

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, 2018

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, 2018 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, 2018, 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, 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

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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.

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)

Consolidated financial statements

	December 31, 2018	December 31, 2017	December 31, 2016
Assets			
Cash	1,191,800	1,324,808	1,149,005
Interbank and money market items - net	54,071,389	44,647,149	38,067,417
Derivatives assets	5,685	-	-
Investment - net	9,012,345	7,547,143	7,188,845
Investment in subsidiaries and joint venture - net	800,151	573,925	442,750
Loans to customers and accrued interest receivables			
Loans to customers	261,056,899	271,125,255	245,114,243
Accrued interest receivables	642,526	715,653	520,704
Total loans to customers and accrued interest receivables	261,699,425	271,840,908	245,634,947
Less: Deferred revenue	(20,402,559)	(19,741,455)	(20,180,240)
Less: Allowance for doubtful accounts	(11,665,492)	(11,447,166)	(7,973,890)
Less: Allowance for loss on debt restructuring	(8,146)	(8,948)	(9,748)
Loans to customers and accrued interest receivables - net	229,623,228	240,643,339	217,471,069
Properties foreclosed - net	10,857	5,274	7,366
Investment properties	39,388	32,396	32,157
Premises and equipment - net	2,992,229	2,653,195	2,652,515
Intangible assets - net	448,222	537,696	567,053
Deferred tax assets	991,525	743,145	513,602
Securities and derivatives business receivables - net	948,528	2,342,040	1,373,757
Other assets	2,409,287	2,338,299	1,806,862
Total assets	302,544,634	303,388,409	271,272,398

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

As of

(Unit: Thousand Baht)

Consolidated financial statements

	December 31, 2018	December 31, 2017	December 31, 2016
Liabilities and equity			
Liabilities			
Deposits	193,108,310	180,803,844	155,067,524
Interbank and money market items	4,374,674	4,017,507	5,196,603
Liabilities payable on demand	238,219	431,361	180,242
Derivatives liabilities	10,653	29,815	34,118
Debts issued and borrowings	55,556,919	71,078,619	70,328,919
Provision for long-term employee benefits	827,442	734,853	576,114
Deferred tax liabilities	8,499	15,633	2,581
Securities and derivatives business payables - net	995,276	2,216,256	1,510,870
Accrued interest payable	881,275	729,377	753,021
Income tax payable	753,846	849,052	565,781
Other liabilities	7,960,065	7,750,327	5,731,082
Total liabilities	264,715,178	268,656,644	239,946,855
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 2017: 9,859 shares of Baht 10 each)	99	99	108
(31 December 2016: 10,758 shares of Baht 10 each)			
800,645,624 ordinary shares of Baht 10 each			
(31 December 2017: 800,645,624 shares of Baht 10 each)	8,006,456	8,006,456	8,006,447
(31 December 2016: 800,644,724 shares of Baht 10 each)			
	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	1,753,824	1,653,202	1,447,136
Retained earnings			
Appropriated-statutory reserve	801,000	801,000	801,000
Unappropriated	26,116,740	23,125,364	19,951,807
Equity attributable to equity holders of the Company	37,696,527	34,604,529	31,224,906
Non-controlling interest of the subsidiaries	132,929	127,236	100,637
Total equity	37,829,456	34,731,765	31,325,543
Total liabilities and equity	302,544,634	303,388,409	271,272,398

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)

	Consolidated financial statements		
	December 31,2018	December 31,2017	December 31,2016
Profit or loss:			
Continuing operations			
Interest income	17,690,276	16,381,521	16,011,544
Interest expenses	(5,075,507)	(4,814,374)	(5,091,110)
Net interest income	12,614,769	11,567,147	10,920,434
Fee and service income	6,339,093	6,344,652	5,367,829
Fee and service expenses	(243,666)	(245,964)	(230,082)
Net fee and service income	6,095,427	6,098,688	5,137,747
Net gains (losses) on trading and foreign exchange transactions	6,339	(83,857)	(9,468)
Net gains on investments	496,291	41,968	12,594
Share of profit from investment accounted for under equity method	222,708	130,420	131,212
Dividend income	62,584	138,178	78,973
Penalty fee income from loans	331,035	375,524	364,260
Other operating income	204,018	125,952	121,637
Total operating income	20,033,171	18,394,020	16,757,389
Operating expenses			
Employee's expenses	5,839,300	5,073,893	4,298,798
Directors' remuneration	16,425	12,740	12,745
Premises and equipment expenses	1,213,428	1,148,613	970,203
Taxes and duties	303,080	252,389	208,869
Other operating expenses	1,381,034	1,183,075	1,050,415
Total operating expenses	8,753,267	7,670,710	6,541,030
Bad debt, doubtful accounts and impairment losses	2,701,452	3,078,651	3,972,366
Profit from operations before income tax expenses	8,578,452	7,644,659	6,243,993
Income tax expenses	1,663,017	1,486,816	1,220,410
Profit for the year from continuing operations	6,915,435	6,157,843	5,023,583
Discontinued operations			
Profit (loss) for the year from discontinued operations	128,306	(40,536)	-
Total profit for the year	7,043,741	6,117,307	5,023,583

