Q23, TTB reported OPEX at THB7,863 million, an increase of 8% YoY due mainly to higher staff cost and selling and marketing expenses following growing business volume. However, the cost discipline is a key strategy on expense side to manage cost efficiently amid business expansion and digital-first transformation. Thus, cost-to-income ratio could improve to 44% in 2Q23 compared to 45% in 2Q22. As a result, Pre-provision operating profit (PPOP) increased by 14% YoY which recorded at THB9,940 million in 2Q23.

Proactively de-risking loan portfolio and assisting customers in need, resulting in manageable asset quality: TTB had implemented more tightened ECL model and considered forward-looking risk thru management overlay to build a strong buffer against unforeseen economic headwinds. In 2Q23, the Bank set aside expected credit loss (ECL) and management overlay of THB4,244 million, equivalent to a credit cost of 125 bps, which decreased by 3% YoY. The current ECL level reflected that the asset quality of our loan portfolio became manageable. Moreover, stage 3 loan totaled to THB40,719 million which decreased from 2Q22, and NPL ratio stood at 2.63% in 2Q23 which was in line with the target guidance.

After provision and tax, TTB reported THB4,566 million of net profit in 2Q23 which increased by 33% YoY, representing improving ROE of 8.2% from 6.5% in 2Q22.

Discussion of operating performance

Figure 1: Selected Statement of Comprehensive Income

(THB million)	2Q23	1Q23	% QoQ	2Q22	% YoY	1H23	1H22	% YoY
Interest income	19,441	18,475	5.2%	15,885	22.4%	37,917	31,562	20.1%
Interest expenses	5,349	4,973	7.5%	3,471	54.1%	10,322	6,739	53.2%
Net interest income	**14,093**	**13,502**	**4.4%**	**12,414**	**13.5%**	**27,595**	**24,823**	**11.2%**
Fees and service income	3,545	3,500	1.3%	3,527	0.5%	7,046	6,855	2.8%
Fees and service expenses	886	941	-5.9%	883	0.4%	1,827	1,748	4.6%
Net fees and service income	**2,659**	**2,559**	**3.9%**	**2,645**	**0.6%**	**5,218**	**5,107**	**2.2%**
Other operating income	1,008	809	24.7%	830	21.4%	1,817	1,733	4.8%
Non-interest income	**3,668**	**3,368**	**8.9%**	**3,475**	**5.5%**	**7,035**	**6,840**	**2.9%**
Total operating income	**17,760**	**16,870**	**5.3%**	**15,889**	**11.8%**	**34,630**	**31,663**	**9.4%**
Total other operating expenses	**7,863**	**7,303**	**7.7%**	**7,262**	**8.3%**	**15,166**	**14,249**	**6.4%**
Expected credit loss	4,244	4,276	-0.7%	4,382	-3.2%	8,520	9,190	-7.3%
Profit before income tax expense	**5,653**	**5,291**	**6.8%**	**4,245**	**33.2%**	**10,944**	**8,224**	**33.1%**
Income tax expense	1,087	996	9.1%	807	34.7%	2,083	1,591	31.0%
Profit for the period	**4,566**	**4,295**	**6.3%**	**3,438**	**32.8%**	**8,861**	**6,633**	**33.6%**
Profit (loss) to non-controlling interest of subsidiaries	**0.007**	**0.004**	**75.0%**	**0.000**	**N/A**	**0.011**	**-0.003**	**N/A**
Profit to equity holders of the Bank	**4,566**	**4,295**	**6.3%**	**3,438**	**32.8%**	**8,861**	**6,633**	**33.6%**
Other comprehensive income	-174	1,275	-113.7%	-171	N/A	1,100	-1,012	N/A
Total comprehensive income	**4,392**	**5,569**	**-21.1%**	**3,268**	**34.4%**	**9,961**	**5,621**	**77.2%**
Basic earnings per share (THB/share)	**0.0472**	**0.0444**	**6.3%**	**0.0356**	**32.6%**	**0.0916**	**0.0687**	**33.4%**

Note: Consolidated financial statement

Net interest income (NII) and Net interest margin (NIM)

For the 2nd quarter of 2023: TTB recorded THB14,093 million of net interest income (NII) in 2Q23, increased by 4.4% compared to previous quarter (QoQ) and 13.5% compared to previous year (YoY). Details are as follows:

- Interest income increased by 5.2% QoQ and 22.4% YoY to THB19,441 million mainly from an increase in investment return and interest on interbank and loan as a part of our liquidity management to redeploy the free-up liquidity in higher-yield assets considering market condition as well as following policy interest rate uptrend.

- Interest expenses increased by 7.5% QoQ and 54.1% YoY to THB5,349 million. The QoQ change was due primarily to higher cost of funds following the interest rate uptrend. For YoY change, it was from FIDF contribution resumption and the rising interest rate trend.

In the first half of 2023: net interest income increased by 11.2% YoY to THB27,595 million. Details are as follows:

- Interest income rose by 20.1% YoY to THB37,917 million. The rise was primarily due to improving yield on earning assets following liquidity utilization plan and the rising interest rate cycle amidst conservative loan growth.

- Interest expenses increased by 53.2% YoY to THB10,322 million, mainly owing to FIDF contribution resumption together with the interest rate hike.

NIM improved to 3.18% in 2Q23 from 3.08% in 1Q23

NIM was at 3.18% in 2Q23 which increased by 10 bps from 3.08% in 1Q23 and by 35 bps from 2.83% in 2Q22. With the Bank's pre-emptive asset-liability management, it helped contain the impact of cost of funds during interest rate hike cycle and improve earning asset yields, giving an advantage to NIM expansion. If excluded PPA impact, NIM was recorded at 3.24% in 2Q23.

For 1H23, NIM also rose by 26 bps to 3.13% from 2.87% in 1H22. Despite the FIDF contribution resumption in 2023, the level of NIM regained its positive momentum as better yield on earning asset outweighed such a pressure on the cost of funds side, backed by the Bank's effort to optimize balance sheet since the merger together with interest rate rise cycle. Going forwards, the Bank's strategy still focuses on gearing loan mix towards selective high-yield retail loan spaces while ensuring appropriate risk-adjusted returns which would help enhance asset yield sustainably.

