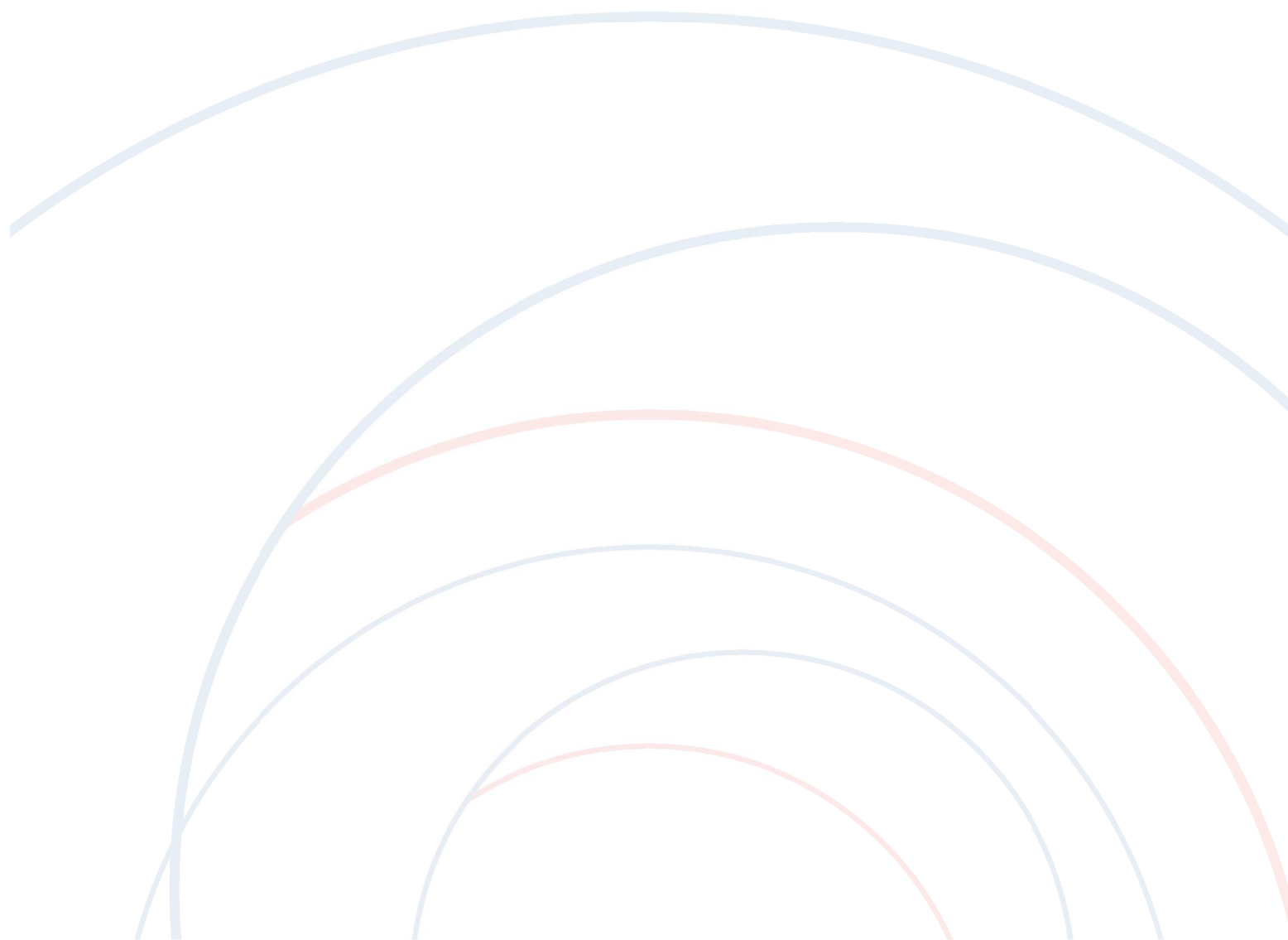




TISCO Financial Group PLC.

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, 2017

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, 2017 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, 2017, 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, 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

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 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 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)

	December 31, 2017	December 31, 2016	December 31, 2015
Assets			
Cash	1,324,808	1,149,005	1,101,291
Interbank and money market items - net	44,647,149	38,067,417	31,162,645
Investments - net	7,547,143	7,188,845	8,332,419
Investments in subsidiaries and joint venture - net	573,925	442,750	284,107
Loans to customers and accrued interest receivables			
Loans to customers	271,125,255	245,114,243	259,724,989
Accrued interest receivables	715,653	520,704	542,488
Total loans to customers and accrued interest receivables	271,840,908	245,634,947	260,267,477
Less: Deferred revenue	(19,741,455)	(20,180,240)	(21,465,152)
Less: Allowance for doubtful accounts	(11,447,166)	(7,973,890)	(6,168,270)
Less: Allowance for loss on debt restructuring	(8,948)	(9,748)	-
Loans to customers and accrued interest receivables - net	240,643,339	217,471,069	232,634,055
Property foreclosed - net	5,274	7,366	47,390
Investment properties - net	32,396	32,157	32,157
Premises and equipment - net	2,653,195	2,652,515	2,633,339
Intangible assets - net	537,696	567,053	379,659
Deferred tax assets	743,145	513,602	317,686
Securities and derivative business receivables - net	2,342,040	1,373,757	1,130,190
Other assets	2,338,299	1,806,862	2,238,741
Total assets	303,388,409	271,272,398	280,293,679

