



Bangkok Bank Public Company Limited
Management Discussion and Analysis
for the Quarter and the Year Ended December 31, 2020



Management Discussion and Analysis

Overview of the Economy and Banking Industry

Thai Economy in 2020

The Thai economy contracted by 6.1 percent in 2020 as a result of the Coronavirus Disease 2019 (Covid-19) pandemic. Several countries introduced measures such as freezes on international travel, lockdowns and curfews, bringing many economic activities to a standstill. The most affected areas in Thailand were international trade, private investment, and private consumption, respectively. Thai exports fell by 6.6 percent YoY, while imports declined by 13.5 percent YoY. Private investment fell by 8.4 percent YoY, in tandem with capacity utilization which plummeted to nearly a decade-low at 52.2 percent. Meanwhile, private consumption declined by 1.0 percent YoY. Furthermore, a freeze on international travel, as well as immigration restrictions and a 14-day quarantine for incoming travelers, caused the number of international tourists to fall to near zero from April to the end of the year. The restrictive measures also forced many businesses to lay off employees to deal with a decline in business activity and shortage in liquidity, adding around 2.5 million people to the job queues as the unemployment rate spiked to a decade high at 2.2 percent.

The government acted in haste to launch several measures to boost spending as well as to increase public consumption and investment to support the economy through the recession. Such measures include Rao Mai Thing Gun (You Will Never Be Left Behind), Rao Tiew Duay Gun (We Travel Together), and Kon La Krung (Let's Go Halves). Public consumption rose by 0.8 percent YoY as well as public investment in infrastructure which rose by 5.7 percent YoY.

Headline inflation dipped into negative territory to minus 0.8 percent compared with 0.7 percent in the previous year. The central bank missed its inflation target of 1-3 percent, primarily due to lower private investment, weak consumption, and a decline in energy prices.

The Bank of Thailand lowered the policy rate three times – in February, March and May – to a historic low of 0.5 percent to support the economy. Despite the Baht weakening at the beginning of the year as a result of capital flight to safe-haven assets, especially the US dollar and gold, the currency's appreciation became a major concern in the final two months of 2020 due to a current account surplus of USD 17 billion which accounted for about 3.3 percent of GDP. The Baht rose to a one-year high at 29.82 per US dollar. The Bank of Thailand announced steps to manage the strengthening Baht, particularly encouraging outbound foreign investment, which would lay the groundwork for creating a proper foreign exchange ecosystem in the future.

In terms of global financial markets, after facing a downturn during the time when pandemic control measures were implemented, equity markets around the world staged an uneven or “K-shaped” recovery in the past year, led by those with exposure to the technology sector. Yields in fixed-income markets remained low globally due to accommodative monetary policies. In spite of highly volatile financial markets, Thailand continued to maintain a high level of international reserves at 1.5 times total foreign-currency-denominated debt.

Economic Outlook for 2021

The Thai economy is forecast to expand by 1-2 percent YoY in 2021 as the success of vaccination programs are expected to support a recovery in trade and tourism worldwide. Major developed countries, such as US, UK, EU, and Japan, are expected to vaccinate large proportions of their populations relatively quickly, while there will be a slower rollout in developing economies, including Thailand, due to limited global vaccine supply.

Thai merchandise exports should be supported by a recovery in consumer purchasing power and manufacturing in many countries, especially developed ones. Rising demand for electronics exports due to commercialization of 5G technology and the work-from-home trend will help boost Thailand's electronics exports. Thailand's tourism industry is expected to gradually recover as vaccinated individuals in other countries start travelling abroad. However, the number of visitors to Thailand will remain well below pre-pandemic levels for the meantime due to the pandemic.

Private consumption in the first quarter will likely be low due to the reintroduction of pandemic control measures. Once the government brings the pandemic under control, private consumption is expected to rise due to the combined effect of easing restrictions, the government's cash handout scheme as well as an improvement in the export and tourism sectors. Government policy is expected to be a key factor to support economic recovery amid lingering uncertainties, with government spending as a key engine. Likewise, we expect monetary policy to continue to be accommodative for the rest of the year.

Thai Banking Industry in 2020

In 2020, the Thai banking system faced challenges due to the Covid-19 situation which affected the performance and asset quality. This is because almost all sectors of the Thai economy, both business and household sectors, have been directly and indirectly affected. As a result, the Bank of Thailand (BOT) had to relax monetary policy and issue financial and credit measures to assist debtors as well as easing regulations to increase flexibility of commercial banks to help debtors and stabilize the financial system.

Amid the Covid-19 challenges, the combined net profit of the commercial banking system was Baht 146.2 billion, a 46.0 percent decrease from last year, due to high provisioning to cushion against the impact from the pandemic. At the end of 2020, loan growth increased by 5.1 percent. Total business loans (64.2 percent of all loans) expanded by 5.4 percent due to an increase in loans to large corporate customers, partly returning to lending instead of issuing debt securities. SME loans contracted at a lower rate as a result of soft loan measures. Consumer loans (35.8 percent of all loans) grew by 4.6 percent, decelerating from the previous year in line with the purchasing power of households which was affected by Covid-19. Meanwhile home loans continued to expand in response to demand in the low-rise housing market and the marketing campaigns of the developers.