Figure 2: Net interest income (NII)

(THB million)	2Q23	1Q23	% QoQ	2Q22	% YoY	1H23	1H22	% YoY
Interest income	**19,441**	**18,475**	**5.2%**	**15,885**	**22.4%**	**37,917**	**31,562**	**20.1%**
Interest on interbank and money market items	1,137	815	39.5%	317	258.0%	1,951	571	241.8%
Investments and trading transactions	16	11	47.7%	6	180.7%	26	13	102.0%
Investments in debt securities	684	639	6.9%	345	98.2%	1,323	685	93.3%
Interest on loans	11,953	11,267	6.1%	9,575	24.8%	23,220	18,942	22.6%
Interest on hire purechase and financial lease	5,653	5,743	-1.6%	5,641	0.2%	11,396	11,350	0.4%
Others	0.37	0.43	-15.0%	0.65	-43.2%	0.80	1.36	-41.0%
Interest expenses	**5,349**	**4,973**	**7.5%**	**3,471**	**54.1%**	**10,322**	**6,739**	**53.2%**
Interest on deposits	2,692	2,456	9.6%	1,945	38.4%	5,148	3,744	37.5%
Interest on interbank and money market items	380	266	43.2%	88	330.8%	646	168	284.3%
Contributions to the Deposit Protection Agency	1,639	1,630	0.6%	833	96.8%	3,269	1,629	100.7%
Interest on debt issued and borrowings	622	607	2.4%	590	5.5%	1,229	1,169	5.1%
Borrowing fee	6	6	-0.2%	8	-25.7%	11	14	-20.9%
Others	9	9	3.1%	7	28.3%	19	15	27.4%
Net interest income (NII)	**14,093**	**13,502**	**4.4%**	**12,414**	**13.5%**	**27,595**	**24,823**	**11.2%**

Note: Consolidated financial statements

Figure 3: Yields and cost

(Annualized percentage)	2Q23	1Q23	4Q22	3Q22	2Q22	1H23	1H22
Yield on loans	5.19%	5.05%	4.69%	4.46%	4.42%	5.11%	4.44%
Yield on earning assets	4.39%	4.21%	3.94%	3.72%	3.63%	4.30%	3.65%
Cost of deposit	1.24%	1.18%	0.82%	0.79%	0.81%	1.21%	0.79%
Cost of funds	1.39%	1.31%	0.96%	0.91%	0.91%	1.35%	0.89%
Net interest margin (NIM)	3.18%	3.08%	3.10%	2.92%	2.83%	3.13%	2.87%

Note: Consolidated financial statements

Non-interest income (Non-NII)

For the 2nd quarter of 2023: The Bank posted THB3,668 million of non-interest income in 2Q23, which increased by 8.9% QoQ and 5.5% YoY mainly from net fees and service income recovery and dividend income. Details are as follows:

- Net fees and service income was reported at THB2,659 million which rose 3.9% QoQ and 0.6% YoY. Amid unfavorable market condition for fees growth, such QoQ net fees growth resumed from key strategic fees such as bancassurance fees (BA) from new BA product launch in June while mutual fund fees growth was still soft. Moreover, as we focus to penetrate in consumer lending space, the credit card fees continued to show positive traction growth aligned with increasing credit card volume. For commercial fees, trade finance and credit related fees were slow down following the business environment, offset with an increase in investment banking fees. The YoY change was mainly from IB fees, commercial BA and credit card fees.

- Gain on financial instruments measured at fair value through profit or loss was THB422 million which reduced by 11.0% QoQ but increased by 21.6% YoY. The FX fee was softened this quarter following slow overseas trading activities but improved YoY due to service remodeling.
- Share of profit from investment using equity method decreased by 32.4% QoQ and 18.4% YoY, recorded at THB51 million.
- An increase in dividend income QoQ was due mainly to seasonality in dividend revenue streams while a YoY improvement was based on business performance of strategic investments.

In the first half of 2023: Non-NII reported at THB7,035 million increased 2.9% YoY due to an increase in net fees and service income and gain on investment. Key items are as follows:

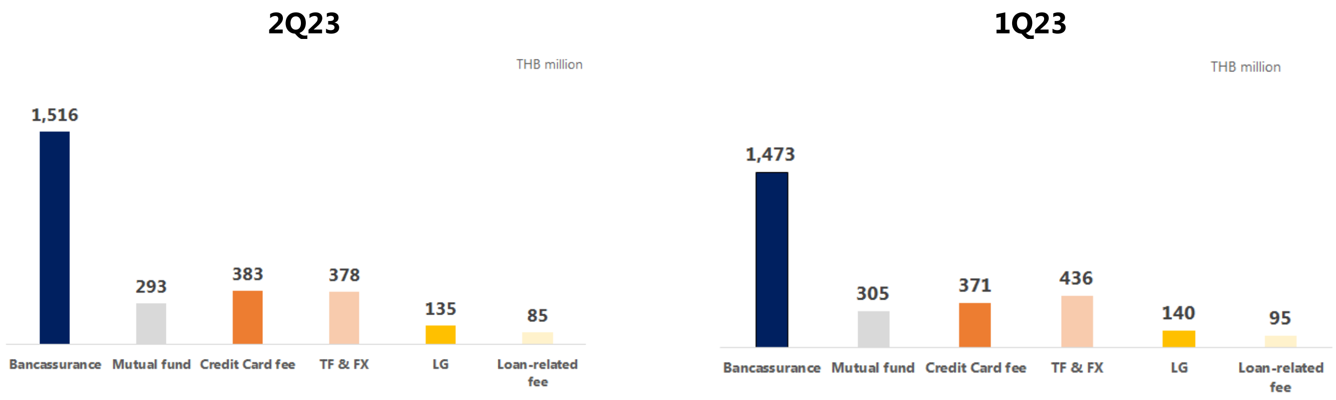
- Net fees and service income increased by 2.2% YoY to THB5,218 million, mainly attributed to both auto BA fees and non-auto BA fees from the business remodeling and new product launch as well as commercial fees side from credit-related fees and IB project in 2Q23, offset with lower mutual fund fee.
- Gain on financial instruments measured at fair value through profit or loss increased by 4.0% YoY to THB896 million.
- Share of profit from investment using equity method decreased by 18.2% YoY to THB126 million.
- Dividend income increased YoY based on business performance of strategic investments.

Figure 4: Non-interest income (Non-NII)

(THB million)	2Q23	1Q23	% QoQ	2Q22	% YoY	1H23	1H22	% YoY
Fees and service income	**3,545**	**3,500**	**1.3%**	**3,527**	**0.5%**	**7,046**	**6,855**	**2.8%**
Acceptance, Aval & Guarantee	140	145	-3.3%	155	-9.4%	286	306	-6.6%
Other fee and service income	3,405	3,355	1.5%	3,372	1.0%	6,760	6,549	3.2%
Fees and service expenses	**886**	**941**	**-5.9%**	**883**	**0.4%**	**1,827**	**1,748**	**4.6%**
Net fees and service income	**2,659**	**2,559**	**3.9%**	**2,645**	**0.6%**	**5,218**	**5,107**	**2.2%**
Gain on financial instrument measured at fair value through profit or loss	422	474	-11.0%	347	21.6%	896	862	4.0%
Gain (loss) on investments, net	50	-11	N/A	1	3449.8%	39	12	210.9%
Share of profit from investment using equity method	51	75	-32.4%	62	-18.4%	126	155	-18.2%
Gain on sale of properties foreclosed, assets & other assets	92	52	75.9%	63	46.8%	145	112	29.7%
Dividend income	203	2	11013.5%	139	46.4%	205	139	47.7%
Others	190	216	-12.2%	218	-12.8%	406	454	-10.6%
Non-interest income	**3,668**	**3,368**	**8.9%**	**3,475**	**5.5%**	**7,035**	**6,840**	**2.9%**

Note: Consolidated financial statements

Figure 5: **Strategic non-interest income**



Note: Consolidated financial statements, prelim data

**Bancassuarance is included fees from TMBThanachart Broker, ttb broker, our fully owned subsidiary and operating non-life brokerage business, is becoming an important role to auto car insurance. TTB has moved car insurance renewal to service at ttb broker and improve sale efficiency in branch staff.*

Non-interest expenses

For the 2nd quarter of 2023: The Bank recorded THB7,863 million of total non-interest expenses which increased by 7.7% QoQ and 8.3% YoY. Key items are as follows:

- Employee expenses increased by 4.0% QoQ and 9.3% YoY to THB4,244 million, largely came from higher staff cost and incentives aligned with business growth in 2Q23.
- Premises and equipment expenses dropped by 1.4% QoQ but rose 5.6% YoY to THB1,189 million. The QoQ reduction was from the asset revaluation in 1Q23. Still, this cost had a decreasing trend since the merger from the cost saving synergy.
- Other expenses increased by 19.5% QoQ and 2.5% YoY to THB1,899 million. Such an increase was due mainly to seasonally higher selling and marketing expenses and software expenses.

