

## **Part 3**

### **Financial Status and Performance**

## **Part 3**

### **Financial Status and Performance**

#### **13. Key Financial Information**

##### **13.1 Financial Statements**

##### **Summary of Auditor's Report**

###### **The Consolidated Financial Statements of the Company and its Subsidiaries for the Year Ended December 31, 2016**

The independent auditor for the Company's financial statements and the Company's and its subsidiaries' consolidated financial statements for the year ended December 31, 2016 was Ms. Somjai Khunapasut, Certified Public Accountant (Thailand) No. 4499, of EY Office Limited. The conclusion of his report can be summarized as follows:

Based on the independent auditor's audit, the financial statements presented fairly, in all material respects, the financial position of TISCO Financial Group Public Company Limited and its subsidiaries and of TISCO Financial Group Public Company Limited as at December 31, 2016, and their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

###### **The Consolidated Financial Statements of the Company and its Subsidiaries for the Year Ended December 31, 2015 and 2014**

The independent auditor for the Company's financial statements and the Company's and its subsidiaries' consolidated financial statements for the year ended December 31, 2015 and 2014 was Ms. Ratana Jala, Certified Public Accountant (Thailand) No. 3734, of EY Office Limited. The conclusion of his report can be summarized as follows:

Based on the independent auditor's audit, the financial statements presented fairly, in all material respects, the financial position of TISCO Financial Group Public Company Limited and its subsidiaries and of TISCO Financial Group Public Company Limited as at December 31, 2015 and 2014, and their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

**Table Depicting the Consolidated Financial Statements of the Company and its Subsidiaries****TISCO Financial Group Public Company Limited and its subsidiaries****Statement of financial position****As of**

(Unit: Thousand Baht)

	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>			
Cash	1,149,005	1,101,291	1,180,482
Interbank and money market items - net	38,067,417	31,162,645	38,057,993
Investments - net	7,188,845	8,332,419	14,795,457
Investments in subsidiaries and joint venture - net	442,750	284,107	207,228
Loans to customers and accrued interest receivables			
Loans to customers	245,114,243	259,724,989	286,017,305
Accrued interest receivable	520,704	542,488	572,383
Total loans to customers and accrued interest receivables	245,634,947	260,267,477	286,589,688
Less: Deferred revenue	(20,180,240)	(21,465,152)	(23,233,476)
Less: Allowance for doubtful accounts	(7,973,890)	(6,168,270)	(6,950,423)
Less: Allowance for loss on debt restructuring	(9,748)	-	-
Loans to customers and accrued interest receivables - net	217,471,069	232,634,055	256,405,789
Property foreclosed - net	7,366	47,390	120,905
Investment properties - net	32,157	32,157	17,267
Premises and equipment - net	2,652,515	2,633,339	2,483,759
Intangible assets - net	567,053	379,659	324,927
Deferred tax assets	513,602	317,686	296,074
Securities and derivative business receivable - net	1,373,757	1,130,190	1,819,258
Other assets	1,806,862	2,238,741	1,964,366
<b>Total assets</b>	<b>271,272,398</b>	<b>280,293,679</b>	<b>317,673,505</b>

**TISCO Financial Group Public Company Limited and its subsidiaries**  
**Statement of financial position (continued)**

	As of		
	December 31, 2016	December 31, 2015	December 31, 2014
	(Unit: Thousand Baht)		
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits	155,067,524	158,344,190	205,588,846
Interbank and money market items - net	5,196,603	10,030,060	10,692,435
Liability payable on demand	180,242	356,335	399,916
Derivatives liabilities	34,118	41,898	40,729
Debts issued and borrowings	70,328,919	74,518,919	65,406,219
Provision for long-term employee benefits	576,114	466,933	403,572
Deferred tax liabilities	2,581	1,748	30,155
Securities and derivatives business payables - net	1,510,870	1,275,029	1,250,067
Accrued interest payable	753,021	896,969	1,129,253
Income tax payable	565,781	312,895	566,574
Other liabilities	5,731,082	5,854,374	6,342,046
<b>Total liabilities</b>	<b>239,946,855</b>	<b>252,099,350</b>	<b>291,849,812</b>
<b>Shareholders' equity</b>			
Share capital			
Registered			
33,858 preference shares of Baht 10 each	339	339	339
800,669,437 ordinary shares of Baht 10 each	8,006,694	8,006,694	8,006,694
	<b>8,007,033</b>	<b>8,007,033</b>	<b>8,007,033</b>
Issued and fully paid-up			
10,759 preference shares of Baht 10 each			
(31 December 2015: 18,558 shares of Baht 10 each)			
(31 December 2014: 33,558 shares of Baht 10 each)	108	186	336
800,644,724 ordinary shares of Baht 10 each			
(31 December 2015: 800,636,925 shares of Baht 10 each)			
(31 December 2014: 800,621,925 shares of Baht 10 each)	8,006,447	8,006,369	8,006,219
	8,006,555	8,006,555	8,006,555
Share premium			
Share premium of preference shares	-	-	-
Share premium of ordinary shares	1,018,408	1,018,408	1,018,408
	1,018,408	1,018,408	1,018,408
Other components of shareholders' equity	1,447,136	1,381,775	1,680,354
Retained earnings			
Appropriated-statutory reserve	801,000	709,500	596,300
Unappropriated	19,951,807	16,979,196	14,429,068
Equity attributable to owners of the Company	31,224,906	28,095,434	25,730,685
Non-controlling interest of the subsidiaries	100,637	98,895	93,008
<b>Total shareholders' equity</b>	<b>31,325,543</b>	<b>28,194,329</b>	<b>25,823,693</b>
<b>Total liabilities and shareholders' equity</b>	<b>271,272,398</b>	<b>280,293,679</b>	<b>317,673,505</b>