The liquidity of the commercial banking system remained at a high level. Deposits grew by 9.6 percent from the end of 2019. The ratio of loans to deposits was at 92.3 percent. The Liquidity Coverage Ratio (LCR) stood at 179.6 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. However, the BOT has eased the liquidity threshold to allow commercial banks to temporarily maintain their LCR ratios below 100 percent until December 31, 2021 to reduce the burden of commercial banks during the pandemic.

In terms of loan quality, non-performing loans (NPL or Stage 3) stood at Baht 523.3 billion or a ratio of 3.12 percent of gross NPL to total loans. While the Significant Increase in Credit Risk (SICR or Stage 2) stood at 6.62 percent. However, the level of capital reserves and loan loss reserves remained high and adequate to cushion against NPL in the banking system. Total capital in the commercial banking system remained high at Baht 2,994.3 billion at the end of 2020 or a Capital Adequacy Ratio (CAR) at 20.1 percent. Reserves were at a high level at Baht 799.1 billion. The NPL Coverage Ratio was at 149.2 percent, sufficient to cope with the volatility of the economy affected by the Covid-19 as well as supporting the economic recovery from the impact.

In addition, from January 1, 2020, the Thai Financial Reporting Standards 9 (TFRS 9) "Financial Instruments" were introduced to enhance the financial statements of Thai businesses in accordance with international standards. The principles and methods of accounting for financial instruments have been revised to better reflect actual financial status and operating results, divided into three parts of classification and measurement, impairment or setting aside reserves and hedge accounting.

As the spread of Covid-19 has impacted many debtors of commercial banks, banks have focused on helping them in accordance with the BOT's measures, including the loan holiday for SME and assistance measures generally provided by financial institutions in the first phase followed by proactively providing support tailored to the needs of each debtor in the second phase. The BOT has issued an announcement requiring financial institutions to freeze conditions (stand still) for debtor classification until the end of 2021 for debtors under negotiation for debt repayment conditions.



Thai Banking Industry in 2021

The Covid-19 pandemic is one aspect of the volatility, uncertainty, complexity and ambiguity (VUCA) that financial institutions face. Although local vaccination programs have started, it will take time for them to have a significant effect on combating the virus and reviving the economy. Even after the crisis ends, business conditions, industrial structures, people's lifestyles and working patterns are expected to change from pre-Covid conditions. The economy will be dependent on government support for some time. Other factors that will affect financial markets in 2021 include Joe Biden becoming the new United States President to replace Donald Trump; ongoing economic fragility, especially in countries with weak economic fundamentals; and the volatility of international money flows due to the monetary easing policies of central banks around the world. However, the Thai economy will start to recover, driven by government spending and measures to help businesses and people, and the commencement of Covid-19 vaccinations according to the government's timeline. These will help to build confidence in all sectors in the economy and contribute to a recovery in the second half of 2021.

Given the aforementioned business environment, commercial banks must focus on customer care, including providing financial assistance to businesses, helping to revitalize businesses, and providing assistance for long-term business growth, while keeping a close and continuous watch on asset quality. Thai commercial banks have increased their capital and reserves which are currently at a high level and must manage their liquidity to support the economic recovery and meet the challenges.

Commercial banks must also adjust their own operations in line with the New Normal during and after the Covid-19 pandemic. This covers economy, business, customer behavior, working patterns, the acceleration of digitalization, new hygiene rules and measures, and other big trends such as shifts in global supply chains entering an aging society, and increasing social and debt problems both globally and domestically. Banks need to focus on developing products and services to meet customers' needs by leveraging insights and analysis. By collaborating with partners they can create new revenue opportunities and effectively manage channels to control costs. Moreover, they are adopting sustainable banking principles, and using environmental, social, and governance (ESG) factors to determine policies and strategies for responsible lending, while managing risks and the impact on bank loans.

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. The Covid-19 crisis has accelerated many of the world's major trends. This has led to challenges and opportunities for the Thai economy and business sector in many dimensions as follows.

- 1. Digital disruption** – The Covid-19 crisis has encouraged both individuals and businesses to adapt to the New Normal, whether in terms of work, education, leisure, travel and health care. As such, digital technologies are playing an important role in our daily lives and business activities. Commercial banks have opportunities to support consumers and businesses to adapt while improving their own ability to meet the needs of the customers. At the same time, digital technologies 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 for 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.

- 2. The high level of household debt in Thailand** – Prior to the Covid-19 crisis, Thailand's household debt to GDP was already high, accounting for about 80 percent of GDP. The Covid-19 outbreak has aggravated this problem. 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 there is an increased risk of defaults on payments. In addition, low interest rates encourage people to save less and spend more. In addition, the closure of many businesses and more people have become unemployed resulting in a lack of income that might have been used to pay off debt. This is a concern, not only because of the rise in the debt level but also because it has affected people's ability to pay off debt. Some have turned to relying on informal loans as the formal financial source is inaccessible. This will aggravate the household debt problem and pose an obstacle to the recovery in household spending.
- 3. 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. Traditional SME are mostly family businesses that have difficulty adapting to business disruption, both in terms of products and business models. In the past, location was the main factor for survival of a business. However, technological changes have affected the behavior of consumers with more focus on convenience and speed. Consequently, online purchases have significantly increased. Mobile access, e-commerce and logistics are important factors as customers increasingly consume 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, the cost of products and transportation as well as management practices. Large corporations have increasingly expanded into the secondary cities and this creates more competition for SME there.