TISCO Financial Group Public Company Limited and its subsidiaries

Statement of financial position (continued)

As of

(Unit: Thousand Baht)

	December 31, 2017	December 31, 2016	December 31, 2015
Liabilities and equity			
Liabilities			
Deposits	180,803,844	155,067,524	158,344,190
Interbank and money market items - net	4,017,507	5,196,603	10,030,060
Liability payable on demand	431,361	180,242	356,335
Derivatives liabilities	29,815	34,118	41,898
Debts issued and borrowings	71,078,619	70,328,919	74,518,919
Provision for long-term employee benefits	734,853	576,114	466,933
Deferred tax liabilities	15,633	2,581	1,748
Securities and derivatives business payables - net	2,216,256	1,510,870	1,275,029
Accrued interest payable	729,377	753,021	896,969
Income tax payable	849,052	565,781	312,895
Other liabilities	7,750,327	5,731,082	5,854,374
Total liabilities	268,656,644	239,946,855	252,099,350
Equity			
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
	8,007,033	8,007,033	8,007,033
Issued and paid-up			
9,859 preference shares of Baht 10 each			
(31 December 2016: 10,758 shares of Baht 10 each)			
(31 December 2015: 18,558 shares of Baht 10 each)	99	108	186
800,645,624 ordinary shares of Baht 10 each			
(31 December 2016: 800,644,724 shares of Baht 10 each)			
(31 December 2015: 800,636,925 shares of Baht 10 each)	8,006,456	8,006,447	8,006,369
	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 equity	1,653,202	1,447,136	1,381,775
Retained earnings			
Appropriated-statutory reserve	801,000	801,000	709,500
Unappropriated	23,125,364	19,951,807	16,979,196
Equity attributable to equity holders of the Company	34,604,529	31,224,906	28,095,434
Non-controlling interest of the subsidiaries	127,236	100,637	98,895
Total equity	34,731,765	31,325,543	28,194,329
Total liabilities and equity	303,388,409	271,272,398	280,293,679

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, 2017	December 31, 2016	December 31, 2015
Interest income	16,469,499	16,011,544	16,887,553
Interest expenses	(4,814,713)	(5,091,110)	(6,757,696)
Net interest income	11,654,786	10,920,434	10,129,857
Fees and service income	6,395,607	5,396,850	5,255,965
Fees and service expenses	(250,021)	(230,082)	(198,932)
Net fees and service income	6,145,586	5,166,768	5,057,033
Net gains (losses) on trading and foreign exchange transactions	(86,773)	(9,468)	96,189
Net gains on investments	41,968	12,594	128,907
Share of profit from investments accounted for under equity method	130,420	131,212	97,655
Dividend income	138,178	78,973	92,332
Penalty fee income from loans	375,524	364,260	452,694
Income from business promotion relating to the business	751,879	273,903	348,001
Other operating income	125,952	121,637	86,258
Total operating income	19,277,520	17,060,313	16,488,926
Expense from business promotion relating to the business	774,535	302,924	396,303
Total net operating income	18,502,985	16,757,389	16,092,623
Operating expenses			
Employee's expenses	5,081,799	4,298,798	3,379,795
Directors' remuneration	12,740	12,745	12,680
Premises and equipment expenses	1,149,814	970,203	928,890
Taxes and duties	256,526	208,869	212,862
Other operating expenses	1,260,224	1,050,415	992,794
Total operating expenses	7,761,103	6,541,030	5,527,021
Bad debt, doubtful accounts and impairment losses	3,098,265	3,972,366	5,277,415
Profit from operating before tax expenses	7,643,617	6,243,993	5,288,187
Income tax expenses	1,526,310	1,220,410	1,032,464
Profit for the year	6,117,307	5,023,583	4,255,723

Statement of comprehensive income (continued)

For the years ended

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

	December 31, 2017	December 31, 2016	December 31, 2015
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent period</i>			
Gains (loss) on change in value of available-for-sale investments	270,399	59,888	(334,715)
Share of other comprehensive income of joint venture:			
Cash flow hedges of joint venture	755	27,431	(20,802)
Income tax effects	(55,109)	(11,978)	66,943
Other comprehensive income to be reclassified to profit or loss in subsequent period - net of income tax	216,045	75,341	(288,574)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent period</i>			
Actuarial gains (losses)	(155,385)	(40,122)	6,091
Share of other comprehensive income of joint venture:			
Actuarial gains of joint venture	-	-	26
Income tax effects	30,909	7,995	(1,188)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax	(124,476)	(32,127)	4,929
Other comprehensive income for the year	91,569	43,214	(283,645)
Total comprehensive income for the year	6,208,876	5,066,797	3,972,078
Profit attribute to			
Equity holders of the Company	6,090,008	5,005,894	4,250,119
Non-controlling interests of the subsidiaries	27,299	17,689	5,604
	6,117,307	5,023,583	4,255,723
Total comprehensive income attributable to			
Equity holders of the Company	6,181,910	5,050,062	3,966,053
Non-controlling interests of the subsidiaries	26,966	16,735	6,025
	6,208,876	5,066,797	3,972,078
Basic earnings per share	7.61	6.25	5.31

TISCO Financial Group Public Company Limited and its subsidiaries**Cash flow statement****For the years ended**

(Unit: Thousand Baht)