## TISCO Financial Group Public Company Limited and its subsidiaries

## Statement of comprehensive income

For the years ended

(Unit: Thousand Baht, except earnings per share expressed in Baht)

	December 31, 2016	December 31, 2015	December 31, 2014
Interest incomes	16,011,544	16,887,553	18,890,867
Interest expenses	(5,091,110)	(6,757,696)	(9,351,077)
<b>Net interest income</b>	<b>10,920,434</b>	<b>10,129,857</b>	<b>9,539,790</b>
Fees and service income	5,396,850	5,255,965	5,187,250
Fees and service expenses	(230,082)	(198,932)	(211,639)
<b>Net fees and service income</b>	<b>5,166,768</b>	<b>5,057,033</b>	<b>4,975,611</b>
Net gains on trading and foreign exchange transactions	(9,468)	96,189	27,612
Net gains on investments	12,594	128,907	263,716
Share of profit from investments accounted for under equity method	131,212	97,655	52,129
Dividend income	78,973	92,332	96,930
Penalty fee income from loans	364,260	452,694	344,030
Income from business promotion relating to the hire purchase business	273,903	348,001	268,333
Other operating income	121,637	86,258	55,638
<b>Total operating income</b>	<b>17,060,313</b>	<b>16,488,926</b>	<b>15,623,789</b>
Expenses to business promotion relating to the hire purchase business	302,924	396,303	274,765
<b>Total net operating income</b>	<b>16,757,389</b>	<b>16,092,623</b>	<b>15,349,024</b>
<b>Operating expenses</b>			
Employee's expenses	4,298,798	3,379,795	3,550,195
Directors' remuneration	12,745	12,680	13,240
Premises and equipment expenses	970,203	928,890	919,076
Taxes and duties	208,869	212,862	224,003
Other operating expenses	1,050,415	992,794	898,432
<b>Total operating expense</b>	<b>6,541,030</b>	<b>5,527,021</b>	<b>5,604,946</b>
Bad debt, doubtful accounts and impairment losses	3,972,366	5,277,415	4,426,460
<b>Profit from operating before tax expenses</b>	<b>6,243,993</b>	<b>5,288,187</b>	<b>5,317,618</b>
Income tax expenses	1,220,410	1,032,464	1,043,443
<b>Profit for the year</b>	<b>5,023,583</b>	<b>4,255,723</b>	<b>4,274,175</b>

## TISCO Financial Group Public Company Limited and its subsidiaries

## Statement of comprehensive income (continued)

For the years ended

(Unit: Thousand Baht, except earnings per share expressed in Baht)

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Gain (loss) on remeasuring available-for-sale investment	59,888	(334,715)	184,533
Share of other comprehensive income of joint venture:			
Cash flow hedges of joint venture	27,431	(20,802)	(1,694)
Income tax effects	(11,978)	66,943	(41,025)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods - net of income tax</i>	75,341	(288,574)	141,814
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gains (losses)	(40,122)	6,091	(28,716)
Losses on revaluation of assets	-	-	(27,000)
Share of other comprehensive income of joint venture:			
Actuarial gains (losses) of joint venture	-	26	(354)
Income tax effects	7,995	(1,188)	11,114
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax</i>	(32,127)	4,929	(44,956)
<b>Other comprehensive income for the year</b>	43,214	(283,645)	96,858
<b>Total comprehensive income for the year</b>	<b>5,066,797</b>	<b>3,972,078</b>	<b>4,371,033</b>
<b>Profit attribute to</b>			
Equity holders of the Company	5,005,894	4,250,119	4,249,515
Non-controlling interests of the subsidiaries	17,689	5,604	24,660
	<b>5,023,583</b>	<b>4,255,723</b>	<b>4,274,175</b>
<b>Total comprehensive income attributable to</b>			
Equity holders of the Company	5,050,062	3,966,053	4,345,059
Non-controlling interests of the subsidiaries	16,735	6,025	25,974
	<b>5,066,797</b>	<b>3,972,078</b>	<b>4,371,033</b>
<b>Basic Earnings per share</b>	<b>6.25</b>	<b>5.31</b>	<b>5.31</b>

## TISCO Financial Group Public Company Limited and its subsidiaries

## Cash flow statement

## For the years ended

(Unit: Thousand Baht)