The Covid-19 crisis has worsened the situation as most SME have low liquidity. When the epidemic became prolonged many businesses had to be closed down. Those that can controlled costs and improve their working process to increase productivity by using more automation while developing the efficiency of their staff to be able to do higher value work will be able to survive this crisis. Banks will play an important role in supporting SME businesses to make such adaptations.

- 4. Global supply chain relocation** – the US trade protection measures and retaliation from trading partners has led to production bases being partly moved out of China into ASEAN. In addition, the Covid-19 pandemic has accelerated manufacturers in China to diversify their supply chains in many ways to prevent the risk of production disruption as happened during China's lockdown in Wuhan. Therefore, this presents an opportunity to attract foreign investment to Thailand and ASEAN and Thailand is likely to be a beneficiary of the shift of global supply chains towards becoming regional supply chains.
- 5. Debt Accumulation** – Many countries are facing high levels of debt. According to the Institute of International Finance, global debt to global GDP at the end of 2020 was 355.9 percent. This was mainly due to the very easy monetary policy of major central banks of the world coupled with a low inflation environment. Additionally, the Covid-19 pandemic has worsened the economic situation, resulting in a large number of unemployed workers. Governments need to incur more debt to use public spending to revitalize the economy. Meanwhile, the business and household sectors have also added more debt. Large businesses have the advantage of accessing low-cost funding sources, but SME and low-income household have limited access and may have to

rely on informal funding sources. The protracted pandemic has reduced businesses' ability to pay down debt. This will result in increasing levels of bad debt in the period ahead, while growing public debt may weaken long-term economic growth potential which will undermine the stability of the economy and the financial system.

- 6. 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 causing a continuous decrease of labor in the economic system which will lead to a lower rate of economic growth in the long run if there is no productivity development. Meanwhile, there is a change of the value and nature of their consumption patterns. 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.
- 7. Eastern Economic Corridor** – The EEC is being developed in three Thai provinces, namely Chachoengsao, Chonburi, and Rayong, focusing on designated industries which are 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 shifted some supply chains 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 the upgrading of labor skills to support the new targeted industries.

- 8. 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 our 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).

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

Million Baht								
Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY
Net profit ^{/1}	2,398	4,017	8,002	(40.3)%	(70.0)%	17,181	35,816	(52.0)%
Earnings per share (Baht)	1.26	2.10	4.19	(40.3)%	(70.0)%	9.00	18.76	(52.0)%
Net interest margin	2.12%	2.18%	2.22%	(0.06)%	(0.10)%	2.24%	2.35%	(0.11)%
Net fees and service income to operating income ratio	20.8%	21.7%	18.7%	(0.9)%	2.1%	20.8%	21.3%	(0.5)%
Cost to income ratio	65.8%	66.0%	36.6%	(0.2)%	29.2%	55.6%	41.1%	14.5%
Return on average assets ^{/1}	0.25%	0.42%	0.99%	(0.17)%	(0.74)%	0.48%	1.13%	(0.65)%
Return on average equity ^{/1}	2.15%	3.64%	7.40%	(1.49)%	(5.25)%	3.96%	8.45%	(4.49)%

^{/1} Attributable to owners of the Bank

Million Baht					
Item	Dec'20	Sep'20	Dec'19	%QoQ	%YTD
Loans	2,368,238	2,367,296	2,061,309	0.0%	14.9%
Deposits	2,810,863	2,821,883	2,370,792	(0.4)%	18.6%
Loan to deposit ratio	84.3%	83.9%	86.9%	0.4%	(2.6)%
Non-performing loan (Gross NPL) ^{/1}	104,401	107,743	79,149	(3.1)%	31.9%
Gross NPL to total loans ratio ^{/1}	3.9%	4.1%	3.4%	(0.2)%	0.5%
Allowance for expected credit losses to NPL ratio ^{/1}	186.8%	178.0%	220.2%	8.8%	(33.4)%
Total capital adequacy ratio	18.34%	17.64%	20.04%	0.70%	(1.70)%

^{/1} Including interbank and money market lending

In 2020, the Bank's net profit amounted to Baht 17,181 million. Net interest income rose by 8.4 percent from 2019 to Baht 77,046 million due to the consolidation of Permata's net interest income. The net interest margin stood at 2.24 percent. Net fees and service income and other operating income declined primarily due to lower fee income from loan related services and income from investments from the implementation of TFRS 9 since January 1, 2020. Operating expenses increased by 20.0 percent mainly due to the inclusion of Permata's operating expenses and expenses related to integration of Bangkok Bank's branches in Indonesia and Permata in December, resulting in the cost to income ratio of 55.6 percent.

The Bank set aside expected credit losses of Baht 31,196 million, driven the ratio of loan loss reserves to non-performing loans to 186.8 percent. This is in line with the Bank's prudent management to provide a cushion against uncertainty from the economic contraction caused by the Covid-19 pandemic.



At the end of December 2020, the Bank's loans amounted to Baht 2,368,238 million, an increase of 14.9 percent from the end of 2019. Excluding Permata, loans grew by 2.7 percent due mainly to increases in large corporate lending. The non-performing loan (NPL) ratio was 3.9 percent. The Bank continued to keep close control of credit underwriting and risk management while maintaining the allowance for doubtful accounts at a prudent level.

