



Bangkok Bank Public Company Limited
Management Discussion and Analysis
for the Quarter and the Year Ended December 31, 2018

Management Discussion and Analysis

Overview of the Economy and Banking Industry

Thai Economy in 2018

In 2018 the Thai economy grew by 4.1 percent, up from 4.0 percent in 2017. Nominal GDP for the year totaled Baht 16.3 trillion (USD 500 billion). While domestic demand continued to be solid in 2018, the export and tourism sectors weakened in the second half of the year. Against the backdrop of the global trade slowdown and uncertainty over US trade policy, merchandise exports in 2018 expanded by 7.7 percent, down from 9.8 percent growth in 2017. Meanwhile, tourist arrivals increased by 7.5 percent, softening from 9.4 percent growth in 2017. This was largely due to a fall in Chinese tourist arrivals during the second half of the year, notwithstanding a rebound in December. Consequently, the current account surplus came in at USD 37.7 billion in 2018, narrowing from USD 50.2 billion in 2017.

Global financial markets continued to experience volatility from time to time amid the uncertainties of US-China trade policies and the eventual relationship between the UK and the EU, turbulence in emerging markets, and concerns over the US economic outlook. Nevertheless, Thailand continued to maintain its strong external fundamentals over the course of 2018 with a current account surplus of approximately 7.5 percent of GDP and international reserves standing at 1.3 times its total foreign-currency-denominated debt. The Thai baht stood at 32.55 THB/USD at the end of 2018, easing by 0.75 percent from 32.31 THB/USD at the beginning of the year.

On the domestic front, private consumption growth turned out to be stronger than expected, boosted by car sales which had accelerated since late 2017 after demand for car purchases was brought forward in response to the 2012-2013 first-car subsidy. However, household debt, which rose by 5.7 percent from the end of 2017 to Baht 12.3 trillion as of the second quarter of 2018, together with declining prices for agricultural products such as rubber and palm, weighed on household purchasing power. In response, the government approved Baht 84.2 billion in December to help support domestic spending. At the same time, private investment surged in sectors with high capacity utilization rates, such as the automotive and petrochemical sectors. On the other hand, progress in public infrastructure project construction remained gradual.

Headline inflation increased from 0.7 percent in 2017 to 1.1 percent in 2018 largely due to a rise in energy prices, particularly in the second and the third quarters of the year. Core inflation stood at 0.7 percent, edging up slightly from 0.6 percent in 2017 given steady improvement in overall domestic demand.

On December 19, 2018, the Bank of Thailand raised the policy rate for the first time in seven years from 1.50 percent to 1.75 percent to mitigate financial stability risks and build policy space to counter a future downturn in the economy.

Economic Outlook for 2019

In 2019, Thailand's economic growth is expected to moderate to 3.8 percent on the back of slower exports amid several external challenges: uncertainties over US trade policies and retaliatory measures by major trading partners, the risk of slower-than-expected growth of the Chinese economy, political risks in Europe, and the impact of tightening global financial conditions. In spite of the weaker external sector, lower average oil prices should keep the current account surplus at around 7-8 percent of GDP.

Private consumption will likely moderate as car sales are expected to normalize and elevated household debt will continue to be a drag on household spending. However, public policy continuity, including the implementation of infrastructure projects such as the Eastern Economic Corridor (EEC), will support public investment and underpin private sector sentiment. Moreover, some production may be relocated to Thailand in response to US-China tariffs, particularly in sectors such as electronic and automotive parts.

The prospect of lower oil prices is likely to push down headline inflation in 2019, while core inflation is expected to be stable, reflecting more modest growth in private consumption.

It is likely that the Bank of Thailand's monetary policy stance will remain accommodative in the period ahead and future policy rate increases will be gradual.

Thai Banking Industry in 2018

In 2018, commercial banks in Thailand maintained their good performance with adequate capital to support their business operations. The combined net profit of the Thai commercial banking system was Baht 207.2 billion, a 10.8 percent increase from last year, due to rising interest income as loan growth accelerated. However, loan impairment charges set aside for credit losses in compliance with IFRS9, which will be effective in 2020, decreased.

At the end of 2018, loans in the commercial banking system were 6.0 percent higher than at the end of 2017, in line with an increase in consumer, SME and corporate loans, which expanded by 9.4, 4.5 and 4.1 percent, respectively. SME loans grew due to increases in lending to energy, real estate and construction sectors, while corporate loans grew due mainly to increases in lending to hotels and the commercial and real estate sectors. Consumer loans expanded from home loans, auto-hire purchases and personal loans.

Deposits grew by 3.9 percent from the end of 2017. The ratio of loans to deposits rose from 96.3 percent at the end of 2017 to 98.3 percent. The Liquidity Coverage Ratio (LCR) stood at 184.2 percent. For liquidity management, commercial banks are placing great emphasis on deposit restructuring and cost management as well as reserve requirements to comply with Liquidity Coverage Ratio (LCR) guidelines under Basel III.

In terms of loan quality, the ratio of gross non-performing loan (NPL) to total loans at the end of 2018 remained unchanged at 2.9 percent. However, the level of capital reserves and loan loss reserves remained high and adequate to absorb future loan losses in the banking system. At the end of 2018, the total Capital Adequacy Ratio (CAR) and Common Equity Tier 1 ratio (CET1) stood at 18.3 percent and 15.8 percent, respectively.

The evolving business environment in 2018 required commercial banks in Thailand to rethink their business models to cope with challenges by focusing on expanding their customer base, improving efficiencies, reducing the cost of services, and generating new opportunities to increase revenues.

In terms of customer base expansion, financial innovation has created new forms of financial services which enable banks to explore new business opportunities and better respond to customer needs. However, there is also more intense competition after fees were waived for transactions via banks' digital banking channels. Banks therefore need to acquire more digital clients so they can increase their revenues and reduce customer servicing costs.

Thai Banking Industry in 2019

Global economic growth is likely to be slow and uncertain, while monetary policies of major developed economies move towards a tightening stance, resulting in less liquidity in global financial markets. Meanwhile, Thailand's economic growth is also projected to slow down. However, public investment in infrastructure projects and upcoming private investment in the Eastern Economic Corridor (EEC) will be key supportive factors for the economy. The decision by the Bank of Thailand's Monetary Policy Committee (MPC) to raise the policy rate by 25 basis points to 1.75 percent in December 2018 and macroprudential measures to curb mortgage loans, along with expected additional measures to curb risky credit, will slow the pace of bank lending compared to last year. Meanwhile, the commercial banking system will have to manage its liquidity to be in line with Bank of Thailand requirements to comply with the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) guidelines which require banks to hold sufficient liquid assets to improve the resilience of banks against liquidity shocks.