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Cash flows from operating activities</b>			
Profit before income tax	6,243,993	5,288,187	5,317,618
Adjustments to reconcile profit before income tax expenses to net cash provided by (paid from) operating activities:			
Depreciation and amortisation	252,316	214,709	230,494
Bad debts and doubtful accounts	6,094,764	7,070,231	5,642,990
Share of profit from investments accounted for under equity method	(131,212)	(97,655)	(52,129)
Reversal of allowance for impairment of investments	4,420	(822)	(13,058)
Allowance for impairment of property foreclosed (reversal)	11,128	1	(67)
Gain on disposal of investments in securities	(17,682)	(131,268)	(262,848)
Unrealised (gain) loss on foreign exchange	(851)	(80,656)	17,467
Gain on disposal of equipment	(14,127)	(1,619)	(6,140)
Loss on written-off of equipment	941	2,909	1,759
Loss on written-off intangible assets	6,218	78	5,282
Gain on changes in value of investment properties	-	406	(412)
Gain on disposal of property foreclosed	(73,175)	(49,810)	(22,841)
Employee benefit expenses	89,986	95,269	65,002
Increase in accrued income	(19,887)	(14,654)	(22,658)
Increase (decrease) in accrued expenses	413,512	(279,820)	167,932
Net interest income	(10,920,434)	(10,129,857)	(9,539,790)
Dividend income	(78,973)	(92,332)	(96,930)
Cash received on interest income	16,335,057	17,201,200	18,639,189
Cash paid on interest expenses	(4,234,443)	(5,822,706)	(8,626,107)
Cash received on dividend income	78,973	92,332	100,930
Cash paid on income tax expenses	(1,173,584)	(1,275,371)	(1,129,610)
Profit from operating activities before changes in operating assets and liabilities	12,866,940	11,988,752	10,416,073
Operating assets (increase) decrease			
Interbank and money market items	(6,904,757)	6,895,479	15,151,442
Loans to customers	6,771,626	13,993,726	15,236,649
Securities and derivative business receivables	(243,566)	689,068	(272,596)
Receivables from clearing house	103,127	43,907	(20,527)
Property foreclosed	2,376,862	2,801,136	3,138,099
Other assets	(188,541)	(847,155)	337,517
Operating liabilities increase (decrease)			
Deposits	(3,276,666)	(47,244,657)	(59,292,796)
Interbank and money market items	(4,833,456)	(662,375)	(1,251,022)
Liabilities payable on demand	(176,093)	(43,582)	55,052
Securities and derivative business payables	235,841	24,962	(260,950)
Short-term debts issued and borrowings	(20,370,000)	(6,567,300)	23,922,600
Payable to clearing house	(96,576)	(756,680)	554,382
Provision for long-term employee benefits	(20,927)	(25,959)	(22,749)
Other liabilities	(1,213,333)	(378,844)	(1,100,336)
<b>Net cash flows from (used in) operating activities</b>	<b>(14,969,519)</b>	<b>(20,089,522)</b>	<b>6,590,838</b>

## TISCO Financial Group Public Company Limited and its subsidiaries

## Cash flow statement (continued)

For the years ended

(Unit: Thousand Baht)

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Cash flows from investing activities</b>			
Cash paid for purchase of investment in securities held for investment	(7,759,049)	(17,004,795)	(28,880,497)
Cash received from disposal of investment in securities held for investment	8,968,790	23,346,837	26,038,728
Cash paid for purchase of equipment	(223,346)	(309,088)	(230,236)
Cash paid for purchase of intangible assets	(242,740)	(102,938)	(274,208)
Cash received from disposal of equipment	14,168	1,619	6,180
<b>Net cash flows used in investing activities</b>	<b>757,823</b>	<b>5,931,635</b>	<b>(3,340,033)</b>
<b>Cash flows from financing activities</b>			
Cash received from issuance of long-term debentures	16,180,000	17,680,000	2,400,000
Cash paid for the redemption of long-term debentures	-	(2,000,000)	(4,000,000)
Dividend paid	(1,920,590)	(1,601,304)	(1,601,294)
<b>Net cash flows used in financing activities</b>	<b>14,259,410</b>	<b>14,078,696</b>	<b>(3,201,294)</b>
<b>Net increase (decrease) in cash</b>	<b>47,714</b>	<b>(79,191)</b>	<b>49,511</b>
Cash at beginning of the year	1,101,291	1,180,482	1,130,971
<b>Cash at end of the year</b>	<b>1,149,005</b>	<b>1,101,291</b>	<b>1,180,482</b>



### 13.2 Important Financial Ratios

		2016	2015	2014
<b>Profitability Ratio</b>				
Gross Profit Margin	(%)	75.1	68.6	60.3
Net Profit Margin	(%)	29.9	26.4	27.7
Return on Average Shareholders' Equity	(%)	16.8	15.7	17.4
Interest Income Ratio	(%)	5.8	5.7	5.6
Interest Expense Ratio	(%)	2.2	2.6	3.1
Interest Spread	(%)	3.7	3.1	2.5
Return on Investment	(%)	2.6	4.2	5.3
<b>Efficiency Ratio</b>				
Net Interest Income to Total Assets	(%)	4.0	3.4	2.8
Return on Average Assets	(%)	1.8	1.4	1.3
Total Asset Turnover	(times)	0.06	0.05	0.05
<b>Financial Ratio</b>				
Debt to Equity Ratio	(times)	7.7	8.9	11.3
Total Loans to Total Borrowing and Deposits	(%)	99.7	102.2	96.8
Total Loans to Public Borrowing	(%)	145.1	150.5	127.8
Public Borrowing to Total Liabilities	(%)	64.6	62.8	70.4
Dividend Payout Ratio	(%)	N/A	45.2	37.7
<b>Asset Quality Ratio</b>				
Allowance for Doubtful Account to Total Loans and accrued interest receivable	(%)	3.5	2.6	2.6
Bad Debt and Doubtful Account to Total Loans and accrued interest receivable	(%)	1.9	3.3	1.9
Non-accrued loans <sup>1</sup> to Total Loans	(%)	2.9	3.1	2.8
Allowance for Doubtful Account to Non-performing loans	(%)	139.8	80.1	103.0
Accrued Interest Receivable to Total Loans	(%)	0.2	0.2	0.2
<b>Other Ratios</b>				
Capital Funds to Risk Weighted Asset (BIS)	(%)	19.59	18.01	16.79
Net Capital Rule (TISCO Securities)	(%)	85.73	84.03	54.73

<sup>1</sup>according to the Bank of Thailand's definition

## 14. Management Discussion and Analysis

**The Management Discussion and Analysis compares operating performance and financial position of TISCO Group for the year 2016, with those of the year 2015**

### Movement of Money Market and Capital Market

In 2016, the domestic economy resumed recovery momentum following the government stimulus measures, the expansion in tourism sector and the improvement in private consumption. Export sector showed sign of recovery during the second half of 2016. However, Thai economy still remained volatile from both internal and external factors. Therefore, the domestic car sale in 2016 declined by 3.9% (YoY), totaled 768,788 units. Furthermore, the external economic factors have caused the uncertainty toward global economy, including the U.S. Federal Reserve raising interest rates, the stagnant growth in Eurozone and the economic slowdown in China. The headline inflation for the year 2016 was reported at 0.2%, following the increase in oil prices.

