



Bangkok Bank Public Company Limited
Management Discussion and Analysis
for the Quarter and the Year Ended December 31, 2019



Management Discussion and Analysis

Overview of the Economy and Banking Industry

Thai Economy in 2019

In 2019, the Thai economy grew by 2.4 percent year-on-year, down from 4.2 percent in 2018. Against the backdrop of a global trade slowdown and US-China trade uncertainty, merchandise exports and imports for the year contracted by 2.7 and 4.7 percent from 2018, respectively. Private investment slowed to 2.8 percent from 4.1 percent in 2018 while manufacturing production declined 3.7 percent, in line with a low capacity utilization rate of 66.3 percent, below the five-year average of 68.0 percent. Consequently, employment contracted by 0.7 percent. Private consumption slightly softened due to stagnant farm and non-farm income growth. Moreover, household debt, which rose by 5.5 percent to Baht 13.2 trillion (79.1 percent of GDP) as of the third quarter of 2019, weighed on household purchasing power. However, in the second half of the year, the government rolled out stimulus policies worth Baht 464 billion to support domestic spending, the property market and grassroots economy. Meanwhile, tourist arrivals rose by 4.2 percent, softening from 7.3 percent in 2018. A combination of the weak global economy and strong baht capped tourism and spending. In response to a slowdown in tourism, visa fee waivers were extended twice to end on April 30, 2020.

Headline inflation weakened from 1.1 percent in 2018 to 0.7 percent in 2019, largely due to a fall in energy prices, especially in the third quarter. Core inflation was 0.5 percent, down from 0.7 percent in 2018. In December 2019, the Bank of Thailand adjusted the inflation target for 2020 and the medium term to a range of 1-3 percent from 2.5 ± 1.5 percent.

The Bank of Thailand lowered the policy rate twice at the August and November Monetary Policy Committee meetings, taking the rate down from 1.75 percent to 1.25 percent. The Bank of Thailand also eased foreign exchange regulations to curb the strong baht and encourage domestic capital outflows. At the end of 2019, the Thai baht was 30.15 to the US dollar, an appreciation of 7.1 percent from the end of 2018.

Global financial markets experienced volatility amid the uncertainties around global trade and supply chains between major economies such as the US and China, the UK and EU, as well as geopolitical tensions in the Middle East. Nevertheless, Thailand continued to maintain its strong economic fundamentals, with a current account surplus of USD 37.3 billion, approximately 6.8 percent of GDP, and international reserves standing at 1.3 times its total foreign-currency-denominated debt.

Economic Outlook for 2020

In 2020, Thailand's economic growth will likely slow to the range of 1.9 - 2.3 percent on account of several challenges. External factors include a sharp drop in tourist arrivals due to the Coronavirus Disease 2019 (COVID-19) outbreak and slowing Chinese economy. Meanwhile, domestic factors include severe droughts and the delay on government budget approval. Nevertheless, merchandise exports are expected to improve on the back of a modest global trade recovery due to recent progress in the US-China trade negotiations. World trade volume growth is forecast to improve from 1.0 percent in 2019. Private consumption will likely remain subdued from the elevated household debt. Fiscal stimulus, an accommodative monetary stance and clarity in the government's implementation of infrastructure investment such as the Eastern Economic Corridor (EEC), mass transit trains and high-speed railways will bolster business sentiment. Moreover, there are indications that suggest foreign firms are looking to relocate production activities to and expand production in Thailand in response to trade conflicts, particularly in sectors such as electronics and automotive parts.

It is also likely that the Bank of Thailand could further lower the policy rate in 2020 on the back of a deteriorating economic outlook.

*Thai Banking Industry in 2019*

In 2019, commercial banks in Thailand remained stable. Capital funds and reserves were at a high level and were able to support the challenges of uncertain economic conditions. The performance of the Thai banking system improved, mainly due to the recognition of special profits, while loan growth and credit quality were affected by the economic slowdown. The combined net profit of the commercial banking system was Baht 270.9 billion, a 30.8 percent increase from last year, due to the recognition of special profits from the sale of investments.

At the end of 2019, loan growth in the Thai commercial banking system decreased to 2.0 percent. Total business loans (64.1 percent of all loans) shrank by 0.8 percent due to the economic slowdown and debt repayments in many types of businesses. Corporate loans (excluding financial businesses) shrank by 1.9 percent and SME loans (excluding financial businesses) contracted by 2.1 percent. Consumer loans (35.9 percent of all loans) grew by 7.5 percent, decelerating from the previous year, with the growth mainly coming from home loans and car loans. Meanwhile, credit card loans and personal loans continued to expand.

Deposits grew by 4.2 percent from the end of 2018. The ratio of loans to deposits dropped from 98.3 percent at the end of 2018 to 96.3 percent. The Liquidity Coverage Ratio (LCR) stood at 187.5 percent. For liquidity management, commercial banks are placing great emphasis on deposit restructuring and cost management as well as reserve requirements to comply with LCR guidelines under Basel III.

In terms of loan quality, non-performing loan (NPL) stood at Baht 465 billion or a ratio of 2.98 percent of gross NPL to total loans. However, the level of capital reserves and loan loss reserves remained high and adequate to absorb future NPL in the banking system. At the end of 2019, the total Capital Adequacy Ratio (CAR) and Common Equity Tier 1 ratio (CET1) stood at 19.6 percent and 16.0 percent, respectively.

The evolving business environment in 2019 required commercial banks in Thailand to accelerate their business transformation. Thailand's economic growth was subdued. Shrinking export growth led to higher unemployment and slower private investment growth, while private consumption was constrained by high household debt. Fierce competition continued and each bank attempted to develop products and services to serve customers through digital channels. New business models, together with insights from data analytics, enabled banks to target, attract and engage customers using more sophisticated techniques. Banks cooperated with potential partners across industries to gain new opportunities and generate new sources of revenue. Banking operations were also continuously improved to reduce costs. On the regulatory front, the Bank of Thailand implemented a macroprudential policy to regulate the Loan-to-Value (LTV) ratio for mortgage loans which led to a decline in bank lending to the real estate sector. The Bank of Thailand also implemented policies to encourage commercial banks to focus on sustainable banking.

Thai Banking Industry in 2020

In 2020, the global financial system will still face a number of uncertainties. Throughout 2020 central banks in major developed economies are expected to continue with the monetary policies of 2019. Trade tensions between the US and China appeared to ease after an agreement was reached on the US-China Phase 1 trade deal in early 2020. However, the next steps in the ongoing trade negotiations could take longer than with the Phase 1 deal. Meanwhile, the Thai economy has expanded at a slower rate due to emerging downside risks. Tourism will be quite badly affected by the COVID-19 outbreak originating in China. However, export growth is expected to improve, resulting from easing trade tensions between the US and China.