The ratio of non-performing loan (NPL) to total loans of the commercial banking system is expected to be stable compared to the end of 2018. This will be due partly to the continuous expansion of the economy, better loan management in the commercial banking system, banks' cautious lending policies, and the Bank of Thailand's macroprudential measures to control risky loans. Moreover, banks' increasing reserves and the relatively high level of capital will continue to provide a cushion for the system's NPL.

Factors Affecting Banking Industry Performance

Over the next two to three years, government policies as well as the rapidly changing environment may have various effects on the operation of Thai commercial banks as follows:

1. Eastern Economic Corridor – The EEC Project has been developed in three provinces of Thailand – namely Chachoengsao, Chonburi, and Rayong – and has designated targeted industries to create tangible investment. The government has approved the investment of key infrastructure development projects including the expansion of the U-Tapao International Airport and its development into an aviation center and maintenance repair and overhaul (MRO) hub, high-speed railways to connect three international airports (Suvarnabhumi – Don Muang – U-Tapao), Laem Chabang Port Phase III, Map Ta Phut Industrial Port Phase III, Sattahip Commercial Port, and the connection of railway networks with the three seaports, as well as the implementation of seamless operation transportation systems that link the three major seaports by rail in order to solidify Thailand's role as a major global economic hub. These industries will also place a special focus on human resource development and the development of new technologies which will lead to a more sustainable Thailand economy. The government has supported this by offering special investment privileges in order to drive private investment in the area.

2. Digital Disruptions to Banking – Rapid growth in the use of smartphones and tablets enables consumers to increase their everyday access to digital media, which is changing how consumers use financial services. The changing nature of financial transactions means it is more convenient and faster for consumers to make payments, transfer and raise funds, make loans, and perform asset-management planning. In addition, banks are benefitting from advances in IT and customer analysis using Big Data Analytics and artificial intelligence (AI) to establish marketing strategies suited to the behavior of each customer group, as well as developing products and end-to-end solutions. The advent of FinTech has changed the competitive environment as FinTech firms are no longer operated only by financial institutions but also include players in other industries.

3. National e-Payment Master Plan – This initiative aims to develop a full range of e-Payment options which will increase the efficiency of payment infrastructure development. This will support the objectives of moving towards a cashless society while enabling financial transactions and economic activities to be carried out more easily and quickly. E-payments are expected to reduce transaction costs, support the business sector’s competitiveness, and enhance the quality of life as well as strengthening the stability of the financial system.

4. Financial Sector Master Plan Phase III – This is a five-year development plan from 2016 - 2020 with the aim of enhancing the competitiveness of Thai financial institutions to enable them to offer a wide range of products and services at fair prices while supporting regional trade and investment with good governance in order to maintain economic and financial stability. Over the years, the Bank of Thailand (BOT) has launched various initiatives such as the development of PromptPay and the promotion of QR Code payment; the introduction of the Regulatory Sandbox; the granting of permission for commercial banks to appoint banking agents to increase their service channels; the development of loan data for SMEs to enable commercial banks and financial institutions to make use of risk management plans and increase opportunities for these businesses to access funds; the enhancement of QR Code standards to service payments in Cambodia and to connect payments between Cambodia and Thailand; and the revision of policies and principles governing housing loans in Thailand as a proactive measure to promote financial stability, etc.

5. Sustainable Banking – Past economic development caused many negative impacts, especially degradation of environmental and natural resources and economic and social inequality, which tends to worsen with time. Therefore, the issue of sustainable development has attracted worldwide attention by putting more focus on quality development, paying more attention to long-term impacts and considering the benefits to society overall. Hence, commercial banks, as key financial intermediaries, play a key role in supporting sustainable development by providing funds to businesses that have environmental and social accountability, together with good corporate governance. Banks with practices that fall under the “sustainable banking” framework will gain the confidence of investors, clients and other bank stakeholders and have a better image as well as having sustainable performance.

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 for these and able to cope with changes in order to move forward in a sustainable way.

Overall Picture of the Bank and its Subsidiaries

Million Baht

Item	Quarter		Change (%)			Year		Change (%)
	4/2018	3/2018	4/2017	3/2018	4/2017	2018	2017	
Net profit *	8,101	9,030	8,496	(10.3)%	(4.6)%	35,330	33,009	7.0%
Earnings per share (Baht)	4.24	4.73	4.45	(10.3)%	(4.6)%	18.51	17.29	7.0%
Net interest margin	2.46%	2.42%	2.31%	0.04%	0.15%	2.40%	2.32%	0.08%
Net fees and service income to operating income ratio	24.3%	21.2%	27.3%	3.1%	(3.0)%	22.7%	24.5%	(1.8)%
Expense to operating income ratio	56.2%	43.5%	45.5%	12.7%	10.7%	45.4%	43.5%	1.9%
Return on average assets *	1.04%	1.14%	1.10%	(0.10)%	(0.06)%	1.13%	1.09%	0.04%
Return on average equity *	7.86%	8.91%	8.48%	(1.05)%	(0.62)%	8.73%	8.49%	0.24%

* Attributable to owners of the Bank

Million Baht

Item	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
Loans **	2,083,160	2,021,246	2,003,989	3.1%	4.0%
Deposits	2,326,470	2,297,627	2,310,743	1.3%	0.7%
Loan to deposit ratio	89.5%	88.0%	86.7%	1.5%	2.8%
Non-performing loan (NPL)	80,137	84,137	87,419	(4.8)%	(8.3)%
Ratio of NPL to total loans	3.4%	3.6%	3.9%	(0.2)%	(0.5)%
Ratio of loan loss reserves to NPL	190.9%	180.1%	160.2%	10.8%	30.7%
Total capital adequacy ratio	17.96%	17.86%	18.17%	0.10%	(0.21)%

** Less deferred revenue

In 2018, Bangkok Bank and its subsidiaries reported a net profit attributable to owners of the Bank of Baht 35,330 million, an increase of 7.0 percent from 2017. Operating income amounted to Baht 121,401 million, an increase of 7.9 percent, driven by an increase of 7.1 percent in net interest income with a net interest margin of 2.40 percent, and an increase of 9.1 percent in non-interest income contributed by increases in gains on tradings and foreign exchange transactions and gains on investments. Despite the exemption of transaction fees via digital channels, net fees and service income were close to the level of the previous year due to good growth in fee income from bancassurance and mutual funds. The ratio of expenses to operating income was 45.4 percent.