The Bank of Thailand (BOT) maintained the policy rate at 1.50%. The average 3-month fixed deposit rates of Top-4 commercial banks decreased from 1.01% to 0.93% (YoY), while the average minimum lending rate of Top-4 commercial banks decreased from 6.51% to 6.26% (YoY).

The capital market in 2016 improved significantly from the previous year with SET index closed at 1,542.94 points, increased by 254.92 points or 19.8% from the end of 2015. The growth was resulted from the increasing foreign capital inflow, and also the market trading volume has increased from the volatile domestic and global market conditions. Therefore, the average daily turnover increased from 41,141.45 million baht in 2015 to 50,244.97 million baht.

### Major Events

On December 22, 2016, TISCO Bank Public Company Limited and All-Ways Company Limited, the subsidiaries which the Company holds 99.99% and 100% of shares respectively, have an agreement to transfer retail banking business from Standard Chartered Bank (Thai) Public Company Limited. TISCO Bank Public Company Limited will be the transferee of personal loans, mortgage loans, business loans, wealth management and retail deposits businesses while All-Ways Company Limited will be the transferee of credit card business. This transfer aimed to strengthen retail banking business and increase business opportunity to expand customer base from the increasing product offering, as well as the increase benefit value from the transfer. The transfer is expected to be completed within the year 2017 after the approval from the Bank of Thailand and shareholders of the transferor and transferee.

### 14.1 Operating Performance for the year 2016

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 3,118.93 million baht, mainly contributed by service fee income from subsidiary companies within the group. As a holding company, TISCO Financial Group Public Company Limited operates as shareholder in other company and no other major business. Therefore, the analysis was based on the Company's consolidated operating performance and financial position which comprised of 2 main businesses: commercial banking business and securities business.

In 2016, the net profit attributed to owners of the Company totaled 5,005.89 million baht, increased by 755.77 million baht (17.8% YoY), which mainly contributed by improved net interest income and non-interest income from core business, as well as the lower provision expense comparing to the previous year. Net interest income increased by 7.8% (YoY) from the ability to maintain overall loan yield and the effective cost management. Non-interest income from core business improved by 1.6% (YoY), mainly resulting from the increase in brokerage fee income by 2.8% (YoY) following increasing market trading volume. Banking fee increased by 0.9% (YoY) owing to the improvement in bancassurance business. Moreover, the Company recorded investment banking fee from underwriting service during the past year. Meanwhile, asset management fee remained stable comparing to the previous year. Moreover, provision expense declined by 24.7% (YoY) from the improved asset quality. All in all, the provision remained at a cautious level, partly from the setup of general provision against business volatility amid the economic uncertainty.

Non-performing loans (NPLs) continually declined following improved asset quality in both hire purchase business and corporate lending business, thanks to effective credit control. In addition, the Company reclassified Sahaviriya Steel Industries Pcl. (SSI) from non-performing loan to special mention loan after the Central Bankruptcy Court approved the debt rehabilitation plan. As a result, the NPL ratio at the end of 2016 decreased from 3.23% to 2.54% (YoY) while the loan loss provision coverage ratio increased to 139.8%.

Basic earnings per share for the year 2016 was at 6.25 baht per share, increased from 5.31 baht per share in 2015. Meanwhile, the return on average equity (ROAE) was at 16.8%, increased from 15.7% (YoY).

**(1) Consolidated Revenue Structure**

The Company and its subsidiaries' consolidated revenue structure in 2015 and 2016 are illustrated in Table 1.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	2015		2016		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	5,681.85	35.3	5,568.41	33.2	(2.0)
Interest on interbank and money market items	540.42	3.4	497.30	3.0	(8.0)
Hire purchase and financial lease income	10,409.47	64.7	9,749.53	58.2	(6.3)
Investments	255.81	1.6	196.31	1.2	(23.3)
<b>Total interest income</b>	<b>16,887.55</b>	<b>104.9</b>	<b>16,011.54</b>	<b>95.5</b>	<b>(5.2)</b>
Interest expenses	(6,757.70)	(42.0)	(5,091.11)	(30.4)	(24.7)
<b>Net interest income</b>	<b>10,129.86</b>	<b>62.9</b>	<b>10,920.43</b>	<b>65.2</b>	<b>7.8</b>
Fee income					
Fee and service income	5,255.97	32.7	5,396.85	32.2	2.7
Fee and service expenses	(198.93)	(1.2)	(230.08)	(1.4)	15.7
<b>Net fee and service income</b>	<b>5,057.03</b>	<b>31.4</b>	<b>5,166.77</b>	<b>30.8</b>	<b>2.2</b>
Net gain on investment and foreign exchange transactions	225.10	1.4	3.13	0.0	(98.6)
Share of profit from investments accounted for under equity method	97.66	0.6	131.21	0.8	34.4
Other operating income	979.28	6.1	838.77	5.0	(14.3)
<b>Total operating income</b>	<b>16,488.93</b>	<b>102.5</b>	<b>17,060.31</b>	<b>101.8</b>	<b>3.5</b>
Expenses from business promotion relating to the hire purchase business	(396.30)	(2.5)	(302.92)	(1.8)	
<b>Total net operating income</b>	<b>16,092.62</b>	<b>100.0</b>	<b>16,757.39</b>	<b>100.0</b>	<b>4.1</b>
Total operating expenses	(5,527.02)		(6,541.03)		
Bad debt, doubtful accounts and impairment losses	(5,277.42)		(3,972.37)		
<b>Profit before income tax and minority interest</b>	<b>5,288.19</b>		<b>6,243.99</b>		<b>18.1</b>
Income tax expenses	(1,032.46)		(1,220.41)		
<b>Profit before minority interest</b>	<b>4,255.72</b>		<b>5,023.58</b>		<b>18.0</b>
Non-controlling interest	(5.60)		(17.69)		
<b>Net profit</b>	<b>4,250.12</b>		<b>5,005.89</b>		<b>17.8</b>