	December 31, 2017	December 31, 2016	December 31, 2015
Cash flows from operating activities			
Profit before income tax expenses	7,643,617	6,243,993	5,288,187
Adjustments to reconcile profit before income tax expenses to net cash provided by (paid from) operating activities:			
Depreciation and amortisation	350,638	252,316	214,709
Bad debts and doubtful accounts	5,064,167	6,094,764	7,070,231
Share of profit from investments accounted for under equity method	(130,420)	(131,212)	(97,655)
Allowance for impairment of investments (reversal)	(3,671)	4,420	(822)
Allowance for impairment of property foreclosed	394	11,128	1
Gains on disposal of investments in securities	(38,157)	(17,682)	(131,268)
Unrealised (gains) losses on foreign exchange transactions and trading derivatives	83,376	(851)	(80,656)
Gains on disposal of equipment	(12,997)	(14,127)	(1,619)
Losses on written-off of equipment	3,441	941	2,909
Losses on written-off intangible assets	-	6,218	78
Gains on changes in value of investment properties	(239)	-	406
Gains on disposal of property foreclosed	(81,678)	(73,175)	(49,810)
Employee benefit expenses	42,708	89,986	95,269
Increase in accrued income	(317,317)	(19,887)	(14,654)
Increase (decrease) in accrued expenses	601,873	413,512	(279,820)
Net interest income	(11,654,786)	(10,920,434)	(10,129,857)
Dividend income	(138,178)	(78,973)	(92,332)
Cash received on interest income	16,743,707	16,335,057	17,201,200
Cash paid on interest expenses	(3,824,667)	(4,234,443)	(5,822,706)
Cash received on dividend income	138,178	78,973	92,332
Cash paid on income tax expenses	(1,484,013)	(1,173,584)	(1,275,371)
Profit from operating activities before changes in operating assets and liabilities	12,985,976	12,866,940	11,988,752
Operating assets (increase) decrease			
Interbank and money market items	(6,579,740)	(6,904,757)	6,895,479
Loans to customers	3,718,910	6,771,626	13,993,726
Securities and derivative business receivables	(968,284)	(243,566)	689,068
Receivables from clearing house	144,621	103,127	43,907
Properties foreclosed	2,071,939	2,376,862	2,801,136
Other assets	(883,412)	(188,541)	(847,155)
Operating liabilities increase (decrease)			
Deposits	11,114,657	(3,276,666)	(47,244,657)
Interbank and money market items	(1,179,096)	(4,833,456)	(662,375)
Liabilities payable on demand	251,119	(176,093)	(43,582)
Securities and derivative business payables	705,386	235,841	24,962
Short-term debts issued and borrowings	8,072,700	(20,370,000)	(6,567,300)
Payable to clearing house	113,385	(96,576)	(756,680)
Provision for long-term employee benefits	(39,353)	(20,927)	(25,959)
Other liabilities	(395,852)	(1,213,333)	(378,844)
Net cash flows from (used in) operating activities	29,132,956	(14,969,519)	(20,089,522)

TISCO Financial Group Public Company Limited and its subsidiaries

Cash flow statement (continued)

For the years ended

(Unit: Thousand Baht)

	December 31, 2017	December 31, 2016	December 31, 2015
Cash flows from investing activities			
Cash paid for purchase of investment in securities held for investment	(7,578,768)	(7,759,049)	(17,004,795)
Cash received from disposal of investment in securities held for investment	7,447,916	8,968,790	23,346,837
Cash paid for purchase of equipment	(203,271)	(223,346)	(309,088)
Cash paid for purchase of intangible assets	(116,253)	(242,740)	(102,938)
Cash received from disposal of equipment	13,006	14,168	1,619
Cash paid on business acquisition	(18,394,496)	-	-
Net cash flows from (used in) investing activities	(18,831,866)	757,823	5,931,635
Cash flows from financing activities			
Cash received from issuance of long-term debentures	19,600,000	16,180,000	17,680,000
Cash paid for the redemption of long-term debentures	(26,923,000)	-	(2,000,000)
Dividend paid	(2,802,287)	(1,920,590)	(1,601,304)
Net cash flows from (used in) financing activities	(10,125,287)	14,259,410	14,078,696
Net increase (decrease) in cash	175,803	47,714	(79,191)
Cash at beginning of the year	1,149,005	1,101,291	1,180,482
Cash at end of the year	1,324,808	1,149,005	1,101,291

13.2 Important Financial Ratios

		2017	2016	2015
Profitability Ratio				
Gross Profit Margin	(%)	77.8	75.1	68.6
Net Profit Margin	(%)	32.9	29.9	26.4
Return on Average Shareholders' Equity	(%)	18.4	16.8	15.7
Interest Income Ratio	(%)	5.7	5.8	5.7
Interest Expense Ratio	(%)	2.0	2.2	2.6
Interest Spread	(%)	3.7	3.6	3.1
Return on Investment	(%)	2.0	2.6	4.2
Efficiency Ratio				
Net Interest Income to Total Assets	(%)	4.1	4.0	3.4
Return on Average Assets	(%)	2.1	1.8	1.4
Total Asset Turnover	(times)	0.06	0.06	0.05
Financial Ratio				
Debt to Equity Ratio	(times)	7.7	7.7	8.9
Total Loans to Total Borrowing and Deposits	(%)	99.6	99.7	102.2
Total Loans to Public Borrowing	(%)	139.0	145.1	150.5
Public Borrowing to Total Liabilities	(%)	67.3	64.6	62.8
Dividend Payout Ratio	(%)	N/A	56.0	45.2
Asset Quality Ratio				
Allowance for Doubtful Account to Total Loans	(%)	4.5	3.5	2.6
Bad Debt and Doubtful Account to Total Loans	(%)	1.4	1.9	3.3
Non-accrued loans ¹ to Total Loans	(%)	2.4	2.9	3.1
Allowance for Doubtful Account to Non-performing loans	(%)	196.5	139.8	80.1
Accrued Interest Receivable to Total Loans	(%)	0.3	0.2	0.2
Other Ratios				
Capital Funds to Risk Weighted Asset (BIS)	(%)	20.72	19.59	18.01
Net Capital Rule (TISCO Securities)	(%)	58.24	85.73	84.03