In the first half of 2023: Non-interest expenses increased by 6.4% YoY to THB15,166 million. Key factors are as follows:

- Employee expenses rose by 9.6% YoY to THB8,326 million because of higher staff cost and incentives, aligning with growing business volume.
- Premises and equipment expenses decreased by 0.9% YoY to THB2,395 million, mainly resulted from lower depreciation expense.
- Other expenses slightly increased by 0.4% YoY to THB3,488 million, owing to selling and marketing expenses.

Figure 6: **Non-interest expenses**

(THB million)	2Q23	1Q23	% QoQ	2Q22	% YoY	1H23	1H22	% YoY
Employee expenses	4,244	4,082	4.0%	3,885	9.3%	8,326	7,596	9.6%
Directors' remuneration	68	10	587.3%	29	134.0%	78	38	104.0%
Premises and equipment expenses	1,189	1,206	-1.4%	1,126	5.6%	2,395	2,417	-0.9%
Taxes and duties	463	417	11.1%	369	25.5%	880	724	21.5%
Other expenses	1,899	1,589	19.5%	1,852	2.5%	3,488	3,474	0.4%
Non-interest expenses	**7,863**	**7,303**	**7.7%**	**7,262**	**8.3%**	**15,166**	**14,249**	**6.4%**

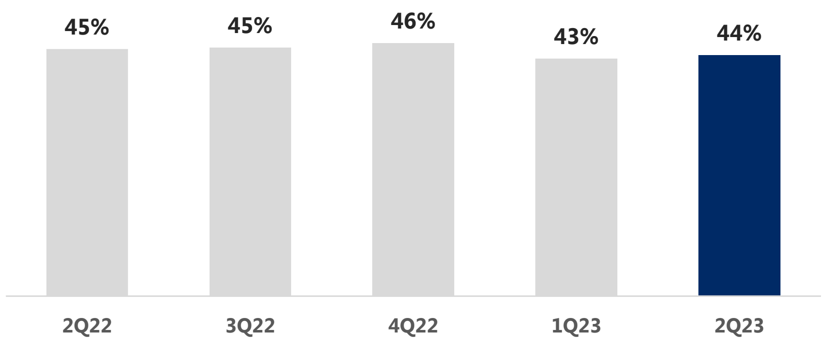
Note: Consolidated financial statement

2Q23 Cost to income ratio was maintained at 44%, improved from the same period last year

In 2Q23, cost to income ratio (C/I ratio) was at 44%, slightly increased from 1Q23 at 43% but improved from 45% in 2Q22. Even though the cost increased in this quarter aligned with business volume, the cost discipline helped maintain the level of C/I ratio amid revenue recovery. The C/I ratio excluded PPA impact was 43%.

For 1H23, C/I ratio was at 44% improved from 45% in 1H22. Not only prudent cost control during the business expansion and the transformation to digital-first business model but also revenue boosting thru digital enhancement and ecosystem plays would be key drivers to achieve low-40s C/I in the next 3 years.

Figure 7: **Cost to income ratio**

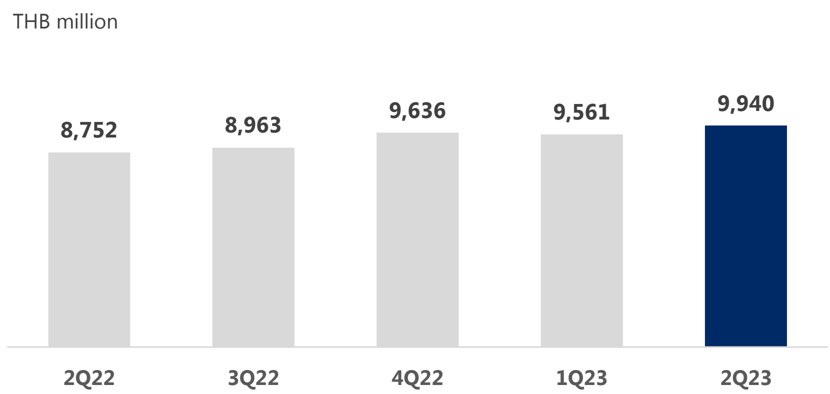


Note: Consolidated financial statements

Operating profit and Expected Credit Loss

Pre-provision operating profit (PPOP): PPOP amounted to THB9,940 million in 2Q23, increased by 4.0% QoQ and 13.6% YoY. PPOP for the first half of 2023 was at THB19,501 million, grew by 11.0% YoY.

Figure 8: **Pre-provision operating profit (PPOP)**



Note: Consolidated financial statements

Setting aside 2Q23 ECL of THB4,244 million under prudent ECL model

Expected Credit Loss (ECL): Asset quality management remained key challenging area amid economic recovery environments. The Bank has maintained a prudent approach and closely monitored asset quality with prudent ECL model and considered forward-looking risks through Management Overlay.

In this quarter, the Bank set aside expected credit loss and management overlay of THB4,244 million, equivalent to a credit cost of 125 bps, which decreased by 0.7% QoQ and 3.2% YoY. As the Bank has proactively cleaned up and de-risked loan portfolio over the past few years with stringent risk management model based on our strict principle-based relief schemes, the current ECL level reflected that the asset quality of our loan portfolio became manageable. Our ECL model took qualitative assessment into account and complied with BoT guideline, so this reflected the true customer repayment behavior which had no alarming sign in NPL formation trend. For the first 6-month of 2023, ECL amounted to THB8,520 million, a decrease of 7.3% YoY. The coverage ratio was built up further to 144% from 140% in 1Q23.