At the end of December 2018, the Bank's loans amounted to Baht 2,083,160 million, an increase of 4.0 percent from the end of 2017, driven by loans to large corporates, consumers, and loans made through the Bank's international network. The ratio of non-performing loan (NPL) to total loans was lower to 3.4 percent, while the ratio of loan loss reserves to NPL was 190.9 percent.

With the inclusion of net profit for the second half of 2018 (July to December), the total capital adequacy ratio, the Common Equity Tier 1 capital adequacy ratio and the Tier 1 capital adequacy ratio of the Bank and its subsidiaries would be 18.71 percent, 17.19 percent and 17.19 percent, respectively. These capital adequacy ratios are above the Bank of Thailand's minimum capital requirements. Shareholders' equity attributable to owners of the Bank, as of December 31, 2018, amounted to Baht 412,814 million. The book value per share was Baht 216.26.

Operating Income and Expenses of the Bank and its Subsidiaries

Million Baht

Item	Quarter		Change (%)		Year		Change (%)	
	4/2018	3/2018	4/2017	3/2018	2018	2017		
Net interest income	18,423	18,256	16,955	0.9%	8.7%	71,376	66,625	7.1%
Non-interest income	10,651	11,321	11,789	(5.9)%	(9.7)%	50,025	45,843	9.1%
Operating expenses	16,344	12,878	13,089	26.9%	24.9%	55,165	48,948	12.7%
Impairment loss of loans and debt securities	2,765	5,346	4,617	(48.3)%	(40.1)%	21,965	22,370	(1.8)%
Operating profit before tax	9,965	11,353	11,038	(12.2)%	(9.7)%	44,271	41,150	7.6%
Income tax expenses	1,767	2,224	2,457	(20.5)%	(28.1)%	8,554	7,832	9.2%
Net profit	8,198	9,129	8,581	(10.2)%	(4.5)%	35,717	33,318	7.2%
Net profit *	8,101	9,030	8,496	(10.3)%	(4.6)%	35,330	33,009	7.0%
Total comprehensive income *	8,240	8,440	8,705	(2.4)%	(5.3)%	23,157	34,763	(33.4)%

* Attributable to owners of the Bank

For the fourth quarter of 2018, Bangkok Bank and its subsidiaries reported a net profit attributable to owners of the Bank of Baht 8,101 million, a decrease of Baht 929 million or 10.3 percent from the third quarter of 2018. Net interest income rose by Baht 167 million or 0.9 percent as an increase in yield on earning assets in all categories from the previous quarter, combined with an increase in the proportion of loans. Non-interest income fell by Baht 670 million or 5.9 percent largely due to lower gains on investments. Operating expenses rose by Baht 3,466 million or 26.9 percent, mainly from personnel expenses. This was to prepare for an increase in provision due to compensation in lieu of notice in the case of retirement and dismissal of employees according to a Draft Amendment of the Labor Protection Act. The impairment loss on loans and debt securities fell by Baht 2,581 million.

Compared with the fourth quarter of 2017, net profit attributable to owners of the Bank fell by Baht 395 million or 4.6 percent. Net interest income rose by Baht 1,468 million or 8.7 percent due mainly to the increases in yield on earning assets and loan volume. Non-interest income fell by Baht 1,138 million or 9.7 percent, largely due to lower net fees and service income. The decrease in net fees and service income was mainly due to lower fees from loan-related services, combined with the decline in fees from transaction services caused by the exemption of transaction fees via digital channels. The decrease in non-interest income also came from lower gains on investments, while gains on tradings and foreign exchange transactions increased. Operating expenses increased of Baht 3,255 million or 24.9 percent mainly due to higher personnel expenses resulting from the aforementioned reason. The impairment loss on loans and debt securities decreased by Baht 1,852 million.

In 2018, net profit attributable to owners of the Bank was Baht 35,330 million, an increase of Baht 2,321 million or 7.0 percent from 2017 due to an increase of Baht 4,751 million or 7.1 percent in net interest income, mainly due to higher interest income from loans contributed by the year-on-year increase of 4.0 percent in loan volume. This was coupled with lower interest expenses on debt issued and borrowings from the redemption of debentures in the first quarter of 2018. Non-interest income rose by Baht 4,182 million or 9.1 percent, mainly driven by higher gains on tradings and foreign exchange transactions and gains on investments. Operating expenses rose by Baht 6,217 million or 12.7 percent due to expenses incurred to accommodate an environment of disruptive technologies, and continuously develop working systems and improve operational business efficiency, combined with an increase in personnel expenses resulting from the aforementioned reason, while the impairment loss on loans and debt securities fell by Baht 405 million.

Net Interest Income

Item	Million Baht							
	Quarter			Change (%)		Year		Change
	4/2018	3/2018	4/2017	3/2018	4/2017	2018	2017	(%)
Interest Income								
Loans	24,026	23,727	22,465	1.3%	6.9%	93,131	88,876	4.8%
Interbank and money market items	2,048	2,039	2,237	0.4%	(8.4)%	8,451	8,358	1.1%
Investments	2,435	2,454	2,158	(0.8)%	12.8%	9,199	8,242	11.6%
Total interest income	28,509	28,220	26,860	1.0%	6.1%	110,781	105,476	5.0%
Interest expenses								
Deposits	5,499	5,534	5,616	(0.6)%	(2.1)%	21,762	21,596	0.8%
Interbank and money market items	545	593	310	(8.1)%	75.8%	2,218	1,115	98.9%
Contributions to the Deposit Protection Agency and Financial Institutions Development Fund	2,446	2,479	2,429	(1.3)%	0.7%	9,864	9,617	2.6%
Debt issued and borrowings	1,596	1,358	1,550	17.5%	3.0%	5,561	6,523	(14.7)%
Total interest expenses	10,086	9,964	9,905	1.2%	1.8%	39,405	38,851	1.4%
Net interest income	18,423	18,256	16,955	0.9%	8.7%	71,376	66,625	7.1%
Yield on earning assets	3.81%	3.74%	3.66%	0.07%	0.15%	3.72%	3.68%	0.04%
Cost of funds	1.56%	1.52%	1.54%	0.04%	0.02%	1.52%	1.54%	(0.02)%
Net interest margin	2.46%	2.42%	2.31%	0.04%	0.15%	2.40%	2.32%	0.08%