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)

	Consolidated financial statements		
	December 31, 2018	December 31, 2017	December 31, 2016
Other comprehensive income:			
Continuing operations			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Gains (losses) on valuation in available-for-sale investments	(233,032)	270,399	59,888
Share of other comprehensive income of joint venture:			
Cash flow hedges of joint venture	3,517	755	27,431
Income tax effects	45,062	(55,109)	(11,978)
Other comprehensive income to be reclassified to profit or loss in subsequent periods - net of income tax	(184,453)	216,045	75,341
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Changes in surplus on revaluation of assets	387,623	-	-
Actuarial losses	(56,943)	(155,385)	(40,122)
Income tax effects	(66,712)	30,909	7,995
Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax	263,968	(124,476)	(32,127)
Other comprehensive income for the year from continuing operations	79,515	91,569	43,214
Total other comprehensive income for the year	79,515	91,569	43,214
Total comprehensive income			
Total comprehensive income from continuing operations	6,994,950	6,249,412	5,066,797
Total comprehensive income from discontinued operations	128,306	(40,536)	-
Total comprehensive income for the year	7,123,256	6,208,876	5,066,797
Profits attributable to			
Equity holders of the Company			
Profit for the year from continuing operations	6,887,379	6,130,544	5,005,894
Profit (loss) for the year from discontinued operations	128,306	(40,536)	-
Profit for the year attributable to the Company	7,015,685	6,090,008	5,005,894
Non-controlling interests of the subsidiaries			
Profit for the year from continuing operations	28,056	27,299	17,689
Profit for the year from discontinued operations	-	-	-
Profit for the year attributable to non-controlling interests of the subsidiaries	28,056	27,299	17,689
Total comprehensive income attributable to			
Equity holders of the Company			
Total comprehensive income for the year from continuing operations	6,966,734	6,222,446	5,050,062
Total comprehensive income for the year from discontinued operations	128,306	(40,536)	-
Total comprehensive income for the year attributable to the Company	7,095,040	6,181,910	5,050,062
Non-controlling interests of the subsidiaries			
Total comprehensive income for the year from continuing operations	28,216	26,966	16,735
Total comprehensive income for the year from discontinued operations	-	-	-
Total comprehensive income for the year attributable to non-controlling interests of the subsidiaries	28,216	26,966	16,735
Earnings per share of equity holders of the Company			
Basic earnings per share			
Equity holder of the Company	8.60	7.66	6.25
Profit from continuing operations	0.16	(0.05)	-
Profit (loss) from discontinued operations	8.76	7.61	6.25

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

(Unit: Thousand Baht)