¹according 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 2017, with those of the year 2016

Movement of Money Market and Capital Market

In 2017, the domestic economy continued to expand following the strong growth in export sector and tourism, together with the steady improvement in private consumption and private investment. Public spending showed sign of recovery toward the end of 2017, while household spending started to recover gradually amidst high level of household debt. Nonetheless, domestic car sale in 2017 increased by 13.4% (YoY), totaled 871,647 units. Overall, the headline inflation for the year 2017 was reported at 0.66%, following an increase in oil prices.

The Bank of Thailand (BOT) maintained the policy rate at 1.50% throughout 2017. The average 3-month fixed deposit rates of Top-4 commercial banks remained stable at 0.93% (YoY), while the average minimum lending rate of Top-4 commercial banks declined from 6.26% to 6.20% (YoY).

The capital market in 2017 retained a solid growth with SET index closed at 1,753.71 points, increased by 210.77 points or 13.7% comparing to 1,542.94 points in the previous year, aligning with the growth in domestic economy and investor confidence toward Thai economy. Still, the average daily turnover decreased from 50,244.97 million baht in 2016 to 47,755.37 million baht.

Major Events

On April 20, 2017, the Annual General Meeting of Shareholders of TISCO Bank Public Company Limited and All-Ways Company Limited for the Year 2017 approved the transfer of retail banking business of Standard Chartered Bank (Thai) Public Company Limited, of which the transfer was completed successfully on October 1, 2017. After the transfer, TISCO Bank Public Company Limited acquired the retail banking business including mortgage loans, personal loans, business loans, wealth management and retail deposit business, as well as 4 new bank branches from the transfer. Meanwhile, All-Ways Company Limited acquired credit card business. The transfer was aligned with TISCO Group's business growth and customer base expansion strategy, together with the offer of a wide range of comprehensive financial products and services to retail customers in every sector.

14.1 Operating Performance for the year 2017

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 4,417.09 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 2017, the net profit attributed to owners of the Company totaled 6,090.01 million baht, increased by 1,084.11 million baht (21.7% YoY), contributed by improved net interest income and non-interest income from core business, together with the lower provision expense comparing to the previous year. Net interest income increased by 6.7% (YoY) from the ability to maintain overall loan yield and the effective cost management, combining with the increase in interest income from the transfer of lending business from Standard Chartered Bank (Thai). Non-interest income from core business improved by 18.2% (YoY), from all business sectors. Banking fee increased by 10.6% (YoY) following the strong improvement in bancassurance business and the full initiation of Open Architecture platform. Brokerage fee income increased by 0.7% (YoY) following higher market share of TISCO Securities. Asset management basic fee grew by 20.7% (YoY) from the issuance of funds corresponding to the customer demand and the improvement in capital market condition. The Company also recorded investment banking fee from underwriting service throughout the year. Moreover, the Company recorded extraordinary income from dividend of equity investment and performance fee income from asset management business amid substantially improved capital market during 2017. Meanwhile, provision expense declined by 22.0% (YoY) from the further improved asset quality comparing to the previous year.

Basic earnings per share for the year 2017 was at 7.61 baht per share, increased from 6.25 baht per share in 2016. Meanwhile, the return on average equity (ROAE) was at 18.5%, increased from 16.9% (YoY).

Consolidated Revenue Structure

The Company and its subsidiaries' consolidated revenue structure in 2016 and 2017 are illustrated in Table 1.

Table 1: Consolidated Revenue Structure

Type of Revenue	2016		2017		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	5,568.41	33.2	6,696.66	36.2	20.3
Interest on interbank and money market items	497.29	3.0	584.94	3.2	17.6
Hire purchase and financial lease income	9,749.53	58.2	8,993.74	48.6	(7.8)
Investments	196.31	1.2	194.16	1.0	(1.1)
Total interest income	16,011.54	95.5	16,469.50	89.0	2.9
Interest expenses	(5,091.11)	(30.4)	(4,814.71)	(26.0)	(5.4)
Net interest income	10,920.43	65.2	11,654.79	63.0	6.7
Fee income					
Fee and service income	5,396.85	32.2	6,395.61	34.6	18.5
Fee and service expenses	(230.08)	(1.4)	(250.02)	(1.4)	8.7
Net fee and service income	5,166.77	30.8	6,145.59	33.2	18.9
Net gain on investment and foreign exchange transactions	3.13	0.0	(44.81)	(0.2)	(1,531.6)
Share of profit from investments accounted for under equity method	131.21	0.8	130.42	0.7	(0.6)
Other operating income	838.77	5.0	1,391.53	7.5	65.9
Total operating income	17,060.31	101.8	19,277.52	104.2	13.0
Expense from business promotion relating to the business	(302.92)	(1.8)	(774.54)	(4.2)	
Total net operating income	16,757.39	100.0	18,502.98	100.0	10.4
Total operating expenses	(6,541.03)		(7,761.10)		
Bad debt, doubtful accounts and impairment losses	(3,972.37)		(3,098.27)		
Profit before income tax and minority interest	6,243.99		7,643.61		22.4
Income tax expenses	(1,220.41)		(1,526.31)		
Profit before minority interest	5,023.58		6,117.30		21.8
Non-controlling interests of the subsidiaries	(17.69)		(27.30)		
Net profit	5,005.89		6,090.00		21.7