Given this highly uncertain economic environment, the growth of commercial bank lending will likely slow. Banks will closely and continuously monitor loan portfolios and adopt cautious lending policies. This, coupled with the Bank of Thailand's macroprudential measures, will help reduce risky loans. Increasing bank reserves and relatively high levels of capital will continue to help banks to face challenges. Additionally, commercial banks will need to manage liquidity in line with the Bank of Thailand's requirements to comply with the LCR and the Net Stable Funding Ratio (NSFR) guidelines, which require banks to hold sufficient liquid assets to ensure their resilience to liquidity shocks.

Factors Affecting Banking Industry Performance

Thai commercial banks may encounter challenges from rapid changes in government policies and in the business environment that will affect their operations over the next two to three years. These challenges are as follows.

- 1. Demographic shifts** - Thailand is expected to become an aging society in 2021 when 20 percent of the population will be 60 or older and 14 percent will be older than 65. This demographic shift will affect the economy as follows: (1) The labor force will continually decrease which will affect labor intensive industries such as textiles and garments, apparel, leather products and wooden products and furniture. Businesses operating in these sectors must increase their productivity to survive. They may need to shift to automated production processes and/or focus more on research and development to create higher value-added products and services. They will also need to improve training to develop the skills of their employees. (2) Consumers will change the value and nature of their consumption patterns. Normally, people consume less as they get older but products and services that are designed specifically for the elderly may become more popular such as wellness, food supplements and health and beauty products. In the future, older people will have more influence within the consumer market. There will be opportunities for businesses that focus on the needs of older people such as anti-aging products and services, medical services, pharmaceuticals, pilgrimage tourism and spiritual development.
- 2. Eastern Economic Corridor** - The EEC is being developed in three Thai provinces, namely Chachoengsao, Chonburi, and Rayong, and includes designated industries which are being targeted to increase investment potential. The government has been investing in key infrastructure in the designated promotional zones, beginning with six projects:
 - 1) U-Tapao International Airport and Aerotropolis
 - 2) High-speed railways to connect three international airports (Suvarnabhumi – Don Muang – U-Tapao)
 - 3) Phase III Laem Chabang seaport
 - 4) Phase III Map Ta Phut seaport
 - 5) Sattahip Commercial deep seaport
 - 6) Railway networks providing a seamless connection between the three seaports

The government is developing integrated transportation systems to strengthen Thailand's role as a major global economic hub, and to support the development of regional supply chains. The tensions created by the trade war between the US and China have led some supply chains to be shifted out of China to the ASEAN region. Even though there are major competitors such as Vietnam, Indonesia and other countries in the region, many companies are deciding to move their production bases to Thailand. Factors attracting them include Thailand's strategic location, the EEC project, investments in transport and logistics infrastructure, the promotion of 10 targeted industries, policies that promote advances in production capability and the domestic supply chain, the focus on technological and innovation development, and upgrading labor skills to support the new targeted industries.

3. Digital disruption - Digital technology will have many impacts on commercial banking. The use of smartphones and tablets is growing rapidly and easy access to digital media is changing how consumers use financial services. This is in line with the country's move towards a cashless society. Technology innovations make it easier to make payments, transfer and raise funds, provide loans, and manage financial assets. Digital finance helps to enhance the quality of life of retail customers and the efficiency of businesses. Meanwhile, retail customers need services that are fast and seamless through non-branch channels on a 24/7 basis, while entrepreneurs need integrated financial service solutions.

Advances in information technology and digital analysis enable banks to use Big Data analytics and artificial intelligence (AI) to develop marketing strategies suited to each customer group along with more sophisticated products and end-to-end solutions to better meet customer needs.

4. National e-Payment Master Plan Phase 4 (2019-2021) -The master plan aims to create an ecosystem that promotes digital payments as the primary option within a system that is efficient, safe, and low in cost. It must meet the needs of the general public, as well as private and government sectors in line with the development framework in five areas:

- 1) *Interoperable Infrastructure* - To increase the efficiency of the payment infrastructure to meet international standards. This will be achieved by using ISO 20022 to support business data transmission, payment information and payment links to other countries. An e-KYC biometrics system will also serve future payment innovation and increase efficiency in cash management while reducing the cost of payment systems.
- 2) *Innovation* - To promote the development of payment service innovation to increase the efficiency of digital payment and PromptPay services. This will also involve the development of convenient and low-cost international money transfers to achieve end-to-end digital business processes, including purchase, payment and tax documents. This will create an environment conducive to innovation development by adopting good processes in issuing and reviewing criteria to promote innovations. This will reduce service providers' burden and increase their competitiveness as well as supporting the development of innovation in the regulatory "sandbox".
- 3) *Inclusion* - To promote access to and encourage the use of digital payments.
- 4) *Immunity* - To maintain stability and good risk management as well as to monitor and protect users under international security standards
- 5) *Information* - To develop integrated payment information by exchanging information with approved agencies, using tools and in-depth analysis to develop financial innovations and policies.

5. Development of fifth generation (5G) cellular network technology - 5G technology is expected to significantly enhance the capability of Thailand's mobile network, providing more and quicker connections across the economy. Enhanced connectivity will unlock potential in various industries by enabling them to improve their performance. 5G technology is expected to be a key driver for the Internet of Things (IoT) and increase the country's economic potential. It will do this by facilitating rapid communication and interaction across machines with implanted electronic circuits, software, sensors and communication networks. The implementation of 5G will support Thailand's 4.0 policy and the development of the digital economy, facilitate blockchain technology and smart contracts, and will have many applications to support daily business. Thailand is expected to start commercializing 5G technology in 2020.

6. Sustainable Banking - The Bank places importance on caring for and enhancing the quality of the environment and society. Apart from the traditional role of financial intermediaries to support economic growth and stability, the Bank has adopted the concept of sustainability in its business operations by establishing four sustainability guidelines as follows:

- 1) Caring for society and environment
- 2) Conducting business with ethics
- 3) Building business security
- 4) Caring for employees and creating customer satisfaction.

These guidelines are integrated into the Bank's business strategies so that the Bank can grow steadily and sustainably while creating value for all stakeholders and striving to achieve the UN Sustainable Development Goals (UN SDGs).

7. Climate change - Global climate changes have become more apparent this decade. Natural disasters are occurring in every region of the world, including drought, flood, wildfires, and heat waves. In Thailand climate damages are also being experienced. For instance, agricultural products are destroyed by flood or drought, production and transportation sectors are disrupted by flooding, the tourism sector suffers from natural disasters, and marine tourism destinations are degraded. In response to environmental concerns the government has introduced policies and measures such as a national campaign to stop using plastic bags in Thailand effective from January 1, 2020. Therefore, the business sector is at risk from both natural disasters and government policies regarding environmental protection. However, new opportunities are also presented by the development of environmentally-friendly products such as electric cars, as well as from government support policies such as the bio-economy promotion policies. Therefore, commercial banks must pay close attention to the increasing global impact of climate change going forward.