	Consolidated financial statements		
	December 31, 2018	December 31, 2017	December 31, 2016
Cash flows from operating activities			
Profit before income tax from continuing operations	8,578,452	7,644,659	6,243,993
Profit (loss) before income tax from discontinued operations	128,306	(1,042)	-
Profit from operation before income tax	8,706,758	7,643,617	6,243,993
Adjustments to reconcile profit before income tax expenses to net cash provided by (paid from) operating activities:			
Depreciation and amortisation	390,757	350,638	252,316
Bad debts and doubtful accounts	4,898,708	5,064,167	6,094,764
Share of profit from investments accounted for under equity method	(222,708)	(130,420)	(131,212)
Allowance for impairment of investments (reversal)	(1,355)	(3,671)	4,420
Allowance for impairment of properties foreclosed (reversal)	(268)	394	11,128
Gains on disposal of investments in securities	(495,267)	(38,157)	(17,682)
Unrealised (gains) losses on foreign exchange transactions and trading derivatives	(6,455)	83,376	(851)
Gains on disposal of equipment and intangible assets	(5,661)	(12,997)	(14,127)
Gains (losses) on changes in value of investment properties	(6,992)	(239)	-
Losses on written-off of equipment	472	3,441	941
Losses on written-off of intangible assets	-	-	6,218
Gains on disposal of properties foreclosed	(71,336)	(81,678)	(73,175)
Employee benefit expenses	83,138	42,708	89,986
(Increase) decrease in accrued income	261,429	(317,317)	(19,887)
Increase in accrued expenses	536,621	601,873	413,512
Net interest income	(12,828,669)	(11,654,786)	(10,920,434)
Dividend income	(62,584)	(138,178)	(78,973)
Cash received on interest income	17,680,774	16,743,707	16,335,057
Cash paid on interest expenses	(3,844,808)	(3,824,667)	(4,234,443)
Cash received on dividend income	62,584	138,178	78,973
Cash paid on income tax	(2,018,179)	(1,484,013)	(1,173,584)
Profit from operating activities before changes in operating assets and liabilities	13,056,959	12,985,976	12,866,940
Operating assets (increase) decrease			
Interbank and money market items - net	(9,424,150)	(6,579,740)	(6,904,757)
Loans to customers	4,253,506	3,718,910	6,771,626
Securities and derivatives business receivables	1,393,513	(968,284)	(243,566)
Receivables from clearing house	(114,224)	144,621	103,127
Properties foreclosed	1,849,032	2,071,939	2,376,862
Other assets	(201,668)	(883,412)	(188,541)
Operating liabilities increase (decrease)			
Deposits	12,304,466	11,114,657	(3,276,666)
Interbank and money market items	357,167	(1,179,096)	(4,833,456)
Liabilities payable on demand	(193,142)	251,119	(176,093)
Securities and derivatives business payables	(1,220,980)	705,386	235,841
Short-term debts issued and borrowings	(25,021,700)	8,072,700	(20,370,000)
Payable to clearing house	(52,820)	113,385	(96,576)
Provision for long-term employee benefits	(47,493)	(39,353)	(20,927)
Other liabilities	(1,099,657)	(395,852)	(1,213,333)
Net cash flows from (used in) operating activities	(4,161,191)	29,132,956	(14,969,519)

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

(Unit: Thousand Baht)

	Consolidated financial statements		
	December 31, 2018	December 31, 2017	December 31, 2016
Cash flows from investing activities			
Cash paid for purchase of investments in securities held for investment	(12,333,737)	(7,578,768)	(7,759,049)
Cash received from disposal of investments in securities held for investment	11,125,400	7,447,916	8,968,790
Cash paid for purchase of equipment	(191,004)	(203,271)	(223,346)
Cash paid for purchase of intangible assets	(77,495)	(116,253)	(242,740)
Cash received from disposal of equipment	8,061	13,006	14,168
Cash paid on business acquisition	-	(18,394,496)	-
Net cash flows used in investing activities	(1,468,775)	(18,831,866)	757,823
Cash flows from financing activities			
Cash received from issuance of long-term debentures	20,000,000	19,600,000	16,180,000
Cash paid for redemption of long-term debentures	(10,500,000)	(26,923,000)	-
Dividend paid	(4,003,042)	(2,802,287)	(1,920,590)
Net cash flows from (used in) financing activities	5,496,958	(10,125,287)	14,259,410
Net increase (decrease) in cash	(133,008)	175,803	47,714
Cash at beginning of the year	1,324,808	1,149,005	1,101,291
Cash at end of the year	1,191,800	1,324,808	1,149,005