In terms of capital and liquidity, as of December 31, 2020, the Bank's deposits amounted to Baht 2,810,863 million, an increase of 18.6 percent from the end of December 2019. When excluding Permata, deposits increased by 7.3 percent mainly from savings accounts. The loan to deposit ratio was 84.3 percent, reflecting an adequate liquidity position to cushion against economic uncertainties. Furthermore, the Bank issued USD 750 million in additional Tier 1 Subordinated Notes under Basel III regulations on September 23, 2020, to strengthen the Bank's capital structure. At the end of December 2020, the total capital adequacy ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio of the Bank and its subsidiaries were 18.34 percent, 15.76 percent, and 14.89 percent respectively, comfortably above the BOT's minimum capital requirements.

Permata becomes a new member of our financial group

In 2020, Bangkok Bank, Thailand's largest bank by total assets and the 6th largest Southeast Asian bank, acquired a stakeholding of 98.71 percent in PT Bank Permata Tbk (Permata) in Indonesia, welcomed it as a new member of its financial group and officially integrated Bangkok Bank Indonesia's branches into Permata's operations since December 21, 2020. This integration has made Permata one of Indonesia's 10 largest banks by total assets. These synergies will enable the Bank to provide enhanced financial services to support customers operating in ASEAN, in line with the Bank's strategy to strengthen its foundation for sustainable growth.

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

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

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

In terms of loans classification, the Bank adheres to the BOT's guidelines on providing relief measures to debtors affected by adverse Thai economic conditions. In this regard, the Bank is allowed to provide pre-emptive assistance measures to non-NPL debtors who can be classified as Stage 1 having no significant increase in credit risk (Stage 1: Performing) if the Bank performs the review that they can comply with the new debt restructuring agreement. The Bank is also allowed to provide assistance measures to debtors affected by the economic conditions and those with credit impairment who can be classified under Stage 1 if they can repay their debts under the new restructuring agreement for three consecutive months or periods, whichever is longer.

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

Operating Income and Expenses of the Bank and its Subsidiaries

Million Baht

Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY
Net interest income	19,264	19,852	17,193	(3.0)%	12.0%	77,046	71,071	8.4%
Non-interest income	11,364	9,569	26,530	18.8%	(57.2)%	41,682	62,675	(33.5)%
Operating expenses	20,144	19,427	15,988	3.7%	26.0%	65,974	54,963	20.0%
Expected credit losses	7,203	5,668	-	27.1%	N/A	31,196	-	N/A
Impairment loss of loans and debt securities	-	-	16,342	-	N/A	-	32,351	N/A
Operating profit before tax	3,281	4,326	11,393	(24.2)%	(71.2)%	21,558	46,432	(53.6)%
Income tax expenses	799	212	3,290	276.9%	(75.7)%	4,013	10,219	(60.7)%
Net profit	2,482	4,114	8,103	(39.7)%	(69.4)%	17,545	36,213	(51.6)%
Net profit ^{/1}	2,398	4,017	8,002	(40.3)%	(70.0)%	17,181	35,816	(52.0)%
Total comprehensive income ^{/1}	10,741	1,169	(2,427)	818.8%	542.6%	30,056	27,029	11.2%

^{/1} Attributable to owners of the Bank

In the fourth quarter of 2020, Bangkok Bank and its subsidiaries reported a net profit attributable to owners of the Bank of Baht 2,398 million, a decrease from the previous quarter. This was mainly due to an increase in expected credit losses from the potential impact of the Covid-19 outbreak, and higher operating expenses due to seasonality of expenses and expenses to develop working systems and improve the efficiency of business operations. Non-interest income increased, predominantly on an increase in gains on financial instruments measured at Fair Value Through Profit or Loss (FVTPL), in line with the improved market situation.

Compared with the fourth quarter of 2019, net profit attributable to owners of the Bank declined by Baht 5,604 million, mainly due to a decrease in income from investments owing to the adoption of TFRS 9 from January 1, 2020 onwards.

In 2020, net profit attributable to owners of the Bank totaled Baht 17,181 million, decreased from last year mainly due to a decrease in fees from loan-related services and lower income from investments owing to the adoption of TFRS 9. There was also an increase in operating expenses mainly from the consolidation of Permata's expenses and expenses related to the integration of the Bank's branches in Indonesia with Permata in December. Although the Bank has gradually cut its loan interest rates to support some customers affected by the Covid-19 situation, net interest income increased from last year due to the consolidation of Permata's net interest income since the second quarter of 2020 and partly from the change in recognition of interest income from loans according to TFRS 9.

Net Interest Income

Net interest income amounted to Baht 19,264 million in the fourth quarter of 2020, slightly decreased from the previous quarter. Net interest income rose by 12.0 percent from the fourth quarter of 2019, while net interest income in 2020 rose by 8.4 percent from 2019 due to the acquisition of Permata in the second quarter of 2020 and partly from the change in recognition of interest income from loans according to TFRS 9.