8. The high level of household debt in Thailand - The burden of high debt accumulation is an obstacle to the expansion of household spending, as a proportion of income must be put towards debt repayments, and has caused an increased risk of defaults on payments. In addition, low interest rates encourage people to save less and spend more. According to personal loan statistical data from the National Credit Bureau (NCB), there are three concerning signs:

- 1) Thai people are in debt faster – one out of five 30-year-old people have NPL
- 2) Thai people have more debts
- 3) Thai people are in debt longer meaning that they enter retirement while their debt is not reduced.

9. SME competitiveness - Many Thai SME have problems with their ability to compete due to outdated production systems, labor quality, and lack of innovation and product development. Some SME are highly competitive but have not increased their production efficiency. In the past, location was the main factor to the survival of businesses. However, today, mobile access, e-commerce and logistics are important factors. Traditional SME are mostly family businesses that have difficulty adapting to business disruption, both in terms of product and business models. Technological changes have affected the behavior of consumers as they are increasingly receiving news from social media and websites, and order products from e-commerce or social commerce platforms.

SME located in secondary cities face further issues as their markets are smaller than big cities, due to limitations in market size, quality, labor, cost of transportation and public utilities. Large corporations have increasingly expanded into the secondary cities and this creates more competition for SME there.

10. Thai Financial Reporting Standard change - The Thai Federation of Accounting Professions (TFAC) has issued an announcement on the pack of Thai Financial Reporting Standards relating to financial instruments (TFRS9 Pack) which have taken effect from January 1, 2020 onwards. This standard establishes the principle in relation to the classification and measurement of financial instruments based on the consideration of the contractual cash flow characteristics and the business model. It extends the scope of the items which are subject to expected credit losses to cover loan commitments and financial guarantee contracts. Recognition of allowance for doubtful accounts uses expected credit loss model. As a result of this, the allowance for doubtful accounts is recognized at the initial date of transaction rather than waiting until the impairment indicator incurred (Incurred Loss). The measurement of expected credit loss is derived from the historical loss on an unbiased basis and takes into account forward-looking factors throughout the transaction's lifetime. The expected credit loss measurement concept may lead to volatility of impairment loss in accordance with the model in each accounting period. In addition, it establishes the hedge accounting principle to align with the risk management strategy and establishes the disclosure requirement on financial instruments in order to enable the users of financial statements to evaluate how significant financial instruments may impact the financial position and performance.

TFRS9 Pack will have a broad impact on Thai commercial banks, particularly in terms of their lending business and risk management. The Bank has prepared itself to comply with such accounting standards in terms of its lending business and risk management, especially regarding credit risk and information technology, so as to implement effective change management and enhance related policies and processes.

These factors above will underpin the transformation of Thailand's economy through a combination of government policies and changes in private sector business conduct, as well as changes in consumer behavior. Therefore, Thai commercial banks must be ready to cope with these changes in order to move forward in a sustainable way.

Overall Picture of the Bank and its Subsidiaries

Item	Million Baht							
	Quarter		Change (%)			Year		Change
	4/2019	3/2019	4/2018	3/2019	4/2018	2019	2018	(%)
Net profit *	8,002	9,438	8,101	(15.2)%	(1.2)%	35,816	35,330	1.4%
Earnings per share (Baht)	4.19	4.94	4.24	(15.2)%	(1.2)%	18.76	18.51	1.4%
Net interest margin	2.22%	2.35%	2.46%	(0.13)%	(0.24)%	2.35%	2.40%	(0.05)%
Net fees and service income to operating income ratio	18.7%	22.7%	24.3%	(4.0)%	(5.6)%	21.3%	22.7%	(1.4)%
Cost to income ratio	36.6%	41.9%	56.2%	(5.3)%	(19.6)%	41.1%	45.4%	(4.3)%
Return on average assets *	0.99%	1.17%	1.04%	(0.18)%	(0.05)%	1.13%	1.13%	-
Return on average equity *	7.40%	8.78%	7.86%	(1.38)%	(0.46)%	8.45%	8.73%	(0.28)%

* Attributable to owners of the Bank

Million Baht

Item	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Loans **	2,061,309	2,001,445	2,083,160	3.0%	(1.0)%
Deposits	2,370,792	2,362,766	2,326,470	0.3%	1.9%
Loan to deposit ratio	86.9%	84.7%	89.5%	2.2%	(2.6)%
Non-performing loan (NPL)	79,149	86,221	80,137	(8.2)%	(1.2)%
Ratio of NPL to total loans	3.4%	3.6%	3.4%	(0.2)%	-
Ratio of loan loss reserves to NPL	220.2%	183.4%	190.9%	36.8%	29.3%
Total capital adequacy ratio	20.04%	20.71%	17.96%	(0.67)%	2.08%

** Less deferred revenue

In 2019 Bangkok Bank and its subsidiaries posted a net profit attributable to owners of the Bank of Baht 35,816 million, increased 1.4 percent compared to last year amid challenging economic environment. Net fees and service income increased 3.3 percent, driven by higher fees from loan-related services coupled with the strong performance in bancassurance and mutual funds in line with the Bank's strategic direction. Net interest income slightly declined with net interest margin at 2.35 percent. Other operating income grew 52.3 percent, led by higher gains on investments. While non-performing loan (NPL) had remained stable, a one-off higher provision for impairment loss of loans and debt securities was set aside on conservative premise to strengthen the loan loss reserves, in light of the imminent adoption of the new accounting regime which would entail lower credit cost provisioning rate. Operating expense marginally decreased by 0.4 percent from last year. The cost to income ratio was poised well at 41.1 percent.

At the end of December 2019, loan amounted to Baht 2,061,309 million, an increase of 3.0 percent from the previous quarter, due to an increase in loan in all business units. The non-performing loan (NPL) ratio was at 3.4 percent with strong loan loss reserves to NPL at 220.2 percent. The Bank continued to focus on loan quality through robust control over credit underwriting and risk management while maintaining the allowance for doubtful accounts at prudent level.

The Bank's financial position remained healthy with a strong capital base and optimal liquidity position. At the end of December 2019, the loan to deposit ratio stood at 86.9 percent. On September 25, 2019, the Bank issued 15-year Subordinated Notes qualified as Basel III-compliant Tier 2 capital amounting to USD 1,200 million, which supported the Bank's well mixed of capital structure to be even stronger. As of December 31, 2019, total capital adequacy ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of the Bank and its subsidiaries were 20.04 percent, 17.01 percent and 17.01 percent, respectively, comfortably above the Bank of Thailand's minimum capital requirements.