13.2 Important Financial Ratios

		2018	2017	2016
Profitability Ratio				
Gross Profit Margin	(%)	77.9	77.7	75.1
Net Profit Margin	(%)	34.4	33.1	29.9
Return on Average Shareholders' Equity	(%)	19.3	18.4	16.8
Interest Income Ratio	(%)	5.8	5.7	5.8
Interest Expense Ratio	(%)	2.0	2.0	2.2
Interest Spread	(%)	3.8	3.7	3.6
Return on Investment	(%)	8.5	2.1	2.6
Efficiency Ratio				
Net Interest Income to Total Assets	(%)	4.2	4.0	4.0
Return on Average Assets	(%)	2.3	2.1	1.8
Total Asset Turnover	(times)	0.07	0.06	0.06
Financial Ratio				
Debt to Equity Ratio	(times)	7.0	7.7	7.7
Total Loans to Total Borrowing and Deposits	(%)	96.7	99.6	99.7
Total Loans to Public Borrowing	(%)	124.6	139.0	145.1
Public Borrowing to Total Liabilities	(%)	72.9	67.3	64.6
Dividend Payout Ratio	(%)	N/A	65.7	56.0
Asset Quality Ratio				
Allowance for Doubtful Account to Total Loans	(%)	4.8	4.5	3.5
Bad Debt and Doubtful Account to Total Loans	(%)	1.8	1.4	1.9
Non-accrued loans ¹ to Total Loans	(%)	2.6	2.4	2.9
Allowance for Doubtful Account to Non-performing loans	(%)	169.8	196.5	139.8
Accrued Interest Receivable to Total Loans	(%)	0.3	0.3	0.2
Other Ratios				
Capital Funds to Risk Weighted Asset (BIS)	(%)	22.91	20.72	19.59
Net Capital Rule (TISCO Securities)	(%)	105.91	58.24	85.73

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 2018, with those of the year 2017

Movement of Money Market and Capital Market

Throughout the year 2018, the domestic and global economies have been volatile causing by numerous factors. Nonetheless, Thai economy was able to expand consistently including both export sector and private consumption. Meanwhile, private investment and public spending grew at moderate pace following the ongoing government's investment projects. The domestic car sale for the year 2018 was at 1,045,000 units or increased by 20% (YoY). Meanwhile, the headline inflation was 1.1%, following an increase in oil prices.

The world economic conditions were highly volatile given the prolonged trade war between US and China, the US Federal Reserve's interest rate raise in total of 4 times to 2.25 – 2.50%, and the rising US bond yields. Subsequently, the effects have been observed in capital outflow from emerging markets and the devaluation of stock markets and currencies of emerging markets. However, Thai Baht remained strong owing to positive current account surplus and fund inflow from growing tourism sector.

To maintain financial stability, the Bank of Thailand (BOT) raised the policy rate once in December 2018 to 1.75%. Meanwhile, 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 was also stable at 6.20% (YoY).

The capital market in 2018 was highly fluctuated in response to global economic conditions. Therefore, market trading volume increased with average daily turnover rose from 47,755.37 million baht in 2017 to 56,409.06 million baht. SET index closed at 1,563.88 points, dropped by 189.83 points or 10.8% comparing to 1,753.71 points at the end of last year driven by fund outflow from foreign institution investors.

Major Events

On March 30, 2018, TISCO Bank Public Company Limited and All-Ways Company Limited have signed the agreements for the sale of personal loan portfolio and credit card business to Citibank N.A. (Bangkok Branch). TISCO Bank Public Company Limited has completed the sale of the personal loan portfolio to Citibank successfully on June 4, 2018 while All-Ways Company Limited has completed the sale of credit card business to Citibank N.A., Bangkok Branch successfully, effective starting from September 23, 2018. Thus, the Company revised the financial statement of the year 2017 to be in alignment with accounting standard of this period and for comparison and information use purposes.

14.1 Operating Performance for the year 2018

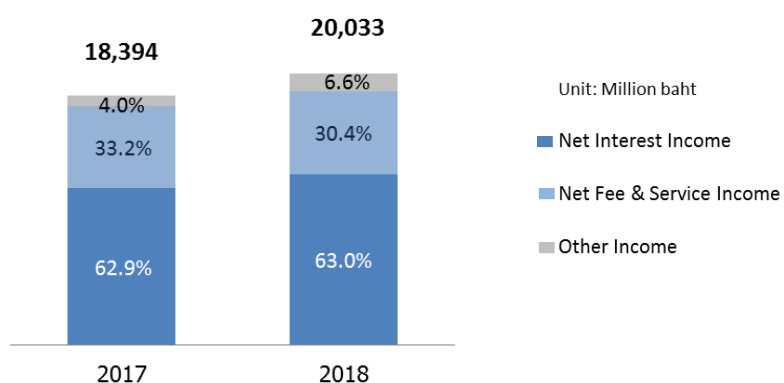
TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 5,626.80 million baht, mainly contributed by service fee income from subsidiary companies within the group. As a holding company, TISCO Financial Group Public Company Limited operates 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 2018, the net profit attributed to owners of the Company totaled 7,015.69 million baht, increased by 925.68 million baht (15.2% YoY), contributed by an increase in income from core businesses and the record of extraordinary income from investment and business sale. Net interest income increased by 9.1% (YoY) from the ability to maintain overall loan yield and the effective cost management, together with the transfer of retail banking business from Standard Chartered Bank (Thai) Public Company Limited. In addition, the Company recorded gain on selling investment, share of profit from subsidiaries and gain from sale of credit card business. However, non-interest income from core business slightly declined by 0.7% (YoY), from the decline in investment banking fee income. Whilst, fee income from other core businesses reported favorable growth. Provision expense declined by 12.3% (YoY) following the effective credit control.