**(2) Net Interest Income**

Net interest income in 2016 was 10,920.43 million baht, increased by 790.58 million baht (7.8% YoY). Total interest income was 16,011.54 million baht, decreased by 876.01 million baht (5.2% YoY) while interest expense declined by 1,666.59 million baht (24.7% YoY) to 5,091.11 million baht, owing to a further decline in cost of fund and the Company's effective cost management.

Yield on loan improved from 6.5% to 6.6% (YoY) following the shift in loan portfolio mix from hire purchase loan to consumer loans that offer higher yield. While, cost of fund decreased from 2.6% to 2.2% (YoY) driven by a continual decline in funding cost. Consequently, loan spread increased from 3.9% to 4.5% (YoY). In addition, the net interest margin also rose from 3.4% to 4.0% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 6,948.07 million baht, increased by 2,095.63 million baht (43.2% YoY). Impairment losses on loans totaled 3,972.37 million baht, comparing with 5,277.42 million baht in 2015, mainly resulting from the effective credit control.

**Table 2: Interest spread year 2015 - 2016**

%	2015	2016
Yield on Loans	6.5	6.6
Cost of fund	2.6	2.2
<b>Loan spread</b>	<b>3.9</b>	<b>4.5</b>

### (3) Non-interest Income

Non-interest income of the Company's core businesses reported at 5,932.70 million baht, increased by 93.75 million baht (1.6% YoY), mainly due to the increase in brokerage fee income by 22.58 million baht (2.8% YoY) to 825.27 million baht following increasing market trading volume. Banking fee income was reported at 3,778.97 million baht, increased by 35.25 million baht (0.9% YoY) from the improvement in bancassurance business. Moreover, the Company recorded the investment banking fee amounting 70.76 million baht from underwriting and advisory services during the year. Nonetheless, asset management fee was at 1,141.36 million baht, remained stable comparing to the previous year.

### (4) Bad debt, doubtful accounts and impairment loss of debt securities

In 2016, The Company set up provision for the year at 3,972.37 million baht, accounted for 1.72% of average loan, and decreased comparing with 5,277.42 million baht (YoY), mainly due to the improved asset quality of the loan portfolio. Generally, the provision still remained at a caution level amidst the environment of high economic uncertainty. TISCO Bank's provision included the setup of excess loan loss reserve of 1,943 million baht from the previous year, to cushion against potential business volatility. Hence, if excluded the setup of excess reserve, the provision would report at 0.88% of average loan.

### (5) Operating Expenses

Non-interest expenses were 6,541.03 million baht, increased by 1,014.01 million baht (18.3% YoY), mainly from the increase in variable expenses associated with revenue growth. The Company still maintained effective operating cost control, resulting in low cost to income ratio at 39.0%.

### (6) Corporate Income Tax

In 2016, the corporate income tax was 1,220.41 million baht, equivalent to the effective tax rate of 19.5%, which remained at the same level as in 2015.

## 14.2 Financial Position

### (1) Assets

As of December 31, 2016, the Company's total assets were 271,272.40 million baht, decreased by 3.2% (YoY) mainly due to the decline in loan portfolio from 238,259.84 million baht to 224,934.00 million baht (5.6% YoY) and the decrease in investments from 8,332.42 million baht to 7,188.84 million baht (13.7% YoY).

**Table 3: Assets Breakdown as of December 31, 2015 and 2016**

Assets	December 31, 2015		December 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,101.29	0.4	1,149.00	0.4	4.3
Interbank and Money Market Items	31,162.64	11.1	38,067.42	14.0	22.2
Investment in Fixed income	6,749.25	2.4	5,536.85	2.0	(20.9)
Investment in Equity	1,583.17	0.6	1,652.00	0.6	4.4
Investment in Subsidiaries	284.11	0.1	442.75	0.2	55.8
Corporate Loans	43,327.30	15.5	46,509.94	17.1	7.3
Retail Loans	174,531.55	62.3	161,492.31	59.5	(7.5)
Commercial Loans	19,888.60	7.1	16,454.07	6.1	(17.3)
Other Loans	512.38	0.2	477.68	0.2	(6.8)
Allowance for doubtful accounts and for loss on debt restructuring	(6,168.27)	(2.2)	(7,983.64)	(2.9)	29.4
Other Assets	7,321.65	2.6	7,474.01	2.8	2.2
<b>Total – The Company</b>	<b>280,293.68</b>	<b>100.0</b>	<b>271,272.40</b>	<b>100.0</b>	<b>(3.2)</b>

#### (a) Investments

As of December 31, 2016, the investment was 7,188.85 million baht decreased by 1,143.57 million baht (13.7% YoY) due to a decrease in fixed income investment.

#### (b) Loans and Receivables Breakdown

Total loans and receivables as of December 31, 2016 were 224,934.00 million baht, declined by 13,325.83 million baht (5.6% YoY), following weak domestic economy and the slow recovery in domestic auto market. The composition of loan portfolio was 71.8% of retail loans, 20.7% of corporate loans, 7.3% of commercial loans and 0.2% of other loans.