Operating Income and Expenses of the Bank and its Subsidiaries

Million Baht

	Quarter		Change (%)			Year		Change
	4/2019	3/2019	4/2018	3/2019	4/2018	2019	2018	(%)
Net interest income	17,193	17,944	18,423	(4.2)%	(6.7)%	71,071	71,376	(0.4)%
Non-interest income	26,530	12,295	10,651	115.8%	149.1%	62,675	50,025	25.3%
Operating expenses	15,988	12,679	16,344	26.1%	(2.2)%	54,963	55,165	(0.4)%
Impairment loss of loans and debt securities	16,342	5,381	2,765	203.7%	491.0%	32,351	21,965	47.3%
Operating profit before tax	11,393	12,179	9,965	(6.5)%	14.3%	46,432	44,271	4.9%
Income tax expenses	3,290	2,639	1,767	24.7%	86.2%	10,219	8,554	19.5%
Net profit	8,103	9,540	8,198	(15.1)%	(1.2)%	36,213	35,717	1.4%
Net profit *	8,002	9,438	8,101	(15.2)%	(1.2)%	35,816	35,330	1.4%
Total comprehensive income (losses) *	(2,427)	10,739	8,240	(122.6)%	(129.5)%	27,029	23,157	16.7%

* Attributable to owners of the Bank

For the fourth quarter of 2019, Bangkok Bank and its subsidiaries reported a net profit attributable to owners of the Bank of Baht 8,002 million, a decrease of Baht 1,436 million from the third quarter of 2019. Non-interest income rose by Baht 14,235 million from gains on investments, combined with good growth in net fees and service income. An increase in net fees and service income was mainly due to increases in fees from loan-related services and investment banking services. Operating expenses increased by Baht 3,309 million due largely to higher expenses for system developments and improvements in operational efficiency as well as marketing expenses. In this quarter, impairment loss of loans and debt securities increased by Baht 10,961 million.

Compared with the fourth quarter of 2018, net profit attributable to owners of the Bank slightly fell by Baht 99 million. Net interest income declined by Baht 1,230 million, due mainly to lower transaction volume and yields as the market's interest rates saw a downward trend. Non-interest income increased by Baht 15,879 million predominantly due to higher gains on investments and net fees and service income, mainly from increases in fees from loan-related services and investment banking services. Impairment loss of loans and debt securities increased by Baht 13,577 million.

In 2019, net profit attributable to owners of the Bank amounted to Baht 35,816 million, an increase of Baht 486 million from last year. Non-interest income rose by Baht 12,650 million mainly from higher gains on investments and net fees and service income. An increase in net fees and service income was due to increases in fees from bancassurance and mutual funds, investment banking and loan-related services. Impairment loss of loans and debt securities increased by Baht 10,386 million

Net Interest Income

In the fourth quarter of 2019, net interest income fell by Baht 751 million or 4.2 percent from the third quarter of 2019 due mainly to lower interest income from loans and interbank and money market items. Interest income from loans and interbank and money market items decreased due partly to the reduction in loan interest rates and a lower market yield, respectively. Consequently, the net interest margin decreased from the previous quarter to 2.22 percent.

Compared with the fourth quarter of 2018, net interest income fell by Baht 1,230 million due to lower interest income from loans in line with decreases in transaction volume and yield following the announcements on the cut in loan rates in the second half of 2019. Interest expenses rose by Baht 436 million from the growth in deposits and borrowings.

In 2019, net interest income amounted to Baht 71,071 million, fell slightly from last year. Interest income rose by Baht 1,784 million, due mainly to higher interest income from investments and interbank and money market items from improvement in volume and yield. Meanwhile, interest income from loans remained stable netted by an increase of Baht 2,089 million in interest expenses, in line with the growth in deposits and borrowings, while the net interest margin stood at 2.35 percent.

Item	Quarter		Change (%)		Year		Change (%)	
	4/2019	3/2019	4/2018	3/2019	4/2018	2019		2018
Million Baht								
Interest Income								
Loans	23,015	23,480	24,026	(2.0)%	(4.2)%	93,155	93,131	0.0%
Interbank and money market items	1,971	2,380	2,048	(17.2)%	(3.8)%	9,101	8,451	7.7%
Investments	2,729	2,611	2,435	4.5%	12.1%	10,309	9,199	12.1%
Total interest income	27,715	28,471	28,509	(2.7)%	(2.8)%	112,565	110,781	1.6%
Interest expenses								
Deposits	5,811	5,938	5,499	(2.1)%	5.7%	23,044	21,762	5.9%
Interbank and money market items	396	574	545	(31.0)%	(27.3)%	2,100	2,218	(5.3)%
Contributions to the Deposit Protection Agency and Financial Institutions Development Fund	2,500	2,496	2,446	0.2%	2.2%	9,953	9,864	0.9%
Debt issued and borrowings	1,815	1,519	1,596	19.5%	13.7%	6,397	5,561	15.0%
Total interest expenses	10,522	10,527	10,086	(0.0)%	4.3%	41,494	39,405	5.3%
Net interest income	17,193	17,944	18,423	(4.2)%	(6.7)%	71,071	71,376	(0.4)%
Yield on earning assets	3.57%	3.72%	3.81%	(0.15)%	(0.24)%	3.72%	3.72%	-
Cost of funds	1.57%	1.59%	1.56%	(0.02)%	0.01%	1.59%	1.52%	0.07%
Net interest margin	2.22%	2.35%	2.46%	(0.13)%	(0.24)%	2.35%	2.40%	(0.05)%

Bangkok Bank Interest Rate	Dec'19	Sep'19	Jun'19	Mar'19	Dec'18	Sep'18
Loans (%)						
MOR	6.875	6.875	7.125	7.125	7.125	7.125
MRR	6.875	6.875	7.125	7.125	7.125	7.125
MLR	6.000	6.250	6.250	6.250	6.250	6.250
Deposits (%)						
Savings	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.625	0.500-0.625
3-month Fixed	1.000	1.000	1.000	1.000	1.000	1.000
6-month Fixed	1.250	1.250	1.250	1.250	1.250	1.250
12-month Fixed	1.375-1.500	1.500	1.500	1.500	1.500	1.500
Bank of Thailand Policy Rate (%)	1.250	1.500	1.750	1.750	1.750	1.500

Non-Interest Income

Non-interest income in the fourth quarter of 2019 was Baht 26,530 million, an increase of Baht 14,235 million or 115.8 percent from the third quarter of 2019 and an increase of Baht 15,879 million or 149.1 percent from the fourth quarter of 2018 due mainly to an increase in gains on investments and higher net fees and service income. An increase in net fees and service income was mainly from increases in fees from loan-related services and investment banking services.