At the end of this year, the Company has revised the loan classification criteria to be more stringent for installment loans in accordance with prudent credit control policy, despite the clients' repayment behavior and overall asset quality have remained stable. As a result, NPLs ratio at the end of 2018 rose to 2.86%. Meanwhile, the Bank still maintained loan loss reserve to minimum loan loss reserve requirement as high as 229.5%.

Basic earnings per share for the year 2018 was 8.76 baht per share, increased from 7.61 baht per share in 2017. Meanwhile, the return on average equity (ROAE) increased from 18.4% in 2017 to 19.3%.

Composition of Operating Income



Consolidated Revenue Structure

The Company and its subsidiaries' consolidated revenue structure in 2017 and 2018 are illustrated in Table 1.

Table 1: Consolidated Revenue Structure for year 2017 -2018

Type of Revenue (Million baht)	2018	2017	%YoY
Interest income			
Interest on loans	8,090.39	6,608.71	22.4
Interest on interbank and money market items	706.37	584.92	20.8
Hire purchase and financial lease income	8,691.42	8,993.74	(3.4)
Investments	202.09	194.16	4.1
Total interest income	17,690.28	16,381.52	8.0
Interest expenses	(5,075.51)	(4,814.37)	5.4
Net interest income	12,614.77	11,567.15	9.1
Fee income			
Fee income	6,339.09	6,344.65	(0.1)
Fee expenses	(243.67)	(245.96)	(0.9)
Net fee income	6,095.43	6,098.69	(0.1)
Gain on investment and foreign exchange transaction	502.63	(41.89)	n.a.
Share of profit from invest in subsidiaries	222.71	130.42	70.8
Other operating income	597.64	639.65	(6.6)
Total operating income	20,033.17	18,394.02	8.9
Other operating expenses	(8,753.27)	(7,670.71)	14.1
Bad debt and doubtful account and impairment loss of debt securities	(2,701.45)	(3,078.65)	(12.3)
Profit before income tax and minority interest	8,578.45	7,644.66	12.2
Corporate income tax expenses	(1,663.02)	(1,486.82)	11.9
Profit from continuing operations	6,915.43	6,157.84	12.3
Profit/Loss from discontinued operations	128.31	(40.54)	n.a.
Profit before minority interest	7,043.74	6,117.31	15.1
Non-controlling interests of the subsidiaries	(28.06)	(27.30)	2.8
Net profit	7,015.69	6,090.01	15.2

(1) Net Interest Income

Net interest income for the year 2018 was 12,614.77 million baht, increased by 1,047.62 million baht (9.1% YoY). Total interest income was 17,690.28 million baht, increased by 1,308.76 million baht (8.0% YoY), while interest expense increased by 261.13 million baht to 5,075.51 million baht (5.4% YoY).

Yield on loan increased from 6.8% to 6.9% (YoY) from the shift in loan portfolio mix from hire purchase loans to consumer loans that offer higher yield, along with the transfer of retail banking business from Standard Chartered Bank (Thai). While, the cost of fund declined from 2.1% to 2.0% (YoY) following the Company's effective cost management. Consequently, loan spread improved from 4.7% to 4.9% (YoY). The net interest margin remained stable at 4.2% (YoY).

Table 2: Interest spread year 2017 – 2018

%	2018	2017
Yield on Loans	6.9	6.8
Cost of fund	2.0	2.1
Loan spread	4.9	4.7

The Company reported the net interest income after impairment loss of loans and debt securities totaled 9,913.32 million baht, increased by 1,424.82 million baht (16.8% YoY). Impairment losses on loans totaled 2,701.45 million baht, dropped comparing with 3,078.65 million baht in 2017 following the effective credit control.