In the fourth quarter of 2018, the net interest margin rose by 0.04 percent from the previous quarter to 2.46 percent, due to an increase in yield on earning assets in all categories, combined with an increase in the proportion of loans. Net interest income amounted to Baht 18,423 million, an increase of Baht 167 million or 0.9 percent from the third quarter of 2018 due to an increase of Baht 289 million or 1.0 percent in interest income. The increase in interest income was largely due to interest income from loans which rose by Baht 299 million, due to the increases in yield on loans and loan volume. Interest expenses rose by Baht 122 million or 1.2 percent, mainly attributable to an increase of Baht 238 million in interest expenses on debt issued and borrowings from the issuance of debentures in September 2018.

Compared with the fourth quarter of 2017, the net interest margin rose by 0.15 percent from the same quarter last year due mainly to the increases in yield on earning assets in all categories and lending volume, coupled with the lower cost of deposits following an expansion of low-cost deposits in savings and current accounts. Net interest income rose by Baht 1,468 million or 8.7 percent from the same quarter last year, due to an increase of Baht 1,649 million or 6.1 percent in interest income. The increase in interest income was due to interest income from loans which rose by Baht 1,561 million, due mainly to an expansion of lending volume and higher yield. Interest expenses rose by Baht 181 million or 1.8 percent from an increase of interest expenses from interbank and money market items. Interest expenses on deposits decreased due to continued cost management.

In 2018, the net interest margin rose by 0.08 percent from last year to 2.40 percent due to an increase in yield on loans and, combine with a decrease in cost of deposits following an expansion of low-cost deposits in savings and current accounts. Net interest income amounted to Baht 71,376 million, an increase of Baht 4,751 million or 7.1 percent from 2017, due predominantly to an increase of Baht 5,305 million or 5.0 percent in interest income. The increase in interest income was largely due to interest income from loans which rose by Baht 4,255 million, in line with the expansion of loan volume from loans to large corporates, consumers and loans made through the Bank's international network, and an increase in yield on loans. Interest expenses rose by Baht 554 million or 1.4 percent, due to an increase of Baht 1,103 million in interest expenses from interbank and money market items due to the increases in costs and business volume. Interest expenses on debt issued and borrowings fell by Baht 962 million largely due to the maturity of debentures.

Bangkok Bank Interest Rate	May 16, 2017	Apr 25, 2016
Loans (%)		
MOR	7.125	7.375
MRR	7.125	7.625
MLR	6.250	6.250
Deposits (%)		
Savings	0.500-0.625	0.500-0.625
3-month Fixed	1.000	1.000
6-month Fixed	1.250	1.250
12-month Fixed	1.500	1.500
	Dec 19, 2018	Apr 29, 2015
Bank of Thailand Policy Rate (%)	1.750	1.500

Non-Interest Income

Item	Million Baht							
	Quarter			Change (%)		Year		Change
	4/2018	3/2018	4/2017	3/2018	4/2017	2018	2017	(%)
Fees and service income	9,707	8,723	10,121	11.3%	(4.1)%	37,437	36,460	2.7%
<u>Less</u> Fees and service expenses	2,637	2,460	2,285	7.2%	15.4%	9,847	8,934	10.2%
Net fees and service income	7,070	6,263	7,836	12.9%	(9.8)%	27,590	27,526	0.2%
Gains on tradings and foreign exchange transactions	2,074	2,386	1,736	(13.1)%	19.5%	8,300	6,257	32.7%
Gains on investments	463	1,709	965	(72.9)%	(52.0)%	8,009	6,428	24.6%
Share of profit (loss) from investment for using equity method	21	(22)	16	195.5%	31.3%	78	205	(62.0)%
Gains on disposal of assets	165	195	209	(15.4)%	(21.1)%	1,049	1,196	(12.3)%
Dividend income	691	642	892	7.6%	(22.5)%	3,781	3,788	(0.2)%
Other operating income	167	148	135	12.8%	23.7%	1,218	443	174.9%
Total other operating income	3,581	5,058	3,953	(29.2)%	(9.4)%	22,435	18,317	22.5%
Total non-interest income	10,651	11,321	11,789	(5.9)%	(9.7)%	50,025	45,843	9.1%
Net fees and service income to operating income ratio	24.3%	21.2%	27.3%	3.1%	(3.0)%	22.7%	24.5%	(1.8)%

Non-interest income in the fourth quarter of 2018 amounted to Baht 10,651 million, a decrease of Baht 670 million or 5.9 percent from the third quarter of 2018, due mainly to the decreases of Baht 1,246 million in gains on investment, and Baht 312 million in gains on tradings and foreign exchange transactions. Net fees and service income rose by Baht 807 million, due largely to the increases in fees from loan-related services, bancassurance and mutual funds. Consequently, the ratio of net fees and service income to operating income stood at 24.3 percent, higher than the previous quarter by 3.1 percent.

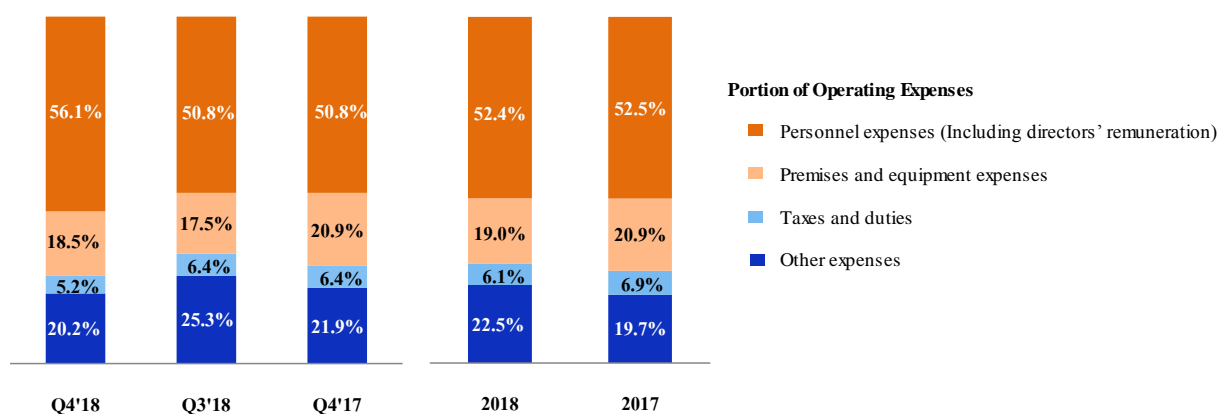
Compared with the fourth quarter of 2017, non-interest income fell by Baht 1,138 million or 9.7 percent predominantly due to a decrease of Baht 766 million in net fees and service income, mainly from the decreases in fees from loan-related services, transaction services caused by the exemption of transaction fees via digital channels, and fees from underwriting commitments. Gains on investments fell by Baht 502 million, while gains on tradings and foreign exchange transactions rose by Baht 338 million.