In 2019, non-interest income amounted to Baht 62,675 million, an increase of Baht 12,650 million from last year, due to higher gains on investments and net fees and service income. The increase in net fees and service income was due to fees from bancassurance and mutual funds, investment banking and loan-related services. Meanwhile fee income from transaction services decreased as more transactions migrated to digital channels due to changing consumer behavior, following the exemption of transaction fees via digital channels in the second quarter of 2018.

Item	Million Baht							
	Quarter		Change (%)			Year		Change
	4/2019	3/2019	4/2018	3/2019	4/2018	2019	2018	(%)
Fees and service income	11,075	9,478	9,707	16.8%	14.1%	39,280	37,437	4.9%
<u>Less Fees and service expenses</u>	2,890	2,614	2,637	10.6%	9.6%	10,776	9,847	9.4%
Net fees and service income	8,185	6,864	7,070	19.2%	15.8%	28,504	27,590	3.3%
Gains on tradings and foreign exchange transactions	2,172	2,052	2,074	5.8%	4.7%	7,848	8,300	(5.4)%
Gains on investments	14,988	1,531	463	879.0%	3,137.1%	19,765	8,009	146.8%
Share of profit (losses) from investment for using equity method	5	(2)	21	350.0%	(76.2)%	93	78	19.2%
Gains on disposal of assets	435	1,021	165	(57.4)%	163.6%	2,134	1,049	103.4%
Dividend income	616	667	691	(7.6)%	(10.9)%	3,769	3,781	(0.3)%
Other operating income	129	162	167	(20.4)%	(22.8)%	562	1,218	(53.9)%
Total other operating income	18,345	5,431	3,581	237.8%	412.3%	34,171	22,435	52.3%
Total non-interest income	26,530	12,295	10,651	115.8%	149.1%	62,675	50,025	25.3%
Net fees and service income to operating income ratio	18.7%	22.7%	24.3%	(4.0)%	(5.6)%	21.3%	22.7%	(1.4)%

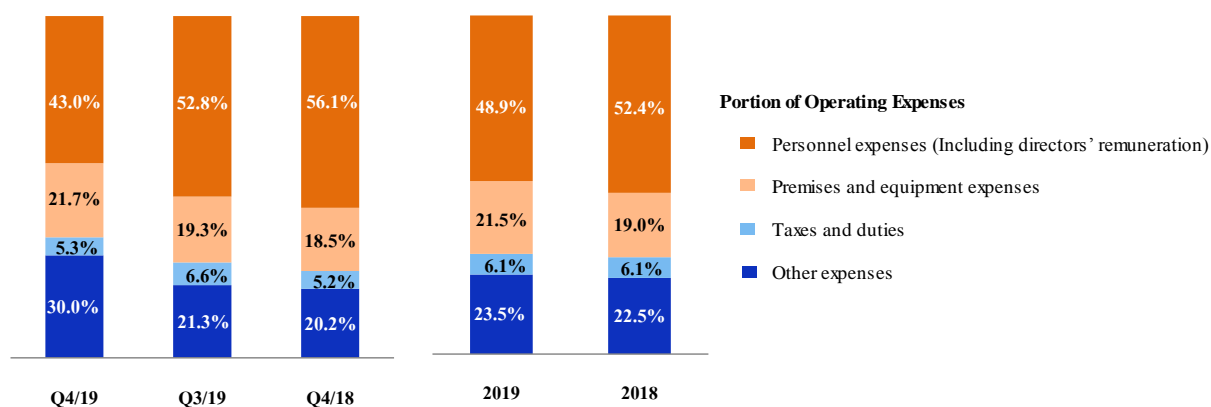
Operating Expenses

In the fourth quarter of 2019, operating expenses amounted to Baht 15,988 million, an increase of Baht 3,309 million or 26.1 percent from previous quarter, due predominantly to the increase in other expenses from expenses related to system developments and improvements in operational efficiency and marketing expenses.

Compared with the fourth quarter of 2018, operating expenses fell by Baht 356 million or 2.2 percent from a decrease of Baht 2,294 million in personnel expenses. This is mainly because in the fourth quarter of 2018 the Bank had set aside a provision of compensation for retirement and termination of employees according to the amendment of the new Labor Protection Act. Meanwhile, other expenses increased by Baht 1,498 million, partly due to expenses related to system developments and improvements in operational efficiency.

In 2019, operating expenses amounted to Baht 54,963 million, falling by Baht 202 million or 0.4 percent from last year owing to a decrease in personnel expenses of Baht 2,048 million according to the abovementioned reasons. Premises and equipment expenses increased, mainly from technology expenses.

Item	Million Baht							
	Quarter		Change (%)		Year		Change (%)	
	4/2019	3/2019	4/2018	3/2019	4/2018	2019		2018
Personnel expenses	6,817	6,670	9,111	2.2%	(25.2)%	26,726	28,774	(7.1)%
Directors' remuneration	56	22	53	154.5%	5.7%	167	154	8.4%
Premises and equipment expenses	3,463	2,441	3,029	41.9%	14.3%	11,789	10,467	12.6%
Taxes and duties	856	843	853	1.5%	0.4%	3,364	3,367	(0.1)%
Other expenses	4,796	2,703	3,298	77.4%	45.4%	12,917	12,403	4.1%
Total operating expenses	15,988	12,679	16,344	26.1%	(2.2)%	54,963	55,165	(0.4)%
Cost to income ratio	36.6%	41.9%	56.2%	(5.3)%	(19.6)%	41.1%	45.4%	(4.3)%



Impairment Loss of Loans and Debt Securities

Impairment loss of loans and debt securities in the fourth quarter of 2019 was Baht 16,342 million, compared to Baht 5,381 million in the third quarter of 2019 and Baht 2,765 million in the fourth quarter of 2018. In 2019, impairment loss of loans and debt securities was Baht 32,351 million, an increase of Baht 10,386 million from the previous year, a one-off higher provision to strengthen the loan loss reserves, in light of the imminent adoption of the new accounting regime.

Item	Million Baht							
	Quarter		Change (%)			Year		Change (%)
	4/2019	3/2019	4/2018	3/2019	4/2018	2019	2018	
Bad debt and doubtful accounts	16,526	5,387	2,909	206.8%	468.1%	31,208	18,358	70.0%
Loss on debt restructuring (reversal)	(184)	(6)	(144)	(2,966.7)%	(27.8)%	1,143	3,607	(68.3)%
Total	16,342	5,381	2,765	203.7%	491.0%	32,351	21,965	47.3%

Significant Items in the Financial Position

Assets

Total assets as of December 31, 2019 amounted to Baht 3,216,743 million, a decrease of Baht 11,349 million from the end of September 2019. Significant items included net interbank and money market items of Baht 472,349 million, a decrease of Baht 103,621 million or 18.0 percent mainly due to a decrease in lending volume and loans to repurchase agreements. Loans amounted to Baht 2,061,309 million, an increase of Baht 59,864 million or 3.0 percent. Net investments amounted to Baht 647,697 million, an increase of Baht 33,358 million or 5.4 percent, mainly due to an increase in available-for-sale securities.