(2) Non-interest Income

In 2018, non-interest income of the Company reported at 7,418.40 million baht, increased by 8.7% (YoY), comprising non-interest income from core businesses of 6,936.73 million baht, decreased by 47.58 million baht (0.7% YoY) following the decline in investment banking fee income from the absence of underwriting fee in 2017. Nonetheless, banking fee income rose by 286.94 million baht (6.9% YoY) to 4,436.69 million baht from the strong improvement in bancassurance business. Brokerage fee income increased by 3.35 million baht (0.4% YoY) to 834.11 million baht stemming from higher market trading volume. Furthermore, asset management basic fee grew by 132.47 million baht (10.4% YoY) to 1,411.83 million baht, from the issuance of new funds corresponding to the customer demand during the volatile capital market.

In addition, this year the Company recorded the gain on selling investment amounting 496.29 million baht, extraordinary profit sharing from the investment in subsidiaries amounting 152.14 million baht and gain from sale of credit card business which was reported under "Profit from discontinued operations" amounting 128.31 million baht.

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

The Company set up provision at 2,701.45 million baht, accounted for 1.1% of average loan, and decreased comparing with 3,078.65 million baht (YoY), following the effective credit control. This year, the Company also additionally set up general reserve of 113 million baht from the previous year.

(4) Operating Expenses

Non-interest expenses were 8,753.27 million baht, increased by 1,082.56 million baht (14.1% YoY), mainly from an increase in variable expenses associated with revenue and profit growth. Nevertheless, the Company still maintained effective operating cost control, resulting in low cost-to-income ratio at 43.7%.

(5) Corporate Income Tax

In 2018, the corporate income tax was 1,663.02 million baht, equivalent to the effective tax rate of 19.4% unchanged from the previous year.

14.2 Financial Position

(1) Assets

As of December 31, 2018, the Company's total assets were 302,544.63 million baht, decreased by 0.3% (YoY), due to the decline in loan portfolio from 251,383.80 million baht to 240,654.34 million baht (4.3% YoY). Meanwhile, interbank and money market grew from 44,647.15 million baht to 54,071.39 million baht (21.1% YoY), and investment increased from 7,547.14 million baht to 9,012.34 million baht (19.4% YoY).

Table 3: Assets Breakdown as of December 31, 2017 and 2018

Assets	December 31, 2018		December 31, 2017		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,191.80	0.4	1,324.81	0.4	(10.0)
Interbank and Money Market Items	54,071.39	17.9	44,647.15	14.7	21.1
Derivatives	5.68	0.0	-	-	n.a.
Investment – Net	9,012.34	3.0	7,547.14	2.5	19.4
Investments in subsidiaries, associate and JV	800.15	0.3	573.93	0.2	39.4
Corporate Loans	45,048.72	14.9	50,607.52	16.7	(11.0)
Retail Loans	179,045.33	59.2	184,184.72	60.7	(2.8)
Commercial Loans	14,865.66	4.9	15,099.95	5.0	(1.6)
Other Loans	1,694.63	0.6	1,491.61	0.5	13.6
Allowance for doubtful accounts and for loss on debt restructuring	(11,673.64)	(3.9)	(11,456.11)	(3.8)	1.9
Other Assets	8,482.57	2.8	9,367.70	3.1	(9.3)
Total Assets	302,544.63	100.0	303,388.41	100.0	(0.3)

(2) Liabilities

As of December 31, 2018, total liabilities were 264,715.18 million baht, decreased by 1.5% (YoY) due to the decrease in debentures from 63,601.70 million baht to 49,680.00 million baht (21.9% YoY). Whereas, total deposits increased from 188,280.76 million baht to 198,985.23 million baht (5.7% YoY), and interbank and money market increased from 4,017.51 million baht to 4,374.67 million baht (8.9% YoY). The liabilities mix comprised of total deposits including short-term borrowings at 75.2%, interbank and money market items at 1.6%, debentures at 18.8% and 4.4% of other liabilities.