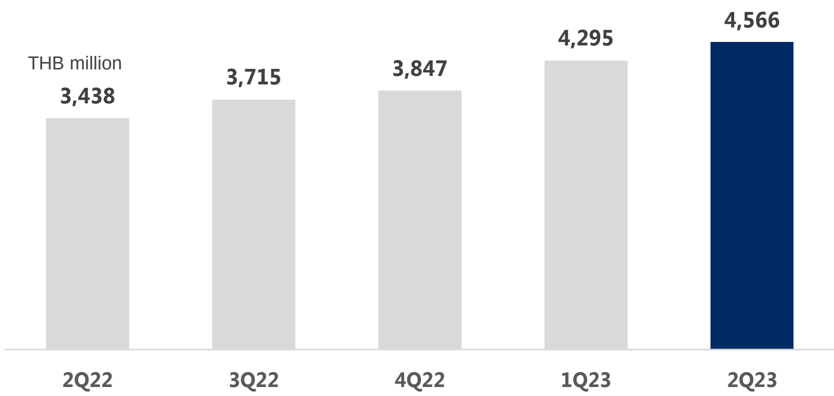
Figure 9: Expected Credit Loss (ECL) and credit cost

(THB million)	2Q23	1Q23	% QoQ	2Q22	% YoY	1H23	1H22	% YoY
Expected credit loss	**4,244**	4,276	-0.7%	4,382	-3.2%	**8,520**	9,190	-7.3%
Credit cost (bps) - annualized	**125**	127		127		**126**	135	

Note: Consolidated financial statements

Net profit: After provision and tax, net profit in 2Q23 was THB4,566 million which increased by 6.3% QoQ and 32.8% from the same period last year. It was represented the ROE of 8.2%, improved from 7.9% in 1Q23 and 6.5% in 2Q22. For the first 6-month of 2023, net profit equaled to THB8,861 million, represented ROE of 8.0%.

Figure 10: Net Profit (to equity holder of the Bank)



Note: Consolidated financial statements

Please see the next session for the discussion of financial position.

Discussion of financial position

Figure 11: Selected financial position (Consolidated)

(THB million)	Jun-23	Mar-23	%QoQ	Dec-22	%YTD
Cash	14,045	13,998	0.3%	15,506	-9.4%
Interbank and money market items, net	212,194	231,232	-8.2%	187,563	13.1%
Financial assets measured at fair value through profit or loss	1,432	2,162	-33.8%	1,533	-6.6%
Derivative assets	10,381	7,656	35.6%	10,376	0.1%
Investments, net	193,556	189,472	2.2%	211,432	-8.5%
Investments in subsidiaries and associate, net	8,579	8,649	-0.8%	8,574	0.1%
Total loans to customers**	1,363,679	1,358,053	0.4%	1,376,118	-0.9%
Add accrued interest receivables and undue interest receivables*	8,213	8,169	0.5%	7,777	5.6%
Less allowance for expected credit loss	58,558	58,730	-0.3%	57,390	2.0%
Total loans to customers and accrued interest receivables, net	1,313,333	1,307,493	0.4%	1,326,505	-1.0%
Properties for sale, net	12,480	12,417	0.5%	12,152	2.7%
Premises and equipment, net	21,074	21,488	-1.9%	19,788	6.5%
Goodwill and other intangible assets, net	23,373	23,288	0.4%	22,890	2.1%
Deferred tax assets	787	206	282.2%	830	-5.1%
Other assets, net	10,981	8,891	23.5%	9,131	20.3%
Total Assets	**1,822,215**	**1,826,952**	**-0.3%**	**1,826,279**	**-0.2%**
Deposits	1,395,314	1,402,305	-0.5%	1,399,247	-0.3%
Interbank and money market items	82,595	82,884	-0.3%	84,770	-2.6%
Financial liabilities measured at fair value through profit or loss	809	516	56.7%	438	84.6%
Debts issued and borrowings, net	61,579	60,539	1.7%	59,644	3.2%
Deferred revenue	17,296	17,646	-2.0%	17,950	-3.6%
Other liabilities	40,724	38,467	5.9%	45,222	-9.9%
Total Liabilities	**1,598,316**	**1,602,356**	**-0.3%**	**1,607,271**	**-0.6%**
Equity attributable to equity holders of the Bank	223,898	224,594	-0.3%	219,006	2.2%
Non-controlling interest	1	1	0.0%	1	0.4%
Total equity	**223,899**	**224,596**	**-0.3%**	**219,008**	**2.2%**
Total liabilities and equity	**1,822,215**	**1,826,952**	**-0.3%**	**1,826,279**	**-0.2%**
Book value per share (Baht)	2.31	2.32	-0.3%	2.26	2.2%

Note: Consolidated financial statements

** For credit impaired loans to customers and accrued interest are presented net from allowances for expected credit loss*

Assets

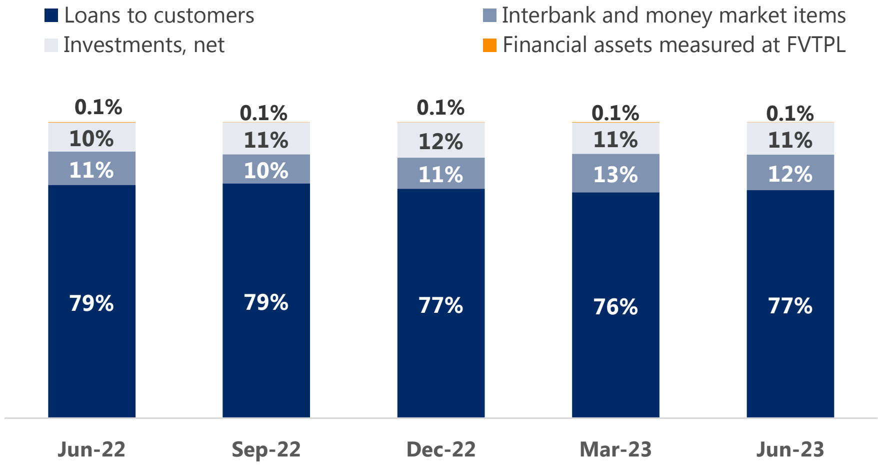
As of 30 June 2023, total assets on consolidated basis were THB1,822,215 million, marginally declining by 0.3% QoQ and 0.2% YTD. Key items are as follows:

- Total loans to customers and accrued interest receivables net increased slightly by 0.4% QoQ but declined 1.0% YTD to THB1,313,333 million. (Details in the following section).
- Net interbank and money market items dropped by 8.2% QoQ but increased 13.1% YTD to THB212,194 million. The QoQ decline was aligned with liquidity management preparing for growing selective assets especially high-yield retail loan.
- Net investments and financial asset measured at fair value through profit and loss increased by 1.7% QoQ but decreased by 8.4% YTD to THB194,988 million.

Such QoQ increase was aligned with investment plan which was adjusted to seek better returns during the interest rate rising trend in the market.

After the merger, loans to customers were still the largest portion of earning assets. As of 30 June 2023, loans to customers represented 77.0% of earning assets. This was followed by interbank and money market of 12.0%, investments of 10.9%, and financial assets measured at fair value through profit or loss of 0.1%, respectively.