**Table 4: Loans and Receivables Breakdown as of December 31, 2015 and 2016**

Type of Business	December 31, 2015		December 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	12,126.50	5.1	10,496.69	4.7	(13.4)
Real estate and construction	11,987.70	5.0	11,696.34	5.2	(2.4)
Public utilities and services	18,837.43	7.9	23,908.50	10.6	26.9
Agriculture and mining	375.67	0.2	408.41	0.2	8.7
<b>Corporate Loans</b>	<b>43,327.30</b>	<b>18.2</b>	<b>46,509.94</b>	<b>20.7</b>	<b>7.3</b>
<b>Commercial Loans</b>	<b>19,888.60</b>	<b>8.3</b>	<b>16,454.07</b>	<b>7.3</b>	<b>(17.3)</b>
Hire purchase	152,907.78	64.2	137,285.30	61.0	(10.2)
Mortgage	1,224.55	0.5	978.81	0.4	(20.1)
Consumption	20,399.23	8.6	23,228.20	10.3	13.9
<b>Retail Loans</b>	<b>174,531.55</b>	<b>73.3</b>	<b>161,492.31</b>	<b>71.8</b>	<b>(7.5)</b>
Others	512.38	0.2	477.68	0.2	(6.8)
<b>Total – The Company</b>	<b>238,259.84</b>	<b>100.0</b>	<b>224,934.00</b>	<b>100.0</b>	<b>(5.6)</b>

**(c) Non-performing Loans**

In 2016, the NPL ratio was reported at 2.54%, decreased from 3.23% (YoY). NPL ratio of retail loan, corporate loan, and commercial loan were 2.91%, 0.89%, and 3.62% respectively. Total NPLs reported at 5,710.14 million baht, decreased by 1,990.69 million baht (25.9% YoY), which comprised of 5,120.99 million baht from the Bank and 589.15 million baht from other subsidiaries. The NPL amount continually declined (YoY) driven by the improved credit quality of the core loan portfolio, which consists of hire purchase loan and corporate loan, together with the NPL of commercial loan that reverted back to normal, following the effective credit control. Furthermore, at the end of 2016, the Company reclassified Sahaviriya Steel Industries Pcl. (SSI) from non-performing loan to special mention loan after the Central Bankruptcy Court approved the debt rehabilitation plan.

**Table 5: NPLs Breakdown by Area as of December 31, 2015 and 2016**

Type of Business	December 31, 2015			December 31, 2016			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	8.08	979.54	12.7	1.78	187.21	3.3	(80.9)
Real estate and construction	0.79	94.42	1.2	0.70	81.57	1.4	(13.6)
Public utilities and services	0.57	107.26	1.4	0.52	123.39	2.2	15.0
Agriculture and mining	2.09	7.86	0.1	4.85	19.83	0.3	152.3
<b>Total NPL - Corporate Loans</b>	<b>2.74</b>	<b>1,189.08</b>	<b>15.4</b>	<b>0.89</b>	<b>412.01</b>	<b>7.2</b>	<b>(65.4)</b>
<b>NPL-Commercial Loans</b>	<b>2.03</b>	<b>404.66</b>	<b>5.3</b>	<b>3.62</b>	<b>595.16</b>	<b>10.4</b>	<b>47.1</b>
Hire purchase	3.53	5,403.58	70.2	2.94	4,042.75	70.8	(25.2)
Mortgage	6.67	81.62	1.1	9.32	91.24	1.6	11.8
Consumption	3.04	619.51	8.0	2.44	567.17	9.9	(8.4)
<b>Total NPL - Retail Loans</b>	<b>3.50</b>	<b>6,104.71</b>	<b>79.3</b>	<b>2.91</b>	<b>4,701.16</b>	<b>82.3</b>	<b>(23.0)</b>
<b>Others</b>	<b>0.46</b>	<b>2.38</b>	<b>0.0</b>	<b>0.38</b>	<b>1.81</b>	<b>0.0</b>	<b>(24.0)</b>
<b>Total NPL – The Company</b>	<b>3.23</b>	<b>7,700.83</b>	<b>100</b>	<b>2.54</b>	<b>5,710.14</b>	<b>100.0</b>	<b>(25.9)</b>

**(d) Allowance for Doubtful Accounts and Loss on Debt Restructuring**

As of the year 2016, loan loss reserve of the Company was 7,983.64 million baht while total loan loss reserve of the Bank was 7,500.53 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,426.91 million baht or accounted 169.43% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of 2016 increased to 139.8%.

**Table 6: Allowance for doubtful accounts – classified by the receivables classification of TISCO Bank  
December 31, 2015 and 2016**

Type of receivables classification	December 31, 2015 (Bt. million)	%	December 31, 2016 (Bt. million)	%	% Change
Pass	1,871	33.6	2,658	35.5	42.1
Special mentioned	1,163	20.9	2,041	27.3	75.6
Substandard	931	16.7	827	11.0	(11.2)
Doubtful	599	10.8	416	5.6	(30.6)
Doubtful of loss	694	12.5	273	3.6	(60.7)
Excess Provision	312	5.6	1,276	17.0	309.0
<b>Total</b>	<b>5,570</b>	<b>100.0</b>	<b>7,491</b>	<b>100.0</b>	<b>34.5</b>

## (2) Liabilities

As of December 31, 2016, total liabilities were 239,946.86 million baht, decreased by 4.8% (YoY), due to the decrease in total deposits from 165,281.11 million baht to 161,034.44 million baht (2.6% YoY), the decrease in interbank and money market from 10,030.06 million baht to 5,196.60 million baht (48.2% YoY) and the decline in debentures from 67,582.00 million baht to 64,362.00 million baht (4.8% YoY). The liabilities mix comprised of 67.1% total deposits including bill of exchange, 2.2% interbank and money market items, 26.8% debentures, and 3.9% other liabilities.