Table 4: Liabilities Breakdown by Area as of December 31, 2017 and 2018

Liabilities	December 31, 2018		December 31, 2017		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	198,985.23	75.2	188,280.76	70.1	5.7
Interbank and money market items	4,374.67	1.6	4,017.51	1.5	8.9
Debentures	49,680.00	18.8	63,601.70	23.7	(21.9)
Others	11,675.28	4.4	12,756.67	4.7	(8.5)
Total Liabilities	264,715.18	100.0	268,656.64	100.0	(1.5)

(3) Shareholders' Equity

As of December 31, 2018, shareholders' equity was 37,829.45 million baht, increased by 3,099.14 million baht (8.9% YoY) from an increase in retained earnings for the year 2018. As a result, the book value per share (BVPS) as of December 31, 2018 was 47.25 baht per share, rose from 43.88 baht per share (YoY).

(4) Liquidity

As of December 31, 2018, The Company's cash was 1,191.80 million baht, decreased by 10.0% (YoY). There was net cash flow used in operating activities total of 4,161.19 million baht mainly contributed by the decrease in short-term debts issued and borrowings while net cash flow used in investing activities totaled 1,468.78 million baht, primarily from the cash paid for purchase of investment in securities held. Meanwhile, the net cash flows from financing activities totaled 5,496.96 million baht, contributed by the cash received from issuance of long-term debentures.

(5) Sources and Uses of Funds

As of December 31, 2018, the funding structure as shown in the consolidated financial statement comprised of 264,715.18 million baht in liabilities and 37,829.45 million baht in shareholders' equity, resulting in a debt-to-equity ratio of 7.0 times. The major source of funds on liabilities side was deposits, which accounted for 65.8% of total source of funds. Other sources of funds included interbank and money market items accounted for 1.4% of total source of funds, 20.3% of debenture and other liabilities, and 12.5% of shareholders' equity, respectively. The Company's major use of funds was loans, amounting 240,654.34 million baht, resulting in a loan-to-deposit ratio¹ of 120.9%. The other uses of funds include interbank and money market items, and various securities.

(6) Contingent liabilities

As of December 31, 2018, TISCO Bank, a subsidiary of The Company, had avals, guarantees, and commitments totaled 3,023.37 million baht, increased by 25.8% (YoY) mainly driven by the foreign exchange contracts.

14.3 Business Segment Performances

(1) Banking Business

Loans

Total loans and receivables as of December 31, 2018 were 240,654.34 million baht, decreased by 10,729.46 million baht (4.3% YoY), mainly driven by the sale of personal loan and credit card loan, together with the highly competitive market condition in housing loan and the write-off of retail loans and commercial loans. The composition of loan portfolio was 74.4% of retail loans, 18.7% of corporate loans, 6.2% of commercial loans and 0.7% of other loans.

Corporate Lending

Corporate Lending portfolio totaled 45,048.72 million baht, declined by 5,558.80 million baht (11.0% YoY), due to the loan repayment from the clients in agriculture and mining sector and real estate and construction sector.

Commercial Loans

Commercial Lending portfolio totaled 14,865.66 million baht, dropped by 234.29 million baht (1.6% YoY) mainly contributed by the loan write-off for asset quality control purposes. Nevertheless, car inventory financing still maintained robust growth throughout the year 2018.

Retail Lending

Retail Lending portfolio totaled 179,045.33 million baht, decreased by 2.8% (YoY). The total retail portfolio as of December 31, 2018 consisted of 73.1% car and motorcycle hire purchase loans, 17.1% Consumer loan, and 9.8% mortgage loans. The outstanding hire purchase loans totaled 130,861.49 million baht, increased by 0.9% (YoY) following the improvement in domestic consumption. The domestic car sale in 2018 was 1,041,739 units, increased by 19.5% (YoY), compared to 871,647 units in 2017. The car penetration rate of TISCO for year was 6.6% (YoY).

Consumer loan amounted 30,602.74 million baht, grew by 3,778.21 million baht (14.1% YoY), from the increased new business through all channels – bank branches and loan offices – aligning with network expansion strategy, especially from the expansion through "Somwang" channels. All in all, at the end of 2018, "Somwang" loan offices totaled 238 branches nationwide.

Mortgage loans totaled 17,581.10 million baht, dropped by 15.3% (YoY) amidst the highly competitive market condition, as well as the loan write-off for asset quality control purposes.

Moreover, during 2018, the Company sold personal loan and credit card loan at the amount around 5,200 million baht.

¹ Deposit includes short-term borrowings from the Bank's regular client base

Other Loans

Other Loans portfolio totaled 1,694.63 million baht, decreased by 13.6% from the previous year.