Figure 12: Earning assets



Note: Consolidated financial statements

Investment Classification

Under TFRS9, investment items are classified into 3 categories; fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) and measured at amortized cost. As of 30 June 2023, investments were classified as follows:

(THB million)	30 Jun 2023	31 Mar 2023
Financial assets measured at FVTPL	**1,432**	**2,162**
Investments in debt securities measured at amortized cost	55,907	50,557
Investments in debt securities measured at FVOCI	135,233	136,628
Investments in equity securities measured at FVOCI	2,416	2,287
Net Investment*	**193,556**	**189,472**
Total Investment	**194,988**	**191,634**

Note: Consolidated financial statements

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

Total loans to customers and accrued interest receivables

As of 30 June 2023, TTB recorded total loans to customers and accrued interest receivables-net on consolidated basis of THB1,313 billion, a marginal increase of 0.4% from March 2023 (QoQ) but a decline of 1.0% from December 2022 (YTD).

In terms of total loan to customers on consolidated basis (excluded allowance for ECL), the figure amounted to THB1,364 billion, increased slightly by 0.4% QoQ but declined 0.9% YTD. Such a QoQ increase was mainly thanks to the resumption of corporate lending especially working capital. On top of that, positive momentum in expansions of high yield products such as Cash Your Home (CYH), Cash Your Car (CYC) and personal loans continued to underpin the overall growth in this quarter.

Overall loan growth momentum remained on track with the Bank's strategic direction in recycling liquidity from low yield segment to selectively grow towards higher yield space while prudently monitoring asset quality along the line. Details are as follows:

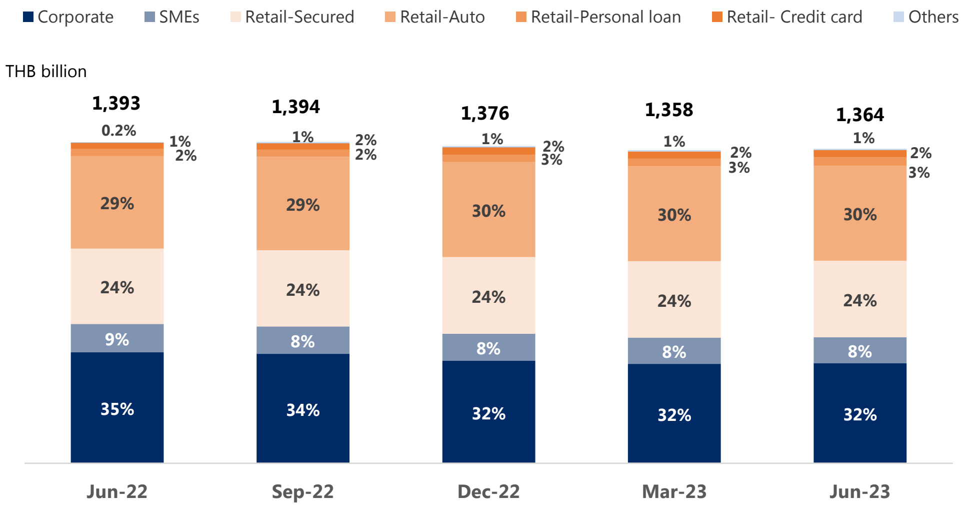
- Retail lending on consolidated basis increased slightly by 0.5% QoQ and 0.3% YTD, mainly attributable to high yield products such as personal loans and credit card. Personal loans maintained its glowing momentum by expanding the loan portfolio by 6.5% QoQ and 9.3% YTD. Credit card also grew by 4.3% QoQ and 0.1% YTD. These improving developments reflected our ongoing effort to build up more fair share in consumer lending area through ttb consumer. In addition, hire purchase loans expanded marginally by 0.2% QoQ and 0.3% YTD with CYC remained the key driver, expanding by 5.7% QoQ and 9.7% YTD. Other HP segments including new car and used car remained aligned with market situation and the bank's direction to selectively grow quality portfolio considering appropriated risk-adjusted returns. Meanwhile, mortgage was relatively stable QoQ and declined marginally by 0.6% YTD, reflecting soft new bookings amid unfavorable interest rate environment for homebuyers. However, the growth momentum of Cash Your Home (CYH) remained on positive trajectory, growing by 3.5% QoQ and 6.5% YTD.
- Corporate lending on consolidated basis increased marginally by 0.7% QoQ but declined by 2.6% YTD. Such a QoQ increase was underpinned by working capital. Meanwhile, the Bank still saw the lower demand of term loans compared to actively traded bond market in the light of a rising rate environment.
- SME segment (Small and Medium SME) declined by 0.9% QoQ and 2.7% YTD, aligned with our stance to maintain conservative position by de-risking SME portfolio.

In terms of loan breakdown by customer segments, the loan portfolio has diversified and shifted to retail segment since the merger. As of 30 June 2023, retail loans accounted for 60% while corporate loans were 32% and SME were 8% of total portfolio.

In terms of key products, 30% of total loan was hire purchase, followed by mortgage of 24%, term loan of 18%, working capital (OD&RPN) of 16%, trade finance of 6%, unsecured & credit card of 5%, and others 1%, respectively.

As of 30 June 2023, HP portfolio consisted of new car 69%, cash your car (CYC) 16%, used car 15%, and cash your book (CYB) of 0.1%, respectively.

Figure 13: Total loan to customers breakdown by customer segment

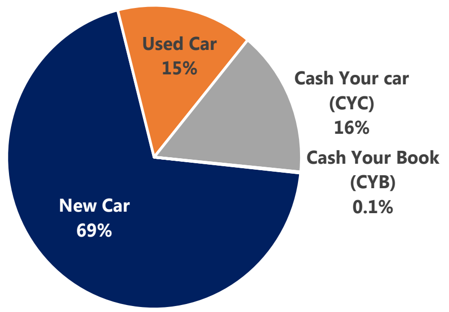


Note: Consolidated financial statements

There was the reclassification of retail-other to mortgage loan in Jan 2023 after internal annual review loan portfolio and, for comparison purpose, we reclassified retrospectively.

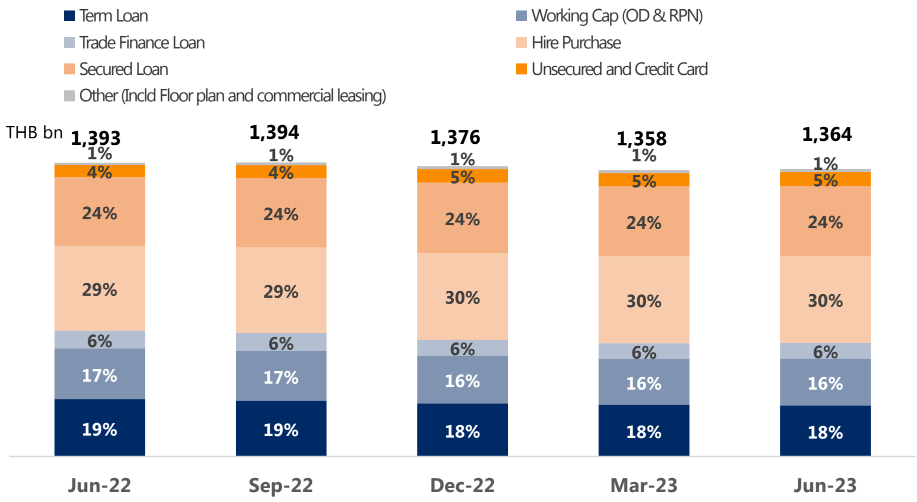
Segment definition:
Corporate: customers with annual sales volume more than THB400 million
SME: small and medium SME customers with annual sales volume up to THB400 million, including owner operators