In 2018, non-interest income amounted to Baht 50,025 million, an increase of Baht 4,182 million or 9.1 percent from 2017, due to the increases of Baht 2,043 million in gains on tradings and foreign exchange transactions, and Baht 1,581 million in gains on investments. Despite the exemption of transaction fees via digital channels, net fees and service income slightly rose from the previous year due to well growth in fee income from bancassurance and mutual funds, and securities business.

Operating Expenses

Million Baht

Item	Quarter		Change (%)		Year		Change (%)	
	4/2018	3/2018	4/2017	3/2018	2018	2017		
Personnel expenses	9,111	6,529	6,602	39.5%	38.0%	28,774	25,541	12.7%
Directors' remuneration	53	21	46	152.4%	15.2%	154	148	4.1%
Premises and equipment expenses	3,029	2,254	2,736	34.4%	10.7%	10,467	10,252	2.1%
Taxes and duties	853	820	840	4.0%	1.5%	3,367	3,357	0.3%
Other expenses	3,298	3,254	2,865	1.4%	15.1%	12,403	9,650	28.5%
Total operating expenses	16,344	12,878	13,089	26.9%	24.9%	55,165	48,948	12.7%
Expense to operating income ratio	56.2%	43.5%	45.5%	12.7%	10.7%	45.4%	43.5%	1.9%



In the fourth quarter of 2018, operating expenses amounted to Baht 16,344 million, an increase of Baht 3,466 million or 26.9 percent from the third quarter of 2018, due mainly to an increase of Baht 2,582 million in personnel expenses. This was to prepare for an increase in provision due to compensation in lieu of notice in the case of retirement and dismissal of employees according to a Draft Amendment of the Labor Protection Act.

Compared with the fourth quarter of 2017, operating expenses rose by Baht 3,255 million or 24.9 percent from an increase of Baht 2,509 million in personnel expenses resulting from the aforementioned reason.

In 2018, operating expenses amounted to Baht 55,165 million, an increase of Baht 6,217 million or 12.7 percent from 2017, due mainly to an increase of Baht 3,233 million in personnel expenses resulting from the aforementioned reason. Other expenses rose by Baht 2,753 million partly due to expenses incurred to accommodate an environment of disruptive technologies, and continuously develop working systems and improve operational business efficiency.

Impairment Loss of Loans and Debt Securities

Item	Million Baht							
	Quarter		Change (%)			Year		Change
	4/2018	3/2018	4/2017	3/2018	4/2017	2018	2017	(%)
Bad debt and doubtful accounts	2,909	5,236	4,654	(44.4)%	(37.5)%	18,358	22,712	(19.2)%
Loss on debt restructuring (reversal)	(144)	110	(37)	(230.9)%	(289.2)%	3,607	(342)	1,154.7%
Total	2,765	5,346	4,617	(48.3)%	(40.1)%	21,965	22,370	(1.8)%

The impairment loss of loans and debt securities in the fourth quarter of 2018 was Baht 2,765 million, compared to Baht 5,346 million in the third quarter of 2018 and Baht 4,617 million in the fourth quarter of 2017. In 2018, the impairment loss of loans and debt securities amounted to Baht 21,965 million, compared to Baht 22,370 million in the previous year.

Significant Items in the Financial Position

Assets

Item	Million Baht				
	December	September	December	Change (%)	
	2018	2018	2017	September	December
				2018	2017
Net interbank and money market items	450,700	448,478	437,738	0.5%	3.0%
Net investments	556,788	597,957	591,720	(6.9)%	(5.9)%
Net investments in associates	1,608	1,587	1,460	1.3%	10.1%
Loans *	2,083,160	2,021,246	2,003,989	3.1%	4.0%
Net properties for sale	10,604	10,767	11,415	(1.5)%	(7.1)%
Total assets	3,116,750	3,087,058	3,076,310	1.0%	1.3%

* Less deferred revenue

Total assets, as of December 31, 2018, amounted to Baht 3,116,750 million, an increase of Baht 29,692 million from the end of September 2018. Significant items included loans of Baht 2,083,160 million, an increase of Baht 61,914 million or 3.1 percent whereas net investments of Baht 556,788 million decreased by Baht 41,169 million or 6.9 percent due to a decrease in available-for-sale securities.

Compared with the end of December 2017, total assets rose by Baht 40,440 million. Significant items included an increase of Baht 79,171 million or 4.0 percent in loans, a decrease of Baht 34,932 million or 5.9 percent in net investments due to a decrease in available-for-sale securities.

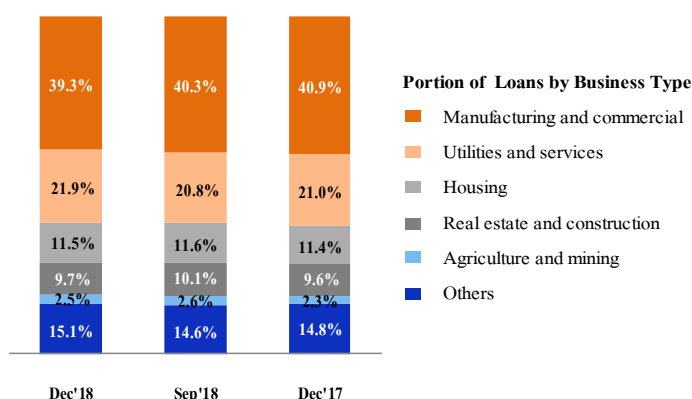
Loans

Loans as of December 31, 2018, amounted to Baht 2,083,160 million, an increase of Baht 61,914 million or 3.1 percent from the end of September 2018 due to an increase in loans from all customer segments. Compared with the end of December 2017, loans increased by Baht 79,171 million or 4.0 percent due to increases in loans for large corporate, consumers and loans made through the Bank's international network.