Million Baht								
Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY
Interest Income								
Loans	23,454	24,945	23,015	(6.0)%	1.9%	95,994	93,155	3.0%
Interbank and money market items	1,106	1,226	1,971	(9.8)%	(43.9)%	5,431	9,101	(40.3)%
Investments	2,892	3,075	2,729	(6.0)%	6.0%	11,098	10,309	7.7%
Total interest income	27,452	29,246	27,715	(6.1)%	(0.9)%	112,523	112,565	(0.0)%
Interest expenses								
Deposits	4,902	6,106	5,811	(19.7)%	(15.6)%	22,437	23,044	(2.6)%
Interbank and money market items	174	167	396	4.2%	(56.1)%	952	2,100	(54.7)%
Contributions to the Deposit Protection Agency and Financial Institutions Development Fund	1,528	1,536	2,500	(0.5)%	(38.9)%	5,846	9,953	(41.3)%
Debt issued and borrowings	1,584	1,585	1,815	(0.1)%	(12.7)%	6,242	6,397	(2.4)%
Total interest expenses	8,188	9,394	10,522	(12.8)%	(22.2)%	35,477	41,494	(14.5)%
Net interest income	19,264	19,852	17,193	(3.0)%	12.0%	77,046	71,071	8.4%
Yield on earning assets	3.02%	3.22%	3.57%	(0.20)%	(0.55)%	3.28%	3.72%	(0.44)%
Cost of funds	1.03%	1.18%	1.57%	(0.15)%	(0.54)%	1.19%	1.59%	(0.40)%
Net interest margin	2.12%	2.18%	2.22%	(0.06)%	(0.10)%	2.24%	2.35%	(0.11)%

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

Non-Interest Income

Non-interest income amounted to Baht 11,364 million, an increase of Baht 1,795 million or 18.8 percent from the previous quarter, due predominantly to an increase in gains on financial instruments measured at FVTPL, in line with the market condition. Net fees and service income slightly decreased from the previous quarter. The Bank's main sources of fee income continues to be mutual funds and bancassurance, electronic services and remittances, and securities services.

Non-interest income declined from the fourth quarter of 2019 and from the full year of 2019 due mainly to decreases in income from investments, and net fees and service income from the implementation of TFRS 9, while fees from securities services increased.

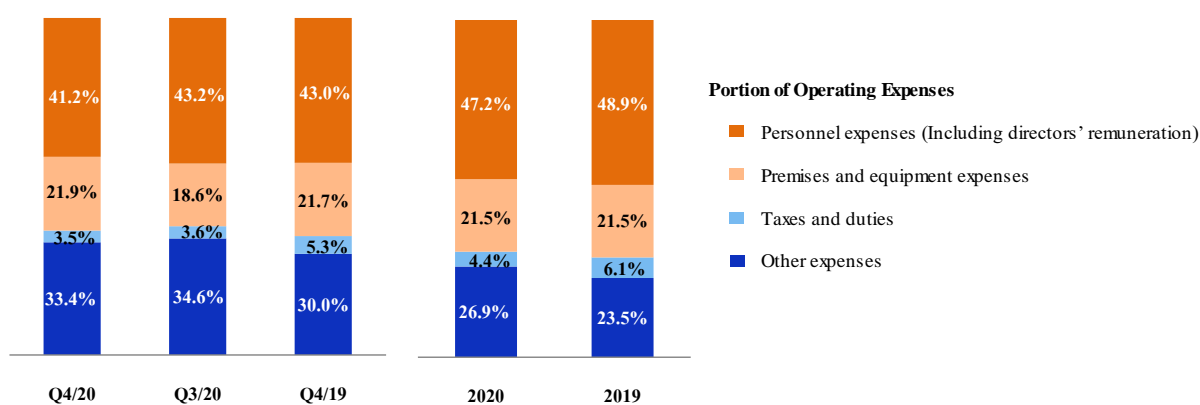
	Million Baht								
Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY	
Fees and service income	9,120	8,531	11,075	6.9%	(17.7)%	34,168	39,280	(13.0)%	
<u>Less</u> fees and service expenses	2,764	2,151	2,890	28.5%	(4.4)%	9,457	10,776	(12.2)%	
Net fees and service income	6,356	6,380	8,185	(0.4)%	(22.3)%	24,711	28,504	(13.3)%	
Gains on financial instruments measured at FVTPL	3,703	1,983	-	86.7%	N/A	11,058	-	N/A	
Gains on tradings and foreign exchange transactions	-	-	2,172	-	N/A	-	7,848	N/A	
Gains on investments	480	565	14,988	(15.0)%	(96.8)%	2,512	19,765	(87.3)%	
Share of profit (losses) from investment for using equity method	7	(70)	5	110.0%	40.0%	(14)	93	(115.1)%	
Gains on disposal of assets	553	78	435	609.0%	27.1%	734	2,134	(65.6)%	
Dividend income	215	457	616	(53.0)%	(65.1)%	2,039	3,769	(45.9)%	
Other operating income	50	176	129	(71.6)%	(61.2)%	642	562	14.2%	
Total other operating income	5,008	3,189	18,345	57.0%	(72.7)%	16,971	34,171	(50.3)%	
Total non-interest income	11,364	9,569	26,530	18.8%	(57.2)%	41,682	62,675	(33.5)%	
Net fees and service income to operating income ratio	20.8%	21.7%	18.7%	(0.9)%	2.1%	20.8%	21.3%	(0.5)%	

Operating Expenses

In the fourth quarter of 2020, operating expenses amounted to Baht 20,144 million, an increase of Baht 717 million or 3.7 percent from the previous quarter due to seasonality of expenses and expenses to develop working systems and improve the efficiency of business operations.