(1) Net Interest Income

Net interest income in 2017 was 11,654.79 million baht, increased by 734.35 million baht (6.7% YoY). Total interest income was 16,469.50 million baht, increased by 457.95 million baht (2.9% YoY), while interest expense declined by 276.40 million baht (5.4% YoY) to 4,814.71 million baht.

Yield on loan improved from 6.7% to 6.9% (YoY) from the shift in loan portfolio mix from hire purchase loans to consumer loans that offer higher yield. While, cost of fund declined from 2.2% to 2.1% (YoY) owing to a further decline in cost of fund and the Company's effective cost management. Consequently, loan spread increased from 4.5 to 4.8% (YoY). The net interest margin improved from 4.0% to 4.2% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 8,556.52 million baht, increased by 1,608.46 million baht (23.1% YoY). Impairment losses on loans totaled 3,098.27 million baht, decreased comparing with 3,972.37 million baht in 2016 (22.0% (YoY)), resulting from the improved asset quality and the effective credit control.

Table 2: Interest spread year 2016 - 2017

%	2016	2017
Yield on Loans	6.7	6.9
Cost of fund	2.2	2.1
Loan spread	4.5	4.8

(2) Non-interest Income

Non-interest income of the Company's core businesses reported at 7,012.61 million baht, increased by 1,079.91 million baht (18.2% YoY), from the growth in all business sectors. Banking fee income grew by 399.09 million baht (10.6% YoY) to 4,178.06 million baht following the strong improvement in bancassurance business and the full initiation of Open Architecture platform. Brokerage fee income increased by 5.49 million baht (0.7% YoY) to 830.76 million baht following higher market share. Asset management basic fee reported at 1,279.99 million baht, rose by 220.93 million baht (20.9% YoY) from the issuance of funds corresponding to the customer demand and the improved capital market condition. Additionally, the Company recorded the investment banking fee amounting 164.36 million baht from underwriting service during the year. Moreover, the Company recorded dividend income from equity investment in total amounting 138.18 million baht, together with performance fee income from asset management business amounting 405.09 million baht amid the significantly improved capital market in 2017.

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

The Company set up provision for the year at 3,098.27 million baht, accounted for 1.30% of average loan, and decreased comparing with 3,972.37 million baht (YoY) following the further improved credit quality.

(4) Operating Expenses

Non-interest expenses were 7,761.10 million baht, increased by 1,220.07 million baht (18.7% YoY) mainly from the increase in variable expenses associated with revenue and profit growth, and the expenses related to the business acquisition. The Company still maintained effective operating cost control, resulting in low cost-to-income ratio at 41.9%.

(5) Corporate Income Tax

In 2017, the corporate income tax was 1,526.31 million baht, equivalent to the effective tax rate of 20.0%, increased from 19.5% (YoY).

14.2 Financial Position

(1) Assets

As of December 31, 2017, the Company's total assets were 303,388.41 million baht, increased by 11.8% (YoY), mainly resulting from the transfer of assets from Standard Chartered Bank (Thai). Hence, total loan portfolio increased from 224,934.00 million baht to 251,383.80 million baht (11.8% YoY). Interbank and money market also increased from 38,067.42 million baht to 44,647.15 million baht (17.3% YoY), and investment increased from 7,188.84 million baht to 7,547.14 million baht (5.0% YoY).

Table 3: Assets Breakdown as of December 31, 2016 and 2017

Assets	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,149.00	0.4	1,324.81	0.4	15.3
Interbank and money market items	38,067.42	14.0	44,647.15	14.7	17.3
Investments – net	7,188.84	2.7	7,547.14	2.5	5.0
Investments in subsidiaries and joint venture – net	442.75	0.2	573.93	0.2	29.6
Corporate Loans	46,509.94	17.1	50,607.52	16.7	8.8
Retail Loans	160,572.12	59.2	184,184.72	60.7	14.7
Commercial Loans	16,454.07	6.1	15,099.95	5.0	(8.2)
Other Loans	1,397.87	0.5	1,491.61	0.5	6.7
Allowance for doubtful accounts and for loss on debt restructuring	(7,983.64)	(2.9)	(11,456.11)	(3.8)	43.5
Other Assets	7,474.02	2.8	9,367.70	3.1	25.3
Total – The Company	271,272.40	100.0	303,388.41	100.0	11.8

(a) Investments

As of December 31, 2016, the investment was 7,547.14 million baht, increased by 358.30 million baht (5.0% YoY) due to an increase in investment in fixed income.