Compared with the end of December 2018, total assets rose by Baht 99,993 million. Significant items included an increase of Baht 90,909 million or 16.3 percent in net investments from higher investments in all categories, as well as an increase of Baht 21,649 million or 4.8 percent in net interbank and money market items due mainly to higher lending volume. Meanwhile, loans decreased by Baht 21,851 million or 1.0 percent.

Item	Million Baht				
	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Net interbank and money market items	472,349	575,970	450,700	(18.0)%	4.8%
Net investments	647,697	614,339	556,788	5.4%	16.3%
Net investments in associates	1,737	1,732	1,608	0.3%	8.0%
Loans *	2,061,309	2,001,445	2,083,160	3.0%	(1.0)%
Net properties for sale	9,363	9,890	10,604	(5.3)%	(11.7)%
Total assets	3,216,743	3,228,092	3,116,750	(0.4)%	3.2%

* Less deferred revenue

Loans

Loans as of December 31, 2019, amounted to Baht 2,061,309 million, an increase of Baht 59,864 million or 3.0 percent from the end of September 2019 owing to an increase in loans in all business units. The increase in loans was due to a good growth in loans to large corporate customers.

Compared with the end of December 2018, loans declined by Baht 21,851 million or 1.0 percent due to the decreases in loans to medium-sized and small businesses, and loans made through the Bank's international network, in accordance with the slowdown in the economy.

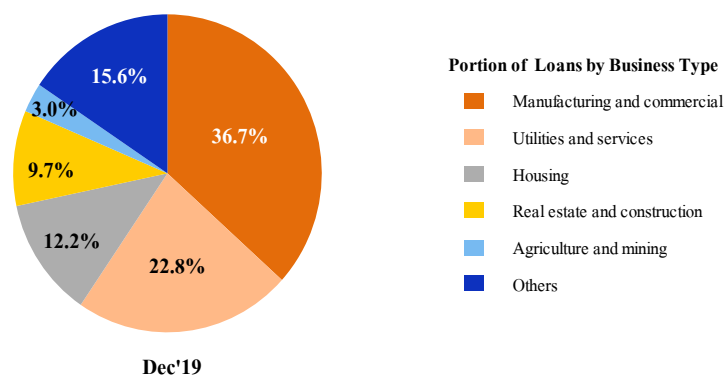
Loan by Business Type

The Bank and its subsidiaries had loans which were distributed across business sectors, with 36.7 percent in the manufacturing and commercial sector, 22.8 percent in the utilities and services sector, 12.2 percent in the housing sector, and 9.7 percent in the real estate and construction sector. The increase in loans from the end of September 2019 was mainly driven by the "others" sector, and the utilities and services sector, while the decrease from the end of December 2018 was due mainly to the manufacturing and commercial sector.

Million Baht

Item *	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Manufacturing and commercial	755,979	751,584	819,481	0.6%	(7.7)%
Utilities and services	470,159	455,288	455,969	3.3%	3.1%
Housing	251,197	246,986	240,047	1.7%	4.6%
Real estate and construction	200,736	200,942	202,600	(0.1)%	(0.9)%
Agriculture and mining	61,569	58,757	51,498	4.8%	19.6%
Others	321,669	287,888	313,565	11.7%	2.6%
Total	2,061,309	2,001,445	2,083,160	3.0%	(1.0)%

* Less deferred revenue



Classified Loans and Allowance for Doubtful Accounts

Non-performing loan (NPL) at the end of December 2019 amounted to Baht 79,149 million, a decrease of Baht 988 million or 1.2 percent from the end of December 2018. The ratio of NPL to total loans stood at 3.4 percent.

Total allowance for doubtful accounts at the end of December 2019 was Baht 174,276 million or 284.8 percent of the minimum amount of Baht 61,182 million required by the Bank of Thailand. The ratio of loan loss reserves to NPL at the end of December 2019 was 220.2 percent.

Million Baht

Item	Loans & Accrued Interest Receivables *			Allowance for Doubtful Accounts Classified to Bank of Thailand Criteria		
	December 2019	September 2019	December 2018	December 2019	September 2019	December 2018
Normal	1,918,520	1,871,968	1,962,102	16,119	15,412	16,215
Special mentioned	67,596	47,660	46,501	848	558	591
Substandard	9,783	11,901	5,460	1,359	4,498	1,018
Doubtful	14,522	22,016	20,884	6,259	9,319	10,608
Doubtful of loss	54,901	52,371	53,837	30,087	27,566	30,188
Total	2,065,322	2,005,916	2,088,784	54,672	57,353	58,620
<u>Add</u> Excess allowance for doubtful accounts				113,094	94,047	88,968
Total allowance for doubtful accounts from loan classification				167,766	151,400	147,588
<u>Add</u> Revaluation allowance for debt restructuring				6,510	6,695	5,415
Total allowance for doubtful accounts				174,276	158,095	153,003

* Less deferred revenue

Million Baht

Item	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
NPL before allowance for doubtful accounts	79,149	86,221	80,137	(8.2)%	(1.2)%
Ratio of NPL to total loans	3.4%	3.6%	3.4%	(0.2)%	-
NPL after allowance for doubtful accounts (net NPL)	28,368	30,128	26,412	(5.8)%	7.4%
Ratio of net NPL to net total loans	1.2%	1.3%	1.2%	(0.1)%	-
Ratio of loan loss reserves to minimum required provisioning	284.8%	246.8%	238.9%	38.0%	45.9%
Ratio of loan loss reserves to NPL	220.2%	183.4%	190.9%	36.8%	29.3%

Net Investments

Net investments as of December 31, 2019 amounted to Baht 647,697 million, an increase of Baht 33,358 million or 5.4 percent from the end of September 2019 due to available-for-sale securities and an increase of Baht 90,909 million or 16.3 percent from investments in all categories from the end of December 2018.

Most of the net investments were in government and state-enterprise securities. As of December 31, 2019, these amounted to Baht 354,975 million, accounting for 54.8 percent of total investments. The remaining net investments were foreign debt securities of Baht 117,676 million, private enterprise debt securities of Baht 66,270 million, and net investment in equity securities of Baht 101,199 million.

Investments by Investment Holding	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Trading securities	13,613	16,120	7,516	(15.6)%	81.1%
Available-for-sale securities	574,720	536,746	497,838	7.1%	15.4%
Held-to-maturity debt securities	23,257	25,400	19,849	(8.4)%	17.2%
General investments	36,107	36,073	31,585	0.1%	14.3%
Total net investments	647,697	614,339	556,788	5.4%	16.3%

Million Baht

Liabilities and Shareholders' Equity

Total liabilities as of December 31, 2019 amounted to Baht 2,788,627 million, a decrease of Baht 9,027 million from the end of September 2019. Interbank and money market items amounted to Baht 134,346 million, a decrease of Baht 14,229 million or 9.6 percent, due largely to a decrease in borrowing transactions. Debt issued and borrowings amounted to Baht 144,681 million, falling by Baht 2,694 million or 1.8 percent. Deposits amounted to Baht 2,370,792 million, an increase of Baht 8,026 million or 0.3 percent.