Figure 14: Hire purchase breakdown



Note: Consolidated financial statements

Figure 15: Total loan to customer breakdown by product



Note: Consolidated financial statements

Total modified loan portfolio

As the Bank's has proactively assisted customers who were affected from Covid-19 situation thru the debt relief program to ensure that they received proper assistance and could sustainably service their debts, the debt relief portfolio has decreased overtime on the expiry schedule. Currently, the debt relief was migrated to a comprehensive debt restructuring program and the Bank continues to give proper aids to customers amidst rising interest rate environment. As of June 2023, TTB's total modified portfolio (which included legacy restructured loans before Covid-19 and all types of modified loan under debt restructuring program) maintained at 11% of total loans, relatively stable from March 2023 but decreased from 12% as of June 2022. We continue to proactively monitor this portfolio ensuring prudent asset quality control. Under the modified portfolio, approx. 7% of total loans was light modified terms which was comparable to BoT's orange scheme and approx. 4% of total loans in deep modification which was comparable to BoT's blue scheme.

Asset Quality

Under TFRS9, loans are classified into 3 stages based on changes in credit quality identified since initial recognition. The expected credit loss (ECL) framework is based on the requirements of the Thai Financial Reporting Standard No. 9 Financial Instruments (TFRS 9) which became effective from January 1, 2020 onwards.

The Bank calculated and reported impairment based on our ECL model-based calculation which is a probability-weighted estimate of credit loss over the expected life of financial instruments, adjusted with forward looking assumptions to take into account the expectation of future macro-economic outlook and potential impacts on our loan portfolio.

As of 30 June 2023, Loans and allowance for expected credit loss were classified as follows:

Figure 16: Loan and accrued interest receivables classification and allowance for expected credit loss*

	30 Jun 2023	
(THB million)	**Loans to customer and accrued interest receivables**	**Allowance for expected credit Loss**
Stage 1 (Performing)	1,211,541	13,170
Stage 2 (Under-performing)	119,631	25,881
Stage 3 (Non-performing)	40,719	19,507
Total	**1,371,891**	**58,558**

	31 Dec 2022	
(THB million)	**Loans to customer and accrued interest receivables**	**Allowance for expected credit Loss**
Stage 1 (Performing)	1,225,348	13,325
Stage 2 (Under-performing)	116,840	24,469
Stage 3 (Non-performing)	41,707	19,596
Total	**1,383,895**	**57,390**

Note: Consolidated financial statement, Loan and accrued interest receivable of stage 3 is presented on a net basis

Stage 3 loans (Non-performing loan) and NPL ratio, 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.

As of 30 June 2023, Stage 3 loans (NPLs), excluded accrued interest receivables on consolidated basis, was reported at THB40,719 million which decreased from THB42,006 million at the end of March 2023 and from THB41,707 million at the end of December 2022. Stage 3 loans (NPLs) on bank-only basis amounted to THB36,543 million, declined from THB37,253 million in March 2023 and from THB37,208 million in December 2022.

Overall asset quality remained manageable, and we saw no alarming sign of NPL formation. In addition, the repayment behavior of borrowers in modified portfolio has improved alongside with economic recovery. On top of the Bank's conservative loan staging approach, we have continued to prudently monitor the NPLs situation as well as actively manage NPL resolution. As a results, in this quarter, the Bank and its subsidiaries wrote off NPLs amounting to approximately THB4.3 billion, increasing from THB2.9 billion in 1Q23, and sold THB1.8 billion of NPLs compared to THB1.4 billion previous quarter.

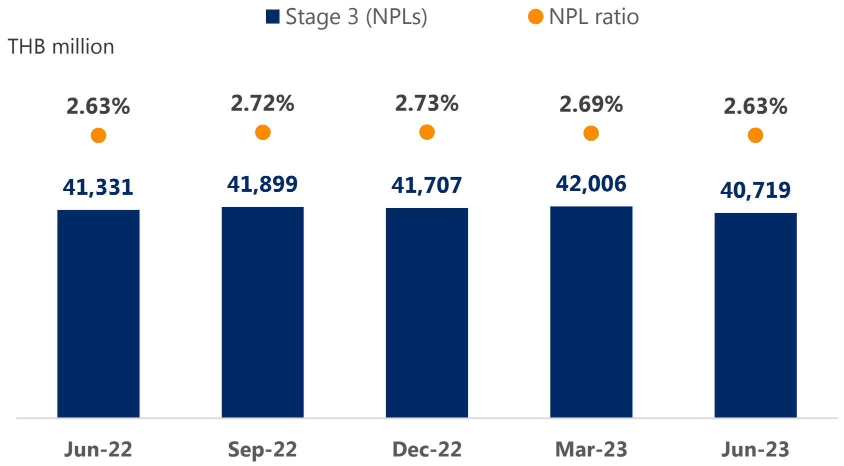
As of 30 June 2023, NPL ratio on consolidated basis was recorded at 2.63%, well-contained compared with 2.69% at the end of March 2023 and 2.73% at the end of December 2022. Meanwhile, NPL ratio on bank- only basis stood at 2.37% when compared with 2.39% as of March 2023 and 2.44% as of 31 December 2022. Overall, NPL ratio remained within the target.

Allowance for expected credit loss

Given the current unfavorable economic conditions and the prolonged COVID-19 pandemic, the Bank remains prudent in setting provision and proactively reviews and set aside management overlay to cover both Probability of default (PD) and Loss given default (LGD) shift. Moreover, the Bank closely monitors customers payment ability in order to reflect real behavior in ECL model and offers further assistance to those in need in timely manner. The allowance for expected credit loss was set at the prudent level, preparing for the future uncertainties.

As of 30 June 2023, the Bank and its subsidiaries reported the allowance for expected credit loss at THB58,558 million, which decreased marginally by 0.3% QoQ but increased 2.0% YTD. The level of allowance still reflected the Bank's current loan portfolio nature, which 54% are retail secured loan, and manageable asset quality. The Bank has strictly and prudently classified loan staging and set aside the provision based on the actual risk profiles while managing asset quality along the line. With improving NPLs, coverage ratio increased to 144% in 2Q23 from 140% in 1Q23.

Figure 17: Stage 3 loan (NPLs) and NPL ratio



Note: Consolidated financial statement, non-performing loans classified as stage 3

Liabilities and Equity

As of 30 June 2023, total liabilities and equity on consolidated basis was reported at THB1,822,215 million, marginally shrinking by 0.3% QoQ and 0.2% from the end of December 2022.