Total Operating expenses of 2020 increased from last year due mainly to the consolidation of Permata's operating expenses and expenses related to the integration of branches with Permata in December 2020.

Million Baht								
Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY
Personnel expenses	8,248	8,356	6,817	(1.3)%	21.0%	30,960	26,726	15.8%
Directors' remuneration	45	42	56	7.1%	(19.6)%	187	167	12.0%
Premises and equipment expenses	4,422	3,619	3,463	22.2%	27.7%	14,165	11,789	20.2%
Taxes and duties	699	687	856	1.7%	(18.3)%	2,929	3,364	(12.9)%
Other expenses	6,730	6,723	4,796	0.1%	40.3%	17,733	12,917	37.3%
Total operating expenses	20,144	19,427	15,988	3.7%	26.0%	65,974	54,963	20.0%
Cost to income ratio	65.8%	66.0%	36.6%	(0.2)%	29.2%	55.6%	41.1%	14.5%



Expected Credit Losses

In 2020, the Bank set aside Baht 31,196 million in expected credit losses in accordance with its prudent approach to prepare for an economic contraction resulting from the Covid-19 pandemic. Expected credit losses cover loans, interbank and money market items, and debt securities, which are not measured at fair value through profit or loss, loan commitments, and financial guarantee contracts.

Million Baht								
Item	Q4/20	Q3/20	Q4/19	%QoQ	%YoY	Y'20	Y'19	%YoY
Expected credit losses	7,203	5,668	-	27.1%	N/A	31,196	-	N/A
Impairment loss of loans and debt securities	-	-	16,342	-	N/A	-	32,351	N/A

Significant Items in the Financial Position

Assets

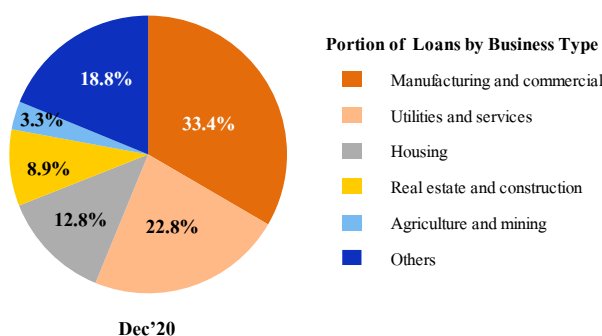
Total assets as of December 31, 2020 amounted to Baht 3,822,960 million, at the same level as the previous quarter. Compared with the end of December 2019, total assets increased considerably from the consolidation of Permata's assets.

	Million Baht				
Item	Dec'20	Sep'20	Dec'19	%QoQ	%YTD
Net interbank and money market items	519,036	531,391	472,349	(2.3)%	9.9%
Financial assets measured at FVTPL	57,936	65,472	-	(11.5)%	N/A
Net investments	758,482	749,649	647,697	1.2%	17.1%
Net investments in associates	911	903	1,737	0.9%	(47.6)%
Loans	2,368,238	2,367,296	2,061,309	0.0%	14.9%
Net properties for sale	9,754	10,293	9,363	(5.2)%	4.2%
Total assets	3,822,960	3,810,591	3,216,743	0.3%	18.8%

Loans

As of December 31, 2020, loans were at the same level as the previous quarter but increased by 14.9 percent from the end of December 2019. Excluding Permata, loans rose by 2.7 percent due to an increase in loans to large corporate customers.

	Million Baht				
Loans by Business Type	Dec'20	Sep'20	Dec'19	%QoQ	%YTD
Manufacturing and commercial	791,828	828,942	755,979	(4.5)%	4.7%
Utilities and services	539,151	545,764	470,159	(1.2)%	14.7%
Housing	302,142	296,202	251,197	2.0%	20.3%
Real estate and construction	211,510	215,048	200,736	(1.6)%	5.4%
Agriculture and mining	78,175	77,338	61,569	1.1%	27.0%
Others	445,432	404,002	321,669	10.3%	38.5%
Total	2,368,238	2,367,296	2,061,309	0.0%	14.9%



The Bank and its subsidiaries had loans distributed across business sectors, with 33.4 percent in the manufacturing and commercial sector, 22.8 percent in the utilities and services sector, 12.8 percent in the housing sector, and 8.9 percent in the real estate and construction sector. Loans were at the same level as the end of September 2020. The increase in loans from the end of December 2019 were mainly driven by other sectors and the utilities and services sector.

Classified Loans and Allowance for Expected Credit Losses

Non-performing loan (Gross NPL) at the end of December 2020 was Baht 104,401 million. The gross NPL to total loans ratio was 3.9 percent.

The allowance for expected credit losses was Baht 194,973 million and the allowance for expected credit losses to NPL ratio was 186.8 percent.