(b) Loans and Receivables Breakdown

Total loans and receivables as of December 31, 2017 were 251,383.80 million baht, increased by 26,449.80 million baht (11.8% YoY), driven by the transfer of retail banking business from Standard Chartered Bank (Thai). The composition of loan portfolio was 73.3% of retail loans, 20.1% of corporate loans, 6.0% of commercial loans and 0.6% of other loans.

Table 4: Loans and Receivables Breakdown as of December 31, 2016 and 2017

Type of Business	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	10,496.69	4.7	11,019.73	4.4	5.0
Real estate and construction	11,696.34	5.2	14,972.95	6.0	28.0
Public utilities and services	23,908.50	10.6	22,696.33	9.0	(5.1)
Agriculture and mining	408.41	0.2	1,918.50	0.8	369.7
Corporate Loans	46,509.94	20.7	50,607.52	20.1	8.8
Commercial Loans	16,454.07	7.3	15,099.95	6.0	(8.2)
Hire purchase	138,565.68	61.6	129,719.70	51.6	(6.4)
Mortgage Loan	978.81	0.4	20,757.33	8.3	2,020.7
Consumer Finance Loan	21,027.63	9.3	26,824.54	10.7	27.6
Personal Loan	-	-	3,930.96	1.6	n.a.
Credit Card	-	-	2,952.19	1.2	n.a.
Retail Loans	160,572.12	71.4	184,184.72	73.3	14.7
Others	1,397.87	0.6	1,491.61	0.6	6.7
Total – The Company	224,934.00	100.0	251,383.80	100.0	11.8

(c) Non-performing Loans

In 2017, the Company reported NPL ratio at 2.32%, decreased from 2.54% (YoY) contributed by the further improved credit quality of the overall loan portfolio following the effective credit control throughout the year. NPL ratio of retail loans, corporate loans, and commercial loans were 2.74%, 0.94%, and 1.27% respectively. Total NPLs were reported at 5,829.35 million baht, increased by 119.21 million baht (2.1% YoY), aligning with the loans transferred from Standard Chartered Bank (Thai). The NPLs comprised of 5,300.68 million baht from the Bank and 528.67 million baht from other subsidiaries.

Table 5: NPLs Breakdown by Area as of December 31, 2016 and 2017

Type of Business	December 31, 2016			December 31, 2017			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.78	187.21	3.3	2.06	227.38	3.9	21.5
Real estate and construction	0.70	81.57	1.4	0.51	76.05	1.3	(6.8)
Public utilities and services	0.52	123.39	2.2	0.66	149.10	2.6	20.8
Agriculture and mining	4.85	19.83	0.3	1.23	23.63	0.4	19.2
Total NPL - Corporate Loans	0.89	412.01	7.2	0.94	476.16	8.2	15.6
NPL-Commercial Loans	3.62	595.16	10.4	1.27	191.48	3.3	(67.8)
Hire purchase	2.95	4,090.68	71.6	2.56	3,325.24	57.0	(18.7)
Mortgage Loan	9.32	91.24	1.6	4.08	847.30	14.5	828.7
Consumer Finance Loan	1.91	402.07	7.0	3.18	852.68	14.6	112.1
Personal Loan	-	-	-	0.16	6.37	0.1	n.a.
Credit Card	-	-	-	0.61	18.07	0.3	n.a.
Total NPL - Retail Loans	2.85	4,583.99	80.3	2.74	5,049.67	86.6	10.2
Others	8.51	118.98	2.1	7.51	112.05	1.9	(5.8)
Total NPL – The Company	2.54	5,710.14	100.0	2.32	5,829.35	100.0	2.1

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

At the end of 2017, loan loss reserve of the Company was 11,456.11 million baht reflecting the Company's prudent policy to cushion against business volatility, and partly the setup of provisions to support the change in accounting standard of IFRS 9. The loan loss provision coverage ratio at the end of the year increased to 196.5% while total loan loss reserve of the Bank was 10,709.29 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,560.68 million baht or accounted 234.8% of minimum loan loss reserve requirement.

**Table 6: Allowance for doubtful accounts – classified by the receivables classification of TISCO Bank
December 31, 2016 and 2017**

Type of receivables classification	December 31, 2016 (Bt. million)	%	December 31, 2017 (Bt. million)	%	% Change
Pass	2,658	35.5	3,320	31.0	24.9
Special mentioned	2,041	27.3	3,591	33.6	75.9
Substandard	827	11.0	889	8.3	7.5
Doubtful	416	5.6	423	4.0	1.7
Doubtful of loss	273	3.6	389	3.6	42.5
Excess Provision	1,276	17.0	2,088	19.5	63.6
Total	7,491	100.0	10,700	100.0	42.8

(2) Liabilities

As of December 31, 2017, total liabilities were 268,656.64 million baht, increased by 12.0% (YoY) due to the increase in total deposits from 161,034.44 million baht to 188,280.76 million baht (16.9% YoY), stemming from the transfer of liabilities from Standard Chartered Bank (Thai) including individual deposits. However, interbank and money market decreased from 5,196.60 million baht to 4,017.51 million baht (22.7% YoY) and debentures decreased from 64,362.00 million baht to 63,601.70 million baht (1.2% YoY). The liabilities mix comprised of 70.1% total deposits including bill of exchange, 1.5% interbank and money market items, 23.7% debentures, and 4.7% other liabilities.