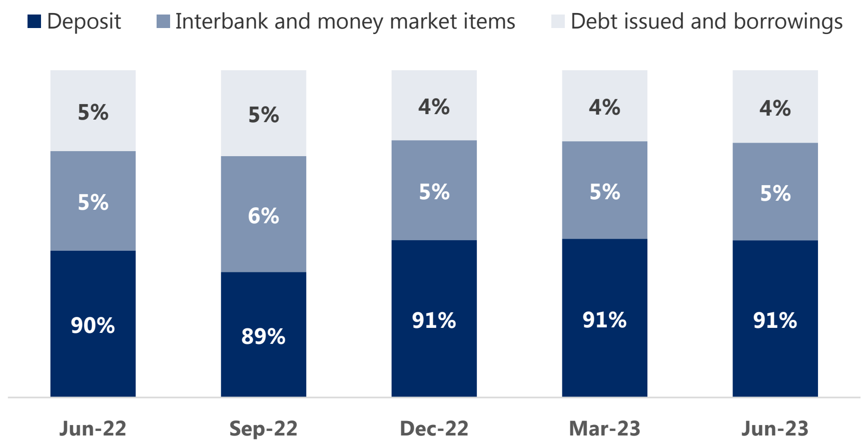
Total consolidated liabilities were THB1,598,316 million, slightly decreased by 0.3% from March 2023 and 0.6% from December 2022. Details of key figures are as follows;

- Total deposits were THB1,395,314 million which contracted slightly by 0.5% QoQ and 0.3% YTD. (see details in following section)
- Interbank and money market items amounted to THB82,595 million which declined by 0.3% QoQ and 2.6% YTD, mainly due to the Bank's liquidity management.
- Borrowings was recorded at THB61,579 million which increased by 1.7% QoQ and 3.2% YTD. (see details in following section)

The consolidated equity was THB223,899 million, marginally decreased by 0.3% QoQ but increased by 2.2% YTD. Such QoQ decline was mainly due to dividend payment outweighing the accumulation of the net profit.

Deposit was the largest composition of interest-bearing liabilities. As of 30 June 2023, deposit represented 91% of interest-bearing liabilities. This was followed by interbank and money market items of 5% and debt issued and borrowings of 4%.

Figure 18: Interest-bearing liabilities breakdown



Note: Consolidated financial statement

Deposits

As of 30 June 2023, the Bank and its subsidiaries reported total deposits on consolidated basis of THB1,395,314 million which slightly declined by 0.5% QoQ and 0.3% from the end of 2022. During the interest hike cycle, we continued to see customers' demand for saving purpose deposits. As such, the QoQ and YTD decreases were mainly from saving account and non-transactional deposit especially No-Fixed flowing out to TD.

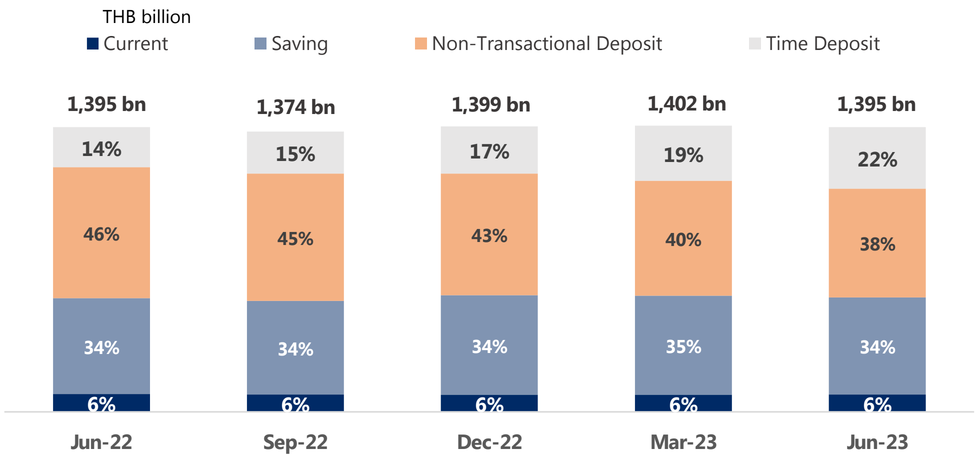
Deposit breakdown by products

TTB has constantly maintained efficiency in asset-liability management by optimizing deposit base to be aligned and adequate for accommodating the loan growth momentum while strategically managing funding cost to sustainably ensure the long-term profitability.

With the interest-rate hiking cycle, the Bank has seen liquidity from saving and non-transactional deposit flowing out to TD which offers higher competitive rates. Consequently, TD rose by 12.0% QoQ and 30.2% YTD, accounted for 22% of total deposit, which increased from 19% at the end of March 2023. Such replenishment was on the expense of non-transactional deposit such as No-Fixed; it continued to drop by 6.2% QoQ and 12.0% YTD. Having said that, the deposit structure was still in-line with the Bank's direction supporting the current loan mix structure. Cost of funding was also well-managed, partly thanks to pre-funding strategy that TTB had locked up the long-term deposit before the rising rate cycle kicked in. In addition, the Bank plans to leverage ecosystem to acquire more of low-cost transactional deposit and CASA to efficiently optimize funding cost going forward.

As of June 2023, retail deposit proportion represented 71% and commercial deposit represented 29% of total deposit. In terms of deposit structure, the ratio of non-transactional deposit to total deposit was reported at 38% while transactional deposit (CASA-excluded No-Fixed and ME Save) accounted for 40%, Time Deposit accounted for 22%, respectively.

Figure 19: Deposit structure by products



Note: Consolidated financial statement
Remark: "TTB No Fixed" and "ME" are classified as savings account as they are not required to maintain minimum balance and have no restriction to term of deposit, presented in this graph as non-transactional deposit.

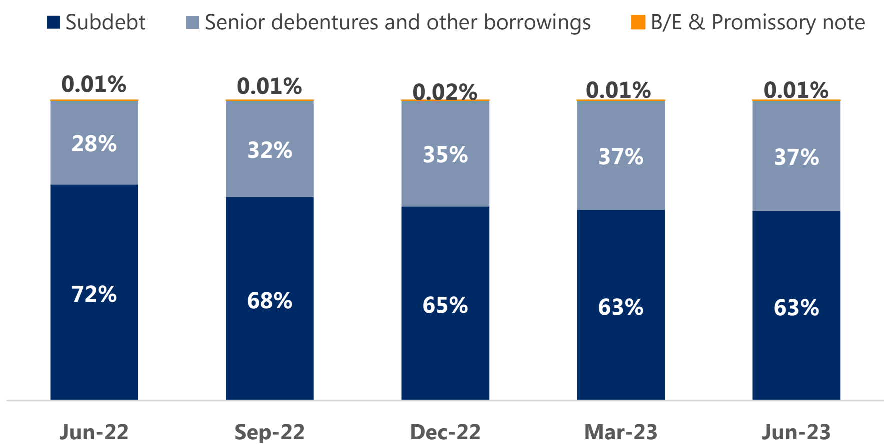
Borrowings

Borrowing increased by 1.7% QoQ mainly due to loss on exchange rate

As of 30 June 2023, total borrowings of the Bank and its subsidiaries recorded at THB 61,579 million which increased by 1.7% QoQ and 3.2% YTD. Such QoQ increase was mainly due to loss on exchange rate.

In terms of borrowing structure, 63% was sub-debt. This was followed by senior debentures of 37% and BE of 0.01%.

Figure 20: Borrowings breakdown



Note: Consolidated financial statements

Liquidity and loan to deposit ratio

TTB has a strong liquidity position and has maintained high proportion of liquid and low-risk assets.