	Million Baht				
Item	Dec'20	Sep'20	Dec'19	%QoQ	%YTD
<u>Consolidated</u>					
Non-performing loan (Gross NPL) ^{/1}	104,401	107,743	79,149	(3.1)%	31.9%
Gross NPL to total loans ratio ^{/1}	3.9%	4.1%	3.4%	(0.2)%	0.5%
Net NPL to net total loans ratio ^{/1}	1.4%	1.5%	1.2%	(0.1)%	0.2%
Allowance for expected credit losses to NPL ratio ^{/2}	186.8%	178.0%	220.2%	8.8%	(33.4)%
<u>The Bank</u>					
Non-performing loan (Gross NPL) ^{/1}	91,978	94,244	78,093	(2.4)%	17.8%
Gross NPL to total loans ratio ^{/1}	4.0%	4.0%	3.4%	-	0.6%

^{/1} Including interbank and money market lending

^{/2} Before the adoption of the TFRS 9, calculating from allowance for expected credit losses of loans

	Million Baht			
Item	Loans and		Allowance for	
	Interbank & Money Market		Expected Credit Losses ^{/1}	
	Dec'20	Sep'20	Dec'20	Sep'20
Non credit-impaired	2,781,073	2,791,328	121,083	116,626
Credit-impaired	104,401	107,743	73,890	75,136
Total	2,885,474	2,899,071	194,973	191,762

^{/1} Including allowance for expected credit losses of loans, interbank and money market items, loan commitments and financial guarantee contracts

	Million Baht	
Item	Loans & Accrued Interest Receivables	Allowance for Doubtful Accounts
	Dec'19	Classified to Bank of Thailand Criteria Dec'19
Normal	1,918,520	16,119
Special mentioned	67,596	848
Substandard	9,783	1,359
Doubtful	14,522	6,259
Doubtful of loss	54,901	30,087
Total	2,065,322	54,672
<u>Add</u> Excess allowance for doubtful accounts		113,094
Total allowance for doubtful accounts from loan classification		167,766
<u>Add</u> Revaluation allowance for debt restructuring		6,510
Total allowance for doubtful accounts		174,276

Investments

Investments as of December 31, 2020 amounted to Baht 816,412 million, increasing from the end of September 2020 and December 2019, due mainly to higher investment in Thai government and state enterprise securities.

Most investments were in Thai government and state enterprise securities. As of December 31, 2020, these amounted to Baht 486,889 million, accounting for 59.6% percent of total investments. The remaining investments were foreign debt securities of Baht 157,995 million, private enterprise debt securities of Baht 31,925 million, and net investment in equity securities of Baht 93,205 million.

Million Baht			
Investments by Investment Holding	Dec'20	Sep'20	%QoQ
Trading securities	7,833	17,450	(55.1)%
Securities measured at FVTPL	50,097	48,016	4.3%
Debt securities measured at amortized cost	38,884	51,829	(25.0)%
Debt securities measured at FVOCI	639,438	629,227	1.6%
Equity securities measured at FVOCI	80,160	68,593	16.9%
Total investments	816,412	815,115	0.2%

Million Baht	
Investments by Investment Holding	Dec'19
Trading securities	13,613
Available-for-sale securities	574,720
Held-to-maturity debt securities	23,257
General investments	36,107
Total investments	647,697

Liabilities and Shareholders' Equity

Total liabilities as of December 31, 2020 amounted to Baht 3,372,713 million, at the same level as the previous quarter. Compared with the end of December 2019, total liabilities increased from the acquisition of Permata. Excluding Permata, total liabilities rose mainly from increases of 7.3 percent in deposits and 25.8 percent in interbank and money market items.

Million Baht					
Item	Dec'20	Sep'20	Dec'19	%QoQ	%YTD
Deposits	2,810,863	2,821,883	2,370,792	(0.4)%	18.6%
Interbank and money market items	219,149	174,840	134,346	25.3%	63.1%
Financial liabilities measured at FVTPL	19,257	20,295	-	(5.1)%	N/A
Debt issued and borrowings	136,177	171,140	144,681	(20.4)%	(5.9)%
Total liabilities	3,372,713	3,369,926	2,788,627	0.1%	20.9%
Shareholders' equity ^{/1}	449,014	439,508	427,751	2.2%	5.0%

^{/1} Attributable to owners of the Bank

Deposits

Total deposits at the end of December 2020 amounted to Baht 2,810,863 million. Excluding Permata, deposits rose by 0.3 percent from the end of September 2020, and rose by 7.3 percent from the end of December 2019, owing to increases in savings deposits.

Deposits Classified by Product Type	Million Baht							
	Dec'20		Sep'20		Dec'19		%QoQ	%YTD
	Amount	Portion	Amount	Portion	Amount	Portion		
Current	165,912	5.9%	199,484	7.1%	113,067	4.8%	(16.8)%	46.7%
Savings	1,435,331	51.1%	1,365,835	48.4%	1,145,106	48.3%	5.1%	25.3%
Fixed	1,209,620	43.0%	1,256,564	44.5%	1,112,619	46.9%	(3.7)%	8.7%
Total	2,810,863	100.0%	2,821,883	100.0%	2,370,792	100.0%	(0.4)%	18.6%
Loan to deposit ratio		84.3%		83.9%		86.9%	0.4%	(2.6)%

Debt Issued and Borrowings

Total debt issued and borrowings as of December 31, 2020 amounted to Baht 136,177 million. In September 2020, the Bank issued USD 750 million worth of additional Tier 1 Subordinated Notes under Basel III, while there was a maturity of USD 800 million worth of subordinated notes in October 2020.