**Table 7: Liabilities Breakdown by Area as of December 31, 2015 and 2016**

Type of Borrowings	December 31, 2015		December 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	165,281.11	65.6	161,034.44	67.1	(2.6)
Interbank and money market items	10,030.06	4.0	5,196.60	2.2	(48.2)
Debentures	67,582.00	26.8	64,362.00	26.8	(4.8)
Others	9,206.18	3.7	9,353.82	3.9	1.6
<b>Total – The Company</b>	<b>252,099.35</b>	<b>100.0</b>	<b>239,946.86</b>	<b>100.0</b>	<b>(4.8)</b>

## (3) Shareholders' Equity

As of December 31, 2016, shareholders' equity was 31,325.54 million baht, increased by 3,131.21 million baht (11.1% YoY) from an increase in retained earnings of the year 2016. As a result, the book value per share (BVPS) as of December 31, 2016 was 39.12 baht per share, increased from 35.21 baht per share (YoY).

## (4) Liquidity

As of December 31, 2016, The Company's cash was 1,149.01 million baht, increased by 4.3% (YoY). There was net cash flows used in operating activities total of 14,969.52 million baht mainly contributed by the lower of short-term debts issued and borrowings. There was net cash flow from investing activities totaled 757.82 million baht, contributed by the cash received from the disposal of investment in securities held for investment. Meanwhile, the net cash flows from financing activities totaled 14,259.41 million baht, contributed by the cash received from the issuance of long-term debenture.

## (5) Sources and Uses of Funds

As of December 31, 2016, the funding structure as shown in the consolidated financial statement comprised of 239,946.86 million baht in liabilities and 31,325.54 million baht in shareholders' equity, resulting in a debt-to-equity ratio of 7.7 times. The major source of funds on liabilities side was deposits, which accounted for 59.4% of total source of funds. Other sources of funds included interbank and money market items accounted for 1.9% of total source of funds, 27.2% of debenture and others liability, and 11.5% of shareholders' equity, respectively. The Company's major use of funds was loans, amounting 224,934.00 million baht, resulting in a loan-to-deposit ratio<sup>1</sup> of 139.7%. The other uses of funds include interbank and money market items, and various securities.

## (6) Contingent liabilities

As of December 31, 2016, TISCO Bank, a subsidiary of The Company, had avals, guarantees, and commitments totaled 2,226.19 million baht, decreased by 4.7% (YoY) mainly driven by the lower of avals.

<sup>1</sup> Deposit includes short-term borrowings from the Bank's regular client base

### 14.3 Business Segment Performances

#### (1) Banking Business

##### Loans

Total loans and receivables as of December 31, 2016 were 224,934.00 million baht, declined by 13,325.83 million baht (5.6% YoY), following gradual recovery economy and the slow recovery in domestic auto market. The composition of loan portfolio was 71.8% of retail loans, 20.7% of corporate loans, 7.3% of commercial loans and 0.2% of other loans.

##### Corporate Lending

Corporate lending portfolio totaled 46,509.94 million baht, increased by 3,182.64 million baht (7.3% YoY), mainly due to the loan drawdown from the clients in public utilities and services sector.

##### Commercial Lending

Commercial lending portfolio totaled 16,454.07 million baht, dropped by 3,434.54 million baht (17.3% YoY) primarily from the decline in loan demand in logistic sector and Car Inventory Financing.

##### Retail Lending

Retail lending portfolio totaled 161,492.31 million baht or decreased by 7.5% (YoY), where the portfolio consisted of 85.0% car and motorcycle hire purchase, 14.4% consumer loans and 0.6% mortgage loans. The outstanding hire purchase loans totaled 137,285.30 million baht, declined by 10.2% (YoY), resulting from the weak domestic consumption and high level of household debt. The domestic car sale in 2016 was 768,788 units, decreased by 3.9% (YoY), compared to 799,632 units in 2015. The car penetration rate of TISCO for the year 2016 reported at 8.0%. Meanwhile, consumer loans amounted 23,228.20 million baht, increased by 2,828.97 million baht (13.9% YoY).

##### Other Loans

Other loans portfolio totaled 477.68 million baht, decreased by 34.70 million baht (6.8% YoY).

##### Deposits

Total deposits and borrowings totaled 225,396.44 million baht, decreased by 3.2% (YoY). Total deposits totaled 161,034.44 million baht, decreased by 4,246.67 million baht (2.6% YoY), while debentures totaled 64,362.00 million baht, decreased by 3,220.00 million baht (4.8% YoY). As of December 31, 2016, the Bank had liquid assets totaling 43,336.86 million baht or 19.2% of total deposits and borrowings.

**Table 8: Deposits Structure as of December 31, 2015 and 2016**

Type of Deposits	December 31, 2015		December 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,122.04	1.9	3,690.70	2.3	18.2
Saving accounts	48,272.47	29.2	51,928.03	32.2	7.6
Fixed accounts	17,734.17	10.7	14,839.89	9.2	(16.3)
Negotiate certificate deposit	89,215.51	54.0	84,608.90	52.5	(5.2)
Short-term borrowings	6,936.92	4.2	5,966.92	3.7	(14.0)
<b>Total deposits</b>	<b>165,281.11</b>	<b>100.0</b>	<b>161,034.44</b>	<b>100.0</b>	<b>(2.6)</b>

#### (2) Securities Business

In 2016, average daily turnover of TISCO Securities was 2,152.29 million baht, increased by 1.9% (YoY) from 2,112.53 million baht, following an increase in market trading volume during the capital market volatility. In addition, TISCO Securities reported brokerage fee income growth of 2.8% (YoY) totaled 825.27 million baht. Nonetheless, TISCO Securities' market share declined from 2.8% to 2.4% (YoY). The market share of retail investors decreased from 1.9% to 1.6% (YoY), while the market share of local institution sector (excluding proprietary trading) declined from 7.0% to 6.1% (YoY). Moreover, the market share of foreign institution sector decreased from 3.3% to 2.5% (YoY). All in all, TISCO brokerage volume comprised of 30.0% of local institutions, 30.7% of foreign institutions, and 39.3% of retail customers.