Table 7: Liabilities Breakdown by Area as of December 31, 2016 and 2017

Type of Borrowings	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	161,034.44	67.1	188,280.76	70.1	16.9
Interbank and money market items	5,196.60	2.2	4,017.51	1.5	(22.7)
Debentures	64,362.00	26.8	63,601.70	23.7	(1.2)
Others	9,353.81	3.9	12,756.67	4.7	36.4
Total – The Company	239,946.86	100.0	268,656.64	100.0	12.0

(3) Shareholders' Equity

As of December 31, 2017, shareholders' equity was 34,731.77 million baht, increased by 3,406.22 million baht (10.9% YoY) from an increase in retained earnings for the year 2017. As a result, the book value per share (BVPS) as of December 31, 2017 was 43.38 baht per share, rose from 39.12 baht per share (YoY).

(4) Liquidity

As of December 31, 2017, The Company's cash was 1,324.81 million baht, increased by 15.3% (YoY). There was net cash flow from operating activities total of 29,132.96 million baht mainly contributed by the increase in deposits while net cash flow used in investing activities totaled 18,831.87 million baht, primarily from the cash paid for the business acquisition. Meanwhile, the net cash flows used in financing activities totaled 10,125.29 million baht, contributed by the cash paid for the redemption of long-term debenture.

(5) Sources and Uses of Funds

As of December 31, 2017, the funding structure as shown in the consolidated financial statement comprised of 268,656.64 million baht in liabilities and 34,731.77 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 62.1% of total source of funds. Other sources of funds included interbank and money market items accounted for 1.3% of total source of funds, 25.2% of debenture and other liabilities, and 11.4% of shareholders' equity, respectively. The Company's major use of funds was loans, amounting 251,383.80 million baht, resulting in a loan-to-deposit ratio¹ of 133.5%. The other uses of funds include interbank and money market items, and various securities.

(6) Contingent liabilities

As of December 31, 2017, TISCO Bank, a subsidiary of The Company, had avals, guarantees, and commitments totaled 2,403.19 million baht, increased by 8.0% (YoY) mainly driven by the undrawn client overdraft facilities.

¹ 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, 2017 were 251,383.79 million baht, increased by 26,449.79 million baht (11.8% YoY), driven by the transfer of retail banking business from Standard Chartered Bank (Thai). The composition of loan portfolio was 73.3% of retail loans, 20.1% of corporate loans, 6.0% of commercial loans and 0.6% of other loans.

Corporate Lending

Corporate lending portfolio totaled 50,607.51 million baht, increased by 4,097.56 million baht (8.8% YoY), mainly due to the loan drawdown from the clients in real estate and construction sector and agriculture and mining sector. Furthermore, in the beginning of 2017, the Company has made loan classification adjustment by reclassifying some clients in Commercial Lending sector to Corporate Lending sector at the approximate amount of 2,100 million baht, to improve efficiency of loan management.

Commercial Lending

Commercial Lending portfolio totaled 15,099.95 million baht, declined by 1,354.11 million baht (8.2% YoY) from the reclassification of some clients to Corporate Lending sector. Nonetheless, during 2017, the Company received the transfer of small business loans from Standard Chartered Bank (Thai), amounting 2,281.36 million baht at the end of 2017.

Retail Lending

Retail Lending portfolio totaled 184,184.72 million baht, increased by 14.7% (YoY) primarily from the transfer of retail banking business from Standard Chartered Bank (Thai), comprising mortgage loans, personal loans and credit card loans. The total retail portfolio as of December 31, 2017 consisted of 70.4% car and motorcycle hire purchase, 14.6% consumer loans, 11.3% mortgage loans, 2.1% personal loans and 1.6% credit card loans. The outstanding hire purchase loans totaled 129,719.70 million baht, declined by 6.4% (YoY), resulting from the prudent lending policy amid high level of household debt. The domestic car sale in 2017 was 871,647 units, increased by 13.4% (YoY), compared to 768,788 units in 2016. The car penetration rate of TISCO for year declined from 8.0% to 7.2% (YoY).

Consumer loans amounted 26,824.54 million baht, increased by 5,796.91 million baht (27.6% YoY), from the increased new business from all channels – bank branches and loan offices – especially from the expansion of new customer acquisition through “Somwang” channel. Hence, at the end of 2017, “Somwang” loan offices totaled 190 branches nationwide. In addition, the growth of consumer loans included home-equity loans that were transferred from Standard Chartered Bank (Thai) amounting 3,105.06 million baht.

Consequently, after the completion of the business transfer, at the end of 2017, mortgage loans totaled 20,757.33 million baht, personal loans (included only unsecured loans) totaled 3,930.96 million baht and credit card loans totaled 2,952.19 million baht.

Other Loans

Other Loans portfolio totaled 1,491.61 million baht, increased by 93.74 million baht (6.7% YoY).

Deposits

Total deposits and borrowings totaled 251,882.46 million baht, increased by 11.8% (YoY). Total deposits totaled 188,280.76 million baht, grew by 27,246.32 million baht (16.9% YoY) from the acquisition of retail deposit business, while debentures totaled 63,601.70 million baht, declined by 760.30 million baht (1.2% YoY). As of December 31, 2017, the Bank had liquid assets totaling 50,020.37 million baht, increased by 6,683.55 million baht (15.4% YoY). Thus, the liquid assets were 19.9% of total deposits and borrowings.