Debt Issued and Borrowings Classified by Type of Instruments	Million Baht							
	Dec'20		Sep'20		Dec'19		%QoQ	%YTD
	Amount	Portion	Amount	Portion	Amount	Portion		
Senior unsecured notes	75,100	55.1%	105,181	61.4%	99,530	66.3%	(28.6)%	(24.5)%
Subordinated notes	59,835	43.9%	64,913	37.9%	49,757	33.1%	(7.8)%	20.3%
Bills of exchange	814	0.6%	624	0.4%	8	0.1%	30.4%	10,075.0%
Others	507	0.4%	512	0.3%	838	0.5%	(1.0)%	(39.5)%
Total (before less discount on borrowings)	136,256	100.0%	171,230	100.0%	150,133	100.0%	(20.4)%	(9.2)%
<u>Less</u> Discount on borrowings	79		90		5,452		(12.2)%	(98.6)%
Total	136,177		171,140		144,681		(20.4)%	(5.9)%

Shareholders' Equity

Shareholders' equity attributable to owners of the Bank as of December 31, 2020 amounted to Baht 449,014 million, an increase of Baht 21,263 million or 5.0 percent from the end of 2019. This is due to net profit attributable to owners of the Bank of Baht 17,181 million for 2020, net of an interim dividend payment of Baht 9,544 million (Baht 5.00 per share) for the second half of 2019's operating performance (between July to December 2019) according to a resolution from the Board of Directors' meeting on April 1, 2020. There was also a surplus from the revaluation of land and buildings of Baht 10,612 million, while gains on investments measured at FVOCI declined by Baht 1,100 million.

Sources and Utilization of Funds

The primary sources of funds as of December 31, 2020 were Baht 2,810,863 million or 73.5 percent in deposits, Baht 449,014 million or 11.7 percent in shareholders' equity attributable to owners of the Bank, Baht 219,149 million or 5.7 percent in interbank and money market liabilities, and Baht 155,434 million or 4.1 percent in debt issued and borrowings including financial liabilities measured at FVTPL.

The utilization of funds comprised Baht 2,368,238 million or 61.9 percent in loans, Baht 817,329 million or 21.4 percent in net investments including financial assets measured at FVTPL and net investments in associates, and Baht 519,036 million or 13.6 percent in net interbank and money market assets.

Capital Reserves and Capital Adequacy Ratio

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

As of December 31, 2020, the regulatory capital position of the Bank's financial group according to the consolidated financial statements was Baht 502,067 million. The Common Equity Tier 1 capital adequacy ratio was 14.89 percent, the Tier 1 capital adequacy ratio was 15.76 percent and the total capital adequacy ratio was 18.34 percent.

Consolidated

Million Baht

Item	Dec'20		Sep'20		BOT's requirements for 2020	Dec'19		BOT's requirements for 2019
	Capital	Capital Adequacy Ratio	Capital	Capital Adequacy Ratio		Capital	Capital Adequacy Ratio	
Common Equity Tier 1 capital	407,621	14.89%	391,459	14.21%	> 8.00%	406,463	17.01%	> 7.50%
Tier 1 capital	431,381	15.76%	415,122	15.07%	> 9.50%	406,529	17.01%	> 9.00%
Tier 2 capital	70,686	2.58%	70,858	2.57%		72,211	3.03%	
Total capital	502,067	18.34%	485,980	17.64%	> 12.00%	478,740	20.04%	> 11.50%

The Bank

Million Baht

Item	Dec'20		Sep'20		BOT's requirements for 2020	Dec'19		BOT's requirements for 2019
	Capital	Capital Adequacy Ratio	Capital	Capital Adequacy Ratio		Capital	Capital Adequacy Ratio	
Common Equity Tier 1 capital	404,418	16.33%	386,642	15.45%	> 8.00%	399,842	17.14%	> 7.50%
Tier 1 capital	428,010	17.28%	410,234	16.39%	> 9.50%	399,842	17.14%	> 9.00%
Tier 2 capital	69,839	2.82%	69,943	2.80%		71,420	3.06%	
Total capital	497,849	20.10%	480,177	19.19%	> 12.00%	471,262	20.20%	> 11.50%

Liquid Assets

Liquid assets consisted of cash, net interbank and money market items, debt securities, and marketable equity securities. As of December 31, 2020, the ratio of liquid assets to total assets and liquid assets to deposits were 35.3 percent and 48.1 percent respectively.

Item	Dec'20	Sep'20	Dec'19
Liquid assets/Total assets (%)	35.3	35.4	35.5
Liquid assets/Deposits (%)	48.1	47.7	48.2

Credit Ratings

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

Credit Rating Agency	December 2020	September 2020	December 2019
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	Baa2
Subordinated Debt (Basel III-compliant Tier 2 securities)	Baa3	Baa3	Baa3
Subordinated Debt (Basel III-compliant Tier 1 securities)	Ba1	Ba1	-
Financial Strength (BCA)	baa1	baa1	baa1
Outlook	Stable	Stable ¹	Positive
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	Stable	Stable ¹	Positive

Credit Rating Agency	December 2020	September 2020	December 2019
Fitch Ratings			
International Rating			
Long-term Issuer Default Rating	BBB	BBB ²	BBB+
Short-term Issuer Default Rating	F2	F2	F2
Senior Unsecured Debt Instrument	BBB	BBB	BBB+
Subordinated Debt Instrument	BB+	BB+	BBB
Subordinated Debt (Basel III-compliant Tier 2 securities)	BB+	BB+	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

¹ Changed the outlook to stable from positive following sovereign outlook in April 2020.

² Revised ratings due to large-scale economic disruptions from the Covid-19 pandemic in April 2020.