#### (3) Asset Management Business

As of December 31, 2016, assets under management of TISCO Asset Management Co., Ltd. was reported at 193,162.42 million baht, increased by 8.2% (YoY), mainly from the growth in all business areas. The fee income from asset management in 2016 totaled 1,141.36 million baht, remained stable comparing to the previous year. Throughout the year 2016,



TISCO Asset Management Co., Ltd. continuously issued various types of mutual funds corresponding to market demands, namely Equity Trigger funds and Foreign Investment Fund (FIF) including fixed income funds and equity funds.

The composition of total asset under management was 67.9% provident fund, 13.8% private fund, and 18.3% mutual fund. Total market share of TISCO Asset Management Co., Ltd. in 2016 was 3.1%, ranking 9th in the market. The market share of provident fund was 13.5%, ranking 3rd in the market. The market share of private fund was 3.6%, ranking 8th in the market. For mutual fund, the market share was 0.8%, ranking 16th in the market.

**Table 9: Assets under Management Breakdown by Type of Fund as of December 31, 2015 and 2016**

Type of Fund	December 31, 2015		December 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	118,736.97	66.5	131,073.24	67.9	10.4
Private Fund	26,413.25	14.8	26,732.95	13.8	1.2
Mutual Fund	33,404.36	18.7	35,356.24	18.3	5.8
<b>Total</b>	<b>178,554.58</b>	<b>100.0</b>	<b>193,162.42</b>	<b>100.0</b>	<b>8.2</b>

#### 14.4 Capital Requirements

As of December 31, 2016, TISCO Group's internal capital stood at 28,817.88 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 450.16 million baht from the end of 2015 to 10,268.02 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 18,549.86 million baht or 64.4% of total capital.

Comparing to the end of year 2015, the credit risk capital stood at 7,721.47 million baht, which increased by 686.55 million baht or 9.8% following some conservative adjustment in risk capital buffer, while loan portfolio contracted by 5.6% during the year. The non-performing loan of TISCO Group decreased from 3.2% to 2.5% compared to the end of 2015.

The market risk capital decreased from 495.33 million baht to 204.62 million baht, resulting from a decrease in risk capital of investment portfolio. Meanwhile, the overall duration gap decreased to 0.78 year, which was in a manageable level. The assets duration increased from 1.47 year to 1.48 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.56 year to 0.70 year.

**Table 10: Average Duration Mismatch of Assets and Liabilities and Its Impact**

Type of Fund	Duration (years)		1-Y Net interest income change to 1% interest rate increase (Bt. million)	
	2015	2016	2015	2016
Assets	1.47	1.48	1,065.92	1,123.32
Liabilities*	0.56	0.70	(1,317.18)	(1,066.34)
<b>Net Gap</b>	<b>0.91</b>	<b>0.78</b>	<b>(251.25)</b>	<b>56.98</b>

Note: \* Exclude saving and current account

In terms of regulatory capital requirement of the Bank and Securities Company, the positions were strong and sufficient levels to cushion for the expansion of asset in the future. At the end of 2016, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 19.59%, remaining higher than the 9.125% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 14.73% and 4.86%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6.625%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 85.73%, which was higher than the minimum required ratio by the SEC of 7.0%.

**Table 10: Capital Adequacy Ratio as of December 31, 2015 and 2016**

	December 31, 2015 <sup>1</sup> (%)	December 31, 2016 <sup>1</sup> (%)
Tier-I Capital	13.98	14.73
Total Capital	18.01	19.59

<sup>1</sup> Applied IRB approach



#### 14.5 Credit Rating

The Company got credit rating 'A-' and rating outlook "Stable" as at April 8, 2016 from TISCO Rating Co., Ltd. The ratings reflect the Company's strong asset quality, capital base, profitability. The detail of credit ratings is shown as follows;

Credit Rating (Unsolicited Rating)	Announcement Date April 8, 2016
Company Rating Rating Outlook	A- Stable

#### 14.6 Forward Looking

Macro environment that impacted to the Company's operating performance can be categorized into 3 key factors including domestic and global economy, market interest rate trend, and industry car sales. The details are provided as follows;

Domestic economic outlook in 2017 is expected to grow at moderate level amidst various risk factors from both internal and external. The key economic growth drivers accelerating government's budget spending and infrastructure investment project. While the private investment shown low recovery sign among stable economic and political condition. However, private consumption still faces the high level of household debt. In addition, the export tends to improve as global economic conditions rebound.

On market interest rate, the Company expects the Bank of Thailand will continue accommodative monetary policy by maintaining the policy rate at 1.50%. Furthermore, the Bank of Thailand also has room for further policy easing in case of the inflation rate grows more than the projected target. The outlook of domestic car sales, a leading indicator that contribute to hire purchase business, is expected to grow modestly from 2016 with the improving drought situation and the release from first car buyers scheme in 2011.

Amidst the backdrop of domestic economic volatility, the company will continue to follow our focused strategies, good corporate governance, prudent business practice as well as strong risk management disciplines, in order to ensure business continuity & resiliency in the long run.