Table 8: Deposits Structure as of December 31, 2016 and 2017

Type of Deposits	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,690.70	2.3	3,785.00	2.0	2.6
Saving accounts	51,928.03	32.2	64,544.34	34.3	24.3
Fixed accounts	14,839.89	9.2	19,860.34	10.5	33.8
Negotiate certificate deposit	84,608.90	52.5	92,614.16	49.2	9.5
Short-term borrowings	5,966.92	3.7	7,476.92	4.0	25.3
Total deposits	161,034.44	100.0	188,280.76	100.0	16.9

(2) Securities Business

In 2017, TISCO Securities reported strong brokerage fee income totaling 830.76 million baht, improved by 0.7% (YoY), with average daily turnover of TISCO Securities of 2,226.82 million baht, increased by 3.5% (YoY) from 2,152.29 million baht, following higher market share of TISCO Securities which improved from 2.4% to 2.6% (YoY). The market share of local institution sector (excluding proprietary trading) increased from 6.1% to 6.4% (YoY) and the market share of retail investors increased from 1.6% to 1.9% (YoY). Meanwhile, the market share of foreign institution sector dropped from 2.5% to 2.3% (YoY). All in all, TISCO brokerage volume comprised of 31.5% of local institutions, 30.5% of foreign institutions, and 38.0% of retail customers.

(3) Asset Management Business

As of December 31, 2017, assets under management of TISCO Asset Management Co., Ltd. reported at 240,242.80 million baht, increased by 24.4% (YoY), from the growth in all business areas and improved capital market condition. Consequently, basic fee income from asset management grew by 20.7% (YoY), totaling 1,279.36 million baht. Furthermore, performance fee income was recorded amounting 405.91 million baht during the year, reporting the total asset management fee income of 1,684.45 million baht, significantly increased by 47.6% (YoY), mainly contributed by the continual issuance of various types of funds corresponding to market demands, along with the improved capital market condition.

The composition of total asset under management was 62.9% provident fund, 17.4% private fund, and 19.7% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of December 31, 2017 was 3.5%, ranking 9th in the market. The market share of provident fund was 14.0%, ranking 3rd in the market. The market share of private fund was 5.0%, ranking 5th in the market. For mutual fund, the market share was 0.9%, ranking 14th in the market.

Table 9: Assets under Management Breakdown by Type of Fund as of December 31, 2016 and 2017

Type of Fund	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	131,073.24	67.9	151,053.43	62.9	15.2
Private Fund	26,732.95	13.8	41,855.28	17.4	56.6
Mutual Fund	35,356.24	18.3	47,334.10	19.7	33.9
Total	193,162.42	100.0	240,242.80	100.0	24.4

14.4 Capital Requirements

As of December 31, 2017, TISCO Group's internal capital stood at 36,170.20 million baht which exceeded the risk-based capital requirement by an internal risk measurement of capital adequacy (ICAAP) of 11,526.57 million baht. Accordingly, the capital surplus remained strong at 24,643.63 million baht or 68.1% of total capital.

The capital requirement from an internal risk measurement comprised of the increase in credit risk capital by 1,657.99 million baht or 22.8% totaling 8,937.88 million baht. Loan portfolio increased by 11.8% during the year, mainly resulting from the transfer of retail banking business from Standard Chartered Bank (Thai). The non-performing loans of TISCO Group decreased from 2.5% to 2.3% following better credit quality specifically hire purchase and SME business.

The market risk capital decreased from 204.62 million baht to 127.18 million baht, resulting from a decrease in risk capital of investment portfolio and the improved capital market during the year. Meanwhile, the overall duration gap decreased to 0.69 year, which was in a manageable level. The assets duration decreased from 1.48 year to 1.32 year, while the liabilities duration declined from 0.70 year to 0.63 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)	
	2016	2017	2016	2017
Assets	1.48	1.32	1,123.32	1,423.78
Liabilities*	0.70	0.63	(1,066.34)	(1,154.74)
Net Gap	0.78	0.69	56.98	269.04

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 December 2017, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 20.72%, remaining higher than the 9.75% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 15.98% and 4.74%, respectively, in which Tier-I capital adequacy

ratio also remained higher than the minimum requirement at 7.25%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 58.24%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 10: Capital Adequacy Ratio as of December 31, 2016 and 2017

	December 31, 2016	December 31, 2017
	(%)	(%)
Tier-I Capital	14.73	15.98
Total Capital	19.59	20.72

Applied IRB approach

14.5 Credit Rating

The Company got credit rating 'A-' and rating outlook "Stable" as at April 11, 2017 from TRIS 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 11, 2017
Company Rating	A-
Rating Outlook	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 2018 expects a moderate growth through the continuing growth in export sector aligning with the recovery of global economy and the continued expansion of tourism. Likewise, the accelerating government's budget spending and infrastructure investment projects are also the key economic drivers and become more apparent. Meanwhile, the private investment is expected to recover in line with the government infrastructure project. Meanwhile, private consumption is pressured from the high level of household debt while the lending demand further increased along with the economic recovery.

On market interest rate, the Company expects the Bank of Thailand is expected to continue accommodative monetary policy by maintaining the policy rate at 1.50%. Nonetheless, the Bank of Thailand will possibly to raise the policy rate given that the headline inflation rise more than previously expected. For the outlook of domestic car sales, a leading indicator that contribute to hire purchase business, will continue to grow however, the recovery of consumer purchasing power will be a key challenge in year ahead. In addition, the capital market is expected to improve from the previous year following the domestic economic recovery together with the earnings of listed companies are expected to increase in year ahead.

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.