Million Baht

Loans by Business Type *	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
Manufacturing and commercial	819,481	814,559	819,338	0.6%	0.0%
Utilities and services	455,969	419,838	421,595	8.6%	8.2%
Housing	240,047	234,359	228,146	2.4%	5.2%
Real estate and construction	202,600	204,407	191,176	(0.9)%	6.0%
Agriculture and mining	51,498	52,359	46,658	(1.6)%	10.4%
Others	313,565	295,724	297,076	6.0%	5.6%
Total	2,083,160	2,021,246	2,003,989	3.1%	4.0%

* Less deferred revenue



The highest portion of lending was to the manufacturing and commercial sector, at 39.3 percent, followed by 21.9 percent to the utilities and services sector, 11.5 percent to the housing sector, and 9.7 percent to the real estate and construction sector. The increase in loans from the end of September 2018 and the end of December 2017 were mainly related to the utilities and services sector and the “others” sector.

Classified Loans and Allowance for Doubtful Accounts

Million Baht

Item	Loans & Accrued Interest Receivables *			Allowance for Doubtful Accounts Classified to Bank of Thailand Criteria		
	December 2018	September 2018	December 2017	December 2018	September 2018	December 2017
Normal	1,962,102	1,905,406	1,875,782	16,215	15,491	14,983
Special mentioned	46,501	37,087	45,815	591	572	591
Substandard	5,460	7,416	11,760	1,018	2,137	5,275
Doubtful	20,884	22,963	19,012	10,608	11,892	10,387
Doubtful of loss	53,837	53,810	56,681	30,188	30,198	36,471
Total	2,088,784	2,026,682	2,009,050	58,620	60,290	67,707
<u>Add</u> Excess allowance for doubtful accounts				88,968	85,667	70,004
Total allowance for doubtful accounts from loan classification				147,588	145,957	137,711
<u>Add</u> Revaluation allowance for debt restructuring				5,415	5,558	2,310
Total allowance for doubtful accounts				153,003	151,515	140,021

* Less deferred revenue

Million Baht

Item	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
NPL before allowance for doubtful accounts	80,137	84,137	87,419	(4.8)%	(8.3)%
Ratio of NPL to total loans	3.4%	3.6%	3.9%	(0.2)%	(0.5)%
NPL after allowance for doubtful accounts (net NPL)	26,412	28,103	26,576	(6.0)%	(0.6)%
Ratio of net NPL to net total loans	1.2%	1.2%	1.2%	-	-
Ratio of loan loss reserves to minimum required provisioning	238.9%	230.1%	200.0%	8.8%	38.9%
Ratio of loan loss reserves to NPL	190.9%	180.1%	160.2%	10.8%	30.7%

Non-performing loan (NPL) at the end of December 2018 amounted to Baht 80,137 million, a decrease of Baht 7,282 million or 8.3 percent from the end of December 2017. The ratio of NPL to total loans stood at 3.4 percent.

Total allowance for doubtful accounts at the end of December 2018 was Baht 153,003 million or 238.9 percent of the minimum amount of Baht 64,035 million required by the Bank of Thailand (BOT). The ratio of loan loss reserves to NPL at the end of December 2018 was 190.9 percent.

Net Investments

Net investments as of December 31, 2018 amounted to Baht 556,788 million, the decreases of Baht 41,169 million or 6.9 percent from the end of September 2018, and Baht 34,932 million or 5.9 percent from the end of December of 2017, due mainly to a decrease in available-for-sale securities.

Million Baht

Investments by Investment Holding	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
Trading securities	7,516	14,685	15,113	(48.8)%	(50.3)%
Available-for-sale securities	497,838	528,234	533,651	(5.8)%	(6.7)%
Held-to-maturity debt securities	19,849	25,088	11,233	(20.9)%	76.7%
General investments	31,585	29,950	31,723	5.5%	(0.4)%
Total net investments	556,788	597,957	591,720	(6.9)%	(5.9)%

Most of the net investments were in government and state-enterprise securities. As of December 31, 2018, these amounted to Baht 314,541 million, accounting for 56.5 percent of total investments. The remaining net investments were foreign debt securities of Baht 86,799 million, private enterprise debt securities of Baht 37,384 million, and net investment in equity securities of Baht 110,571 million.

Million Baht

Investments by Maturity *	December 2018		September 2018		December 2017		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2018	December 2017
Up to one year	145,295	26.0%	150,541	25.1%	71,982	12.1%	(3.5)%	101.8%
Between one and five years	284,505	51.0%	312,709	52.2%	375,910	63.4%	(9.0)%	(24.3)%
Over five years	18,037	3.2%	22,375	3.7%	24,597	4.2%	(19.4)%	(26.7)%
No maturity	110,559	19.8%	113,919	19.0%	120,691	20.3%	(2.9)%	(8.4)%
Total net investments	558,396	100.0%	599,544	100.0%	593,180	100.0%	(6.9)%	(5.9)%

* Including net investments in associates

The remaining maturity of net investments (including net investments in associates) as of December 31, 2018 were categorized into securities with one year or less to maturity of Baht 145,295 million, securities with more than one year to five years to maturity of Baht 284,505 million, securities with remaining maturity of more than five years of Baht 18,037 million, and securities with no maturity of Baht 110,559 million.

Liabilities and Shareholders' Equity

Million Baht

Item	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
Deposits	2,326,470	2,297,627	2,310,743	1.3%	0.7%
Interbank and money market items	136,862	133,253	133,584	2.7%	2.5%
Debt issued and borrowings	116,348	132,543	107,190	(12.2)%	8.5%
Total liabilities	2,703,591	2,682,235	2,674,303	0.8%	1.1%
Shareholders' equity *	412,814	404,574	401,724	2.0%	2.8%

* Attributable to owners of the Bank

Total liabilities as of December 31, 2018 amounted to Baht 2,703,591 million, an increase of Baht 21,356 million or 0.8 percent from the end of September 2018, due largely to an increase of Baht 28,843 million or 1.3 percent in deposits, while debt issued and borrowings fell by Baht 16,195 million or 12.2 percent.