As of 30 June 2023, on consolidated basis, total liquid assets represented 15.8% of the total assets. The liquid assets consisted of cash (0.8%), interbank & money market items (11.6%), short-term investment (3.3%) and short-term financial assets measured at FVTPL (0.1%).

In terms of loan to deposit ratio (LDR), on consolidated basis was at 98%, relatively stable from December 2022 but increased from 97% as of March 2023.

With the Bank's funding strategy to diversity funding source through debt issued and borrowings, Loan to deposit and debt issue and borrowings was recorded at 94% as of June 2023.

Figure 21: Liquid asset allocation and loan to deposit ratio

Liquid assets	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22
Cash	0.8%	0.8%	0.8%	0.8%	0.7%
Interbank and money market	11.6%	12.7%	10.3%	9.4%	11.0%
Short-term investment	3.3%	2.0%	3.6%	3.1%	3.0%
Short-term financial assets at FVTPL	0.1%	0.1%	0.1%	0.1%	0.1%
Liquid assets/Total assets	**15.8%**	**15.6%**	**14.8%**	**13.5%**	**14.8%**
Loan to deposit ratio (LDR)	**98%**	**97%**	**98%**	**101%**	**100%**

Note: Consolidated financial statement

Capital Adequacy

Maintain high capital ratios under Basel III

The Bank consistently ensures robust capital base. As of 30 June 2023, Capital Adequacy Ratio (CAR) on consolidated basis under Basel III calculation was at 19.8%, while Tier 1 ratio and CET 1 ratio stayed at 16.1% and 15.7%, respectively. Such levels were well above the Bank of Thailand's minimum requirement (including conservation buffer and the D-SIBs buffer) of 12.0%, 9.5%, and 8.0% of CAR, Tier 1 ratio and Core Tier 1 ratio, respectively.

Figure 22: Capital adequacy ratio (CAR) and Tier 1 capital under BASEL III

(as % to risk-weighted assets)	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22
Capital Adequacy Ratio (CAR)	**19.8%**	19.9%	20.0%	20.0%	19.9%
Tier I Ratio (Tier 1)	**16.1%**	16.2%	16.3%	16.0%	15.8%
Core Tier 1 Ratio (CET1)	**15.7%**	15.7%	15.7%	15.1%	14.8%

Note: Consolidated financial statement

TTB’s Financial Summary

(THB million)	2Q23	% QoQ	% YoY	1H23	%YoY
Net interest income (NII)	**14,093**	4.4%	13.5%	**27,595**	11.2%
Non-interest income (Non-NII)	**3,668**	8.9%	5.5%	**7,035**	2.9%
Non-interest expenses	**7,863**	7.7%	8.3%	**15,166**	6.4%
Pre-provision operating profit (PPOP)	**9,940**	4.0%	13.6%	**19,501**	11.0%
Expected credit loss (ECL)	**4,244**	-0.7%	-3.2%	**8,520**	-7.3%
Net profit to equity holders of the Bank	**4,566**	6.3%	32.8%	**8,861**	33.6%

(THB million)	30-Jun-23	31-Mar-23	% QoQ	31-Dec-22	%YTD
Total loan to customers	**1,363,679**	1,358,053	0.4%	1,376,118	-0.9%
Total assets	**1,822,215**	1,826,952	-0.3%	1,826,279	-0.2%
Deposit	**1,395,314**	1,402,305	-0.5%	1,399,247	-0.3%
Debt issued and borrowings, net	**61,579**	60,539	1.7%	59,644	3.2%
Total liabilities	**1,598,316**	1,602,356	-0.3%	1,607,271	-0.6%
Total equity	**223,899**	224,596	-0.3%	219,008	2.2%

Key ratios	2Q23	1Q23	2Q22	1H23	1H22
Net interest margin (NIM)	**3.18%**	3.08%	2.83%	**3.13%**	2.87%
Non-interest income to total assets	**0.81%**	0.75%	0.77%	**0.78%**	0.77%
Cost to income ratio	**43.8%**	43.2%	44.9%	**43.5%**	44.5%
Return on equity (ROE)	**8.2%**	7.9%	6.5%	**8.0%**	6.3%
Return on asset (ROA)	**1.0%**	1.0%	0.8%	**1.0%**	0.8%
NPL / Stage 3 (THB mn)	**40,719**	42,006	41,331	**40,719**	41,331
NPL / Stage 3 ratio	**2.63%**	2.69%	2.63%	**2.63%**	2.63%
Credit cost (bps) - annualized	**125**	127	127	**126**	135
Loan to deposit ratio (LDR)	**98%**	97%	100%	**98%**	100%
LDR + Debt issued & borrowings to deposit	**94%**	93%	95%	**94%**	95%
Capital adequacy ratio (CAR)	**19.8%**	19.9%	19.9%	**19.8%**	19.9%
Tier 1 capital ratio (Tier 1)	**16.1%**	16.2%	15.8%	**16.1%**	15.8%
Core tier 1 capital ratio (CET 1)	**15.7%**	15.7%	14.8%	**15.7%**	14.8%
TTB Bank's employees	**14,388**	14,319	14,884	**14,388**	14,884
Group's employees	**15,316**	15,272	15,742	**15,316**	15,742
Domestic branches	**541**	555	603	**541**	603
ATMs, ADMs and All-in-One	**3,308**	3,259	3,474	**3,308**	3,474

Note: Consolidated financial statements

Additional Information: Credit rating profile

Moody's		
	International rating	**Outlook**
Bank Deposits	Baa1/P-2	Stable
Baseline Credit Assessments (BCAs)	baa3	
Senior Unsecured	(P)Baa1	

Latest Changes: June 2020, Moody's has affirmed long-term rating and revised outlook to stable.

Standard & Poor's		
	International rating	**Outlook**
Long-Term Counterparty	BBB-	Stable
Short-Term Counterparty	A-3	
Senior Unsecured	BBB-	
Stand-Alone Credit Profile (SACP)	bb	

Latest Changes: March 2022, Standard & Poor's has downgraded long-term rating and revised outlook to stable.

Fitch Ratings		
	International rating	**Outlook**
Long-Term IDR	BBB	Stable
Short-Term IDR	F2	
Senior Unsecured	BBB	
Viability Rating	bbb-	
Support Rating Floor	BBB	
Support Rating	2	
	National Rating	
Long-Term	AA+ (tha)	
Short-Term	F1+(tha)	
Subordinated Debt	A (tha)	

Latest Changes: September 2021, Fitch Ratings has upgraded Long-term IDR and Support rating floor with stable outlook.

Disclaimer

TMBThanachart Bank Public Company Limited provided this report in order to disclose its financial performance for the quarter and the period as mentioned. Some content may contain forward-looking statements, which based on management's view upon the information currently available to us. These statements are subject to certain risks and uncertainties that could cause the actual results materially different from what had been previously stated. The materials in this report shall not, and are not intended to, constitute or contain an offer to sell or the solicitation of an offer to buy, any securities of TMBThanachart Bank Public Company Limited.