Compared with the end of December 2018, total liabilities rose by Baht 85,036 million or 3.1 percent, mostly from an increase of Baht 44,322 million or 1.9 percent in deposits and an increase of Baht 28,333 million or 24.4 percent in debt issued and borrowings.

Item	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Deposits	2,370,792	2,362,766	2,326,470	0.3%	1.9%
Interbank and money market items	134,346	148,575	136,862	(9.6)%	(1.8)%
Debt issued and borrowings	144,681	147,375	116,348	(1.8)%	24.4%
Total liabilities	2,788,627	2,797,654	2,703,591	(0.3)%	3.1%
Shareholders' equity *	427,751	430,178	412,814	(0.6)%	3.6%

Million Baht

* Attributable to owners of the Bank

Deposits

Total deposits as of December 31, 2019 amounted to Baht 2,370,792 million, an increase of Baht 8,026 million or 0.3 percent from the end of September 2019 from savings, and an increase of Baht 44,322 million or 1.9 percent from the end of December 2018 from all types of deposits.

Million Baht

Deposits Classified by Product Type	December 2019		September 2019		December 2018		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2019	December 2018
Current	113,067	4.8%	114,430	4.8%	101,557	4.4%	(1.2)%	11.3%
Savings	1,145,106	48.3%	1,114,977	47.2%	1,117,522	48.0%	2.7%	2.5%
Fixed *	1,112,619	46.9%	1,133,359	48.0%	1,107,391	47.6%	(1.8)%	0.5%
Total	2,370,792	100.0%	2,362,766	100.0%	2,326,470	100.0%	0.3%	1.9%
Loan to deposit ratio		86.9%		84.7%		89.5%	2.2%	(2.6)%

* Including negotiable certificates of deposit

Debt Issued and Borrowings

Total debt issued and borrowings as of December 31, 2019 amounted to Baht 144,681 million, an increase of Baht 28,333 million from the end of December 2018, due mainly to the issuing of 15-year Subordinated Notes qualified as Tier 2 capital of USD 1,200 million in September 2019.

Million Baht

Debt Issued and Borrowings Classified by Type of Instruments	December 2019		September 2019		December 2018		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2019	December 2018
Senior unsecured notes	99,530	66.3%	101,007	66.0%	107,027	87.6%	(1.5)%	(7.0)%
Subordinated notes	49,757	33.1%	50,495	33.0%	14,587	11.9%	(1.5)%	241.1%
Bills of exchange	8	0.1%	8	0.1%	23	0.1%	-	(65.2)%
Others	838	0.5%	1,394	0.9%	456	0.4%	(39.9)%	83.8%
Total (before less discount on borrowings)	150,133	100.0%	152,904	100.0%	122,093	100.0%	(1.8)%	23.0%
<u>Less</u> Discount on borrowings	5,452		5,529		5,745		(1.4)%	(5.1)%
Total	144,681		147,375		116,348		(1.8)%	24.4%

Shareholders' Equity

Shareholders' equity attributable to owners of the Bank as of December 31, 2019 amounted to Baht 427,751 million, an increase of Baht 14,937 million or 3.6 percent from the end of 2018. The increase was mainly due to the net profit attributable to owners of the Bank for 2019 of Baht 35,816 million net of dividend payments in 2019 totaling Baht 12,092 million. Losses on translation of the financial statements of foreign operations rose by Baht 5,706 million and revaluation gains on available-for-sale investments decreased by Baht 1,721 million.

Contingent Liabilities

Contingent liabilities as of December 31, 2019 amounted to Baht 625,891 million, a decrease of Baht 34,218 million from the end of September 2019 due to decreases in other guarantees, “others” (under other commitments) and letters of credit. Compared with the end of December 2018, contingent liabilities decrease by Baht 27,839 million, due predominantly to a decrease in other guarantees and letters of credit while “others” (under other commitments) increased.

Item	December 2019	September 2019	December 2018	Change (%)	
				September 2019	December 2018
Avals to bills	7,598	7,259	5,800	4.7%	31.0%
Guarantees of loans	27,513	28,774	32,236	(4.4)%	(14.7)%
Liability under unmatured import bills	17,745	20,510	19,041	(13.5)%	(6.8)%
Letters of credit	22,116	27,006	35,822	(18.1)%	(38.3)%
Other commitments					
Underwriting commitments	-	324	-	(100.0)%	-
Amount of unused bank overdrafts	165,562	167,906	170,329	(1.4)%	(2.8)%
Other guarantees	247,490	261,309	270,320	(5.3)%	(8.4)%
Others	137,867	147,021	120,182	(6.2)%	14.7%
Total	625,891	660,109	653,730	(5.2)%	(4.3)%

Sources and Utilization of Funds

The primary sources of funds as of December 31, 2019 were Baht 2,370,792 million or 73.7 percent in deposits, Baht 427,751 million or 13.3 percent in shareholders’ equity attributable to owners of the Bank, Baht 144,681 million or 4.5 percent in debt issued and borrowings, and Baht 134,346 million or 4.2 percent in interbank and money market liabilities.

The utilization of funds comprised Baht 2,061,309 million or 64.1 percent in loans, Baht 649,434 million or 20.2 percent in net investments (including net investments in associates), and Baht 472,349 million or 14.7 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 ratio at no less than 4.50 percent, the Tier 1 ratio at no less than 6.00 percent, and the total capital 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, phasing in an additional capital ratio of more than 0.625 percent p.a. starting January 1, 2016 until completion of the increment to more than 2.50 percent from January 1, 2019 onwards. It also 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 minimum levels and capital buffer requirements of the Bank of Thailand, in 2019 the Bank is required to maintain the Common Equity Tier 1 ratio at more than 7.50 percent, the Tier 1 ratio at more than 9.00 percent, and the total capital ratio at more than 11.50 percent – measured as percentages of total risk-weighted assets.

As of December 31, 2019, the regulatory capital position of the Bank's financial group according to the consolidated financial statements was Baht 478,740 million, Common Equity Tier 1 capital was Baht 406,463 million, and Tier 1 capital was Baht 406,529 million. The total capital adequacy ratio was 20.04 percent, the Common Equity Tier 1 capital adequacy ratio was 17.01 percent, and the Tier 1 capital adequacy ratio was 17.01 percent.