Compared with the end of December 2017, total liabilities rose by Baht 29,288 million or 1.1 percent, mostly from an increase of Baht 15,727 million or 0.7 percent in deposits and an increase of Baht 9,158 million or 8.5 percent in debt issued and borrowings.

Deposits

Million Baht

Deposits Classified by Product Type	December 2018		September 2018		December 2017		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2018	December 2017
Current	101,557	4.4%	101,794	4.4%	106,184	4.6%	(0.2)%	(4.4)%
Savings	1,117,522	48.0%	1,088,909	47.4%	1,065,928	46.1%	2.6%	4.8%
Fixed *	1,107,391	47.6%	1,106,924	48.2%	1,138,631	49.3%	0.0%	(2.7)%
Total	2,326,470	100.0%	2,297,627	100.0%	2,310,743	100.0%	1.3%	0.7%
Loan to deposit ratio		89.5%		88.0%		86.7%	1.5%	2.8%

* Including negotiable certificates of deposit

Total deposits as of December 31, 2018 amounted to Baht 2,326,470 million, an increase of Baht 28,843 million or 1.3 percent from the end of September 2018 due to higher savings deposits.

Compared with the end of December 2017, total deposits rose by Baht 15,727 million or 0.7 percent due to an increase in savings deposits, while fixed deposits and current deposits decreased.

Debt Issued and Borrowings

Million Baht

Debt Issued and Borrowings Classified by Type of Instruments	December 2018		September 2018		December 2017		Change (%)	
	Amount	Portion	Amount	Portion	Amount	Portion	September 2018	December 2017
Senior unsecured notes	107,027	87.6%	123,280	89.1%	98,003	86.6%	(13.2)%	9.2%
Unsecured subordinated notes	14,587	11.9%	14,591	10.5%	14,692	13.0%	(0.0)%	(0.7)%
Bills of exchange	23	0.1%	23	0.1%	26	0.1%	-	(11.5)%
Others	456	0.4%	460	0.3%	384	0.3%	(0.9)%	18.8%
Total (before less discount on borrowings)	122,093	100.0%	138,354	100.0%	113,105	100.0%	(11.8)%	7.9%
<u>Less</u> Discount on borrowings	5,745		5,811		5,915		(1.1)%	(2.9)%
Total	116,348		132,543		107,190		(12.2)%	8.5%

In 2018, the Bank issued and offered USD 1,200 million of senior unsecured debentures in foreign markets in September 2018 and redeemed senior unsecured debentures of USD 400 million matured in March 2018 and of USD 500 million matured in October 2018. As a result, total debt issued and borrowings as of December 31, 2018 amounted to Baht 116,348 million, a decrease of Baht 16,195 million or 12.2 percent from the end of September 2018, and an increase of Baht 9,158 million or 8.5 percent from the end of December 2017.

Shareholders' Equity

Shareholders' equity attributable to owners of the Bank as of December 31, 2018 amounted to Baht 412,814 million, an increase of Baht 11,090 million or 2.8 percent from the end of 2017. The increase was mainly due to the net profit attributable to owners of the Bank for 2018 of Baht 35,330 million net of two dividend payments in 2018 totaling Baht 12,066 million, consisting of the final dividend payment for 2017 performance of Baht 8,350 million (Baht 4.50 per share) following the resolution of the shareholders' meeting dated April 12, 2018, and the interim dividend payment made from the net profit from operations in the first half of 2018 of Baht 3,716 million (Baht 2.00 per share), a decrease of Baht 9,317 million in revaluation gains on available-for-sale investments and the loss on translation of the financial statements of foreign operations rose by Baht 3,180 million due to the Baht's appreciation.

Contingent Liabilities

Item	December 2018	September 2018	December 2017	Change (%)	
				September 2018	December 2017
Avals to bills	5,800	7,490	8,187	(22.6)%	(29.2)%
Guarantees of loans	32,236	77,228	20,445	(58.3)%	57.7%
Liability under unmatured import bills	19,041	17,150	16,394	11.0%	16.1%
Letters of credit	35,822	42,960	31,803	(16.6)%	12.6%
Other commitments					
Underwriting commitments	-	-	1,098	-	(100.0)%
Amount of unused bank overdrafts	170,329	172,917	174,083	(1.5)%	(2.2)%
Other guarantees	270,320	262,414	259,314	3.0%	4.2%
Others	120,182	129,310	88,622	(7.1)%	35.6%
Total	653,730	709,469	599,946	(7.9)%	9.0%

Contingent liabilities as of December 31, 2018 amounted to Baht 653,730 million, a decrease of Baht 55,739 million or 7.9 percent from the end of September 2018, due predominantly to a decrease in guarantees of loans.

Compared with the end of December 2017, contingent liabilities rose by Baht 53,784 million or 9.0 percent, due predominantly to an increase in others (under other commitments).

Sources and Utilization of Funds

The primary sources of funds as of December 31, 2018 were Baht 2,326,470 million or 74.6 percent in deposits, Baht 412,814 million or 13.2 percent in shareholders' equity attributable to owners of the Bank, Baht 136,862 million or 4.4 percent in interbank and money market liabilities, and Baht 116,348 million or 3.7 percent in debt issued and borrowings.

The utilization of funds comprised Baht 2,083,160 million or 66.8 percent in loans, Baht 558,396 million or 17.9 percent in net investments (including net investments in associates), and Baht 450,700 million or 14.5 percent in net interbank and money market assets.

Capital Reserves and Capital Adequacy Ratio

Consolidated

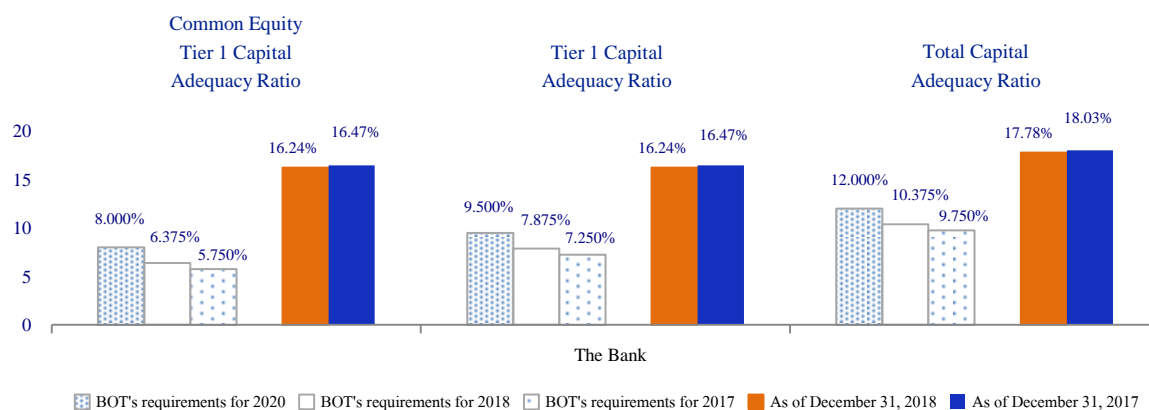
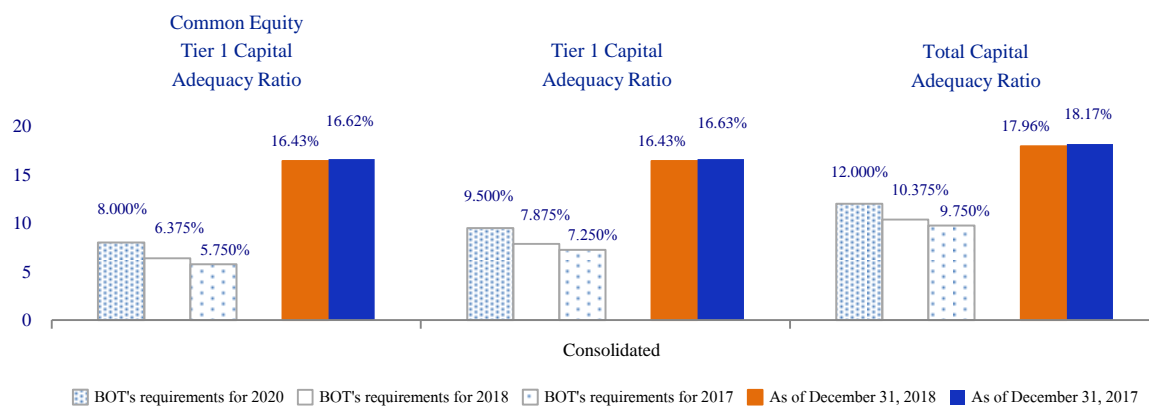
Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2018	September 2018	December 2017	December 2018	September 2018	December 2017
Total capital	426,563	427,209	419,580	17.96%	17.86%	18.17%
Tier 1 capital	390,369	390,773	383,942	16.43%	16.34%	16.63%
Common Equity Tier 1 capital	390,309	390,716	383,841	16.43%	16.34%	16.62%

The Bank

Million Baht

Item	Capital			Capital Adequacy Ratio		
	December 2018	September 2018	December 2017	December 2018	September 2018	December 2017
Total capital	409,945	410,649	404,226	17.78%	17.75%	18.03%
Tier 1 capital	374,633	375,005	369,261	16.24%	16.21%	16.47%
Common Equity Tier 1 capital	374,633	375,005	369,261	16.24%	16.21%	16.47%



Under the principles of Basel III, the Bank of Thailand (BOT) 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. It also requires a capital conservation buffer in addition to minimum capital adequacy ratios, 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. To satisfy the minimum levels and capital buffer requirements of the BOT, in 2018 the Bank was required to maintain the Common Equity Tier 1 ratio at more than 6.375 percent, the Tier 1 ratio at more than 7.875 percent, and the total capital ratio at more than 10.375 percent – measured as percentages of total risk-weighted assets. The BOT also announced guidelines for identifying and regulating Domestic Systemically Important Banks (D-SIBs). Bangkok Bank, which is classified as a D-SIB, is required by the BOT to hold additional capital for Higher Loss Absorbency (HLA) by gradually increasing its additional capital ratio by an increment of 0.50 percent p.a. from January 1, 2019 until completion of the increment to 1.00 percent from January 1, 2020 onwards.

As of December 31, 2018, the regulatory capital position was Baht 426,563 million, Common Equity Tier 1 capital was Baht 390,309 million, and Tier 1 capital was Baht 390,369 million. The total capital adequacy ratio was 17.96 percent, the Common Equity Tier 1 capital adequacy ratio was 16.43 percent, and the Tier 1 capital adequacy ratio was 16.43 percent. With the inclusion of net profit from July to December 2018, the total capital adequacy ratio, the Common Equity Tier 1 capital adequacy ratio and the Tier 1 capital adequacy ratio would be 18.71 percent, 17.19 percent and 17.19 percent, respectively.

Liquid Assets

Item	December 2018	September 2018	December 2017
Liquid assets (Million Baht)	1,018,448	1,048,167	1,051,975
Liquid assets/Total assets (%)	32.7	34.0	34.2
Liquid assets/Deposits (%)	43.8	45.6	45.5

Liquid assets consisted of cash, net interbank and money market items, trading securities and available-for-sale securities. As of December 31, 2018, liquid assets totaled Baht 1,018,448 million, a decrease of Baht 29,719 million or 2.8 percent from the end of September 2018, due mainly to a decrease of Baht 30,396 million in available-for-sale securities, a decrease of Baht 7,169 million in trading securities, whereas cash rose by Baht 5,624 million.

Compared with the end of December 2017, liquid assets fell by Baht 33,527 million or 3.2 percent. Significant items included a decrease of Baht 35,813 million in available-for-sale securities, a decrease of Baht 7,597 million in trading securities, whereas net interbank and money market items rose by Baht 12,962 million.

Credit Ratings

Details of the Bank's credit ratings as of December 31, 2018 are as follows:

Credit Rating Agency *	December 2018	September 2018	December 2017
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	Baa3	Baa3	Baa3
Financial Strength (BCA)	baa2	baa2	baa2
Outlook	Stable	Stable	Stable
Standard & Poor's			
Long-term Counterparty Credit Rating	BBB+	BBB+	BBB+
Short-term Counterparty 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	Stable	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
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, Standard & Poor's and Fitch Ratings are Baa3, BBB- and BBB-, or higher, respectively. Short-term credit ratings classified as investment grade by Moody's Investors Service, Standard & Poor's and Fitch Ratings are P-3, A-3 and F3, or higher, respectively.