Consolidated

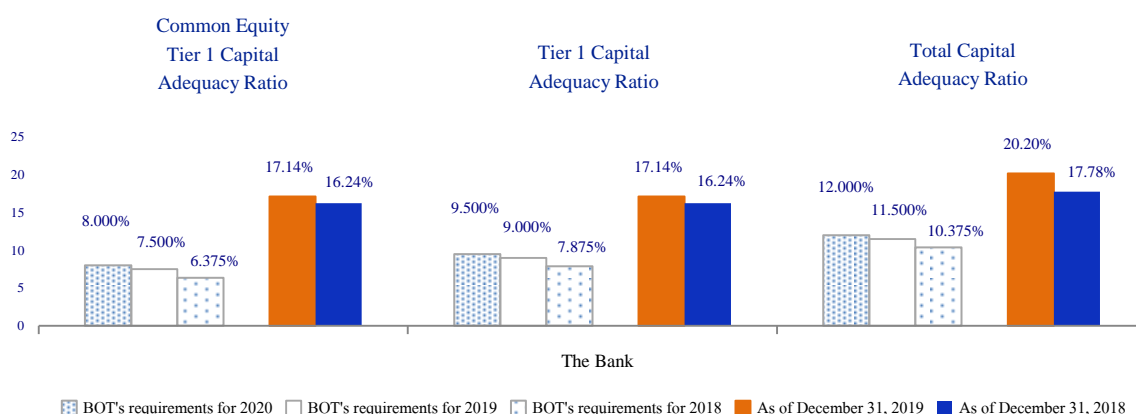
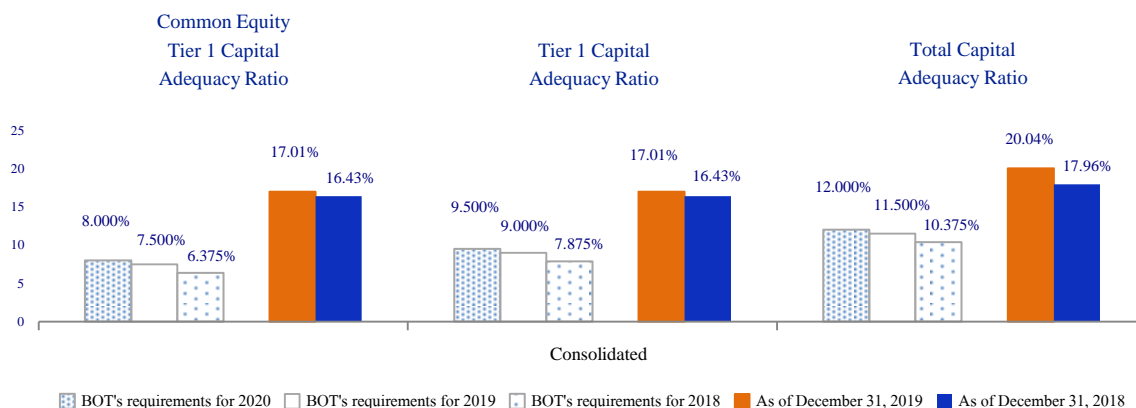
Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2019	September 2019	December 2018	December 2019	September 2019	December 2018
Total capital	478,740	487,730	426,563	20.04%	20.71%	17.96%
Tier 1 capital	406,529	415,837	390,369	17.01%	17.66%	16.43%
Common Equity Tier 1 capital	406,463	415,774	390,309	17.01%	17.66%	16.43%

The Bank

Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2019	September 2019	December 2018	December 2019	September 2019	December 2018
Total capital	471,262	480,531	409,945	20.20%	20.86%	17.78%
Tier 1 capital	399,842	409,166	374,633	17.14%	17.76%	16.24%
Common Equity Tier 1 capital	399,842	409,166	374,633	17.14%	17.76%	16.24%



Liquid Assets

Liquid assets consisted of cash, net interbank and money market items, trading securities and available-for-sale securities. As of December 2019, liquid assets totaled Baht 1,118,772 million, a decrease of Baht 61,889 million or 5.2 percent from the end of September 2019, due largely to a decrease of Baht 103,621 million in net interbank and money market items, while available-for-sale securities increased by Baht 37,974 million.

Compared with the end of December 2018, liquid assets rose by Baht 100,324 million or 9.9 percent. Significant items included an increase of Baht 76,882 million in available-for-sale securities and an increase of Baht 21,649 million in interbank and money market items.

Item	December 2019	September 2019	December 2018
Liquid assets (Million Baht)	1,118,772	1,180,661	1,018,448
Liquid assets/Total assets (%)	34.8	36.6	32.7
Liquid assets/Deposits (%)	47.2	50.0	43.8

Credit Ratings

As of December 31, 2019, Moody's Investors Service, S&P Global Ratings and Fitch Ratings maintained the Bank's credit ratings from the end of September 2019 and the end of 2018. In July 2019, Moody's Investors Service upgraded the bank's subordinated debt instrument rating to Baa2 from Baa3 and the bank's Baseline Credit Assessment (BCA) to baa1 from baa2, and changed the outlook from stable to positive. In December 2019, S&P Global Ratings changed the outlook from stable to positive.

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

Credit Rating Agency *	December 2019	September 2019	December 2018
Moody's Investors Service			
Long-term Deposit	Baa1	Baa1	Baa1
Short-term Deposit	P-2	P-2	P-2
Senior Unsecured Debt Instrument	Baa1	Baa1	Baa1
Subordinated Debt Instrument	Baa2	Baa2	Baa3
Subordinated Debt (Basel III-compliant Tier 2 securities)	Baa3	Baa3	-
Financial Strength (BCA)	baa1	baa1	baa2
Outlook	Positive	Positive	Stable
S&P Global Ratings			
Long-term Issuer Credit Rating	BBB+	BBB+	BBB+
Short-term Issuer Credit Rating	A-2	A-2	A-2
Senior Unsecured Debt Instrument	BBB+	BBB+	BBB+
Subordinated Debt Instrument	BBB	BBB	BBB
Financial Strength (SACP)	bbb	bbb	bbb
Outlook	Positive	Stable	Stable
Fitch Ratings			
International Rating			
Long-term Issuer Default Rating	BBB+	BBB+	BBB+
Short-term Issuer Default Rating	F2	F2	F2
Senior Unsecured Debt Instrument	BBB+	BBB+	BBB+
Subordinated Debt Instrument	BBB	BBB	BBB
Subordinated Debt (Basel III-compliant Tier 2 securities)	BBB	BBB	-
Financial Strength (VR)	bbb+	bbb+	bbb+
Outlook	Stable	Stable	Stable
National Rating			
Long-term	AA+(tha)	AA+(tha)	AA+(tha)
Short-term	F1+(tha)	F1+(tha)	F1+(tha)
Outlook	Stable	Stable	Stable

* 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.