Table 5: Loans and Receivables Breakdown as of December 31, 2017 and 2018

Type of Business	December 31, 2018		December 31, 2017		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and Commerce	9,699.49	4.0	11,019.73	4.4	(12.0)
Real Estate and Construction	11,386.13	4.7	14,972.95	6.0	(24.0)
Public Utilities and Services	23,289.33	9.7	22,696.33	9.0	2.6
Agriculture and Mining	673.77	0.3	1,918.50	0.8	(64.9)
Corporate Loans	45,048.72	18.7	50,607.52	20.1	(11.0)
Commercial Loans	14,865.66	6.2	15,099.95	6.0	(1.6)
Hire Purchase	130,861.49	54.4	129,719.70	51.6	0.9
Mortgage Loans	17,581.10	7.3	20,757.33	8.3	(15.3)
Consumer Finance Loan	30,602.74	12.7	26,824.54	10.7	14.1
Personal Loan	-	-	3,930.96	1.6	N.A.
Credit card loan	-	-	2,952.19	1.2	N.A.
Retail Loans	179,045.33	74.4	184,184.72	73.3	(2.8)
Others	1,694.63	0.7	1,491.61	0.6	13.6
Total Loans	240,654.34	100.0	251,383.80	100.0	(4.3)

Non-Performing Loans (NPLs) and Loan Loss Provision

At the end of 2018, the Company reported NPLs amounting 6,876.21 million baht, increased by 1,046.85 million baht (18.0% YoY), which comprised of 6,309.06 million baht from the Bank and 567.15 million baht from other subsidiaries. Thus, NPL ratio rose from 2.32% to 2.86% from the previous year. NPL ratio of retail loans, corporate loans, and commercial loans were 3.36%, 1.32%, and 0.75% respectively.

In 2018, the Company has revised the loan classification and the provisioning criteria to be more stringent for installment loans, including mortgage loans and loan against auto licenses, to be in accordance with prudent credit control policy. Consequently, total NPLs as of 2018 increased even though the repayment behavior and overall asset quality of these clients remained stable. The prudent criteria comprehensively consider the payment of installment, principal and interest.

The increase in NPLs of these installment loans was resulted from the difference between the prudent loan classification and current payment hierarchy, where the revision of the payment hierarchy system for consistency is still in process and is expected to be completed in 2019. After the revision, the increased NPLs will reduce back to the level close to the NPLs prior to the change. While the provisioning criteria were conducted based on prudent principle, the NPLs before the revision of the loan classification as of 31 December 2018 would be reported at 2.23%.

Moreover, the Company also managed NPLs through the process of loan write-off of some retail loan portfolio and commercial loan portfolio in order to control the level of NPLs according to the risk management policy to maintain strong financial position.

Loan loss reserve of the Company was 11,673.64 million baht while total loan loss reserve of the Bank was 11,051.80 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,615 million baht or accounted 239.3% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of 2018 reported at 169.8%.

Table 7: NPLs Breakdown by Area as of December 31, 2017 and 2018

Type of NPLs	December 31, 2018			December 31, 2017			Change (%YoY)
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and Commerce	2.99	290.02	4.2	2.06	227.38	3.9	27.5
Real Estate and Construction	0.84	95.93	1.4	0.51	76.05	1.3	26.1
Public Utilities and Services	0.68	159.22	2.3	0.66	149.10	2.6	6.8
Agriculture and Mining	7.04	47.43	0.7	1.23	23.63	0.4	100.7
NPLs - Corporate Loans	1.32	592.60	8.6	0.94	476.16	8.2	24.5
NPLs - Commercial Loans	0.75	111.60	1.6	1.27	191.48	3.3	(41.7)
Hire Purchase	2.76	3,611.56	52.5	2.56	3,325.24	57.0	8.6
Mortgage Loans	6.06	1,066.00	15.5	4.08	847.30	14.5	25.8
Consumer Loans	4.39	1,342.43	19.5	3.18	852.68	14.6	57.4
Personal Loan	-	-	-	0.16	6.37	0.1	N/A
Credit Card	-	-	-	0.61	18.07	0.3	N/A
NPLs - Retail Loans	3.36	6,019.99	87.5	2.74	5,049.66	86.6	19.2
Others	8.97	152.02	2.2	7.51	112.05	1.9	35.7
Total NPLs	2.86	6,876.21	100.0	2.32	5,829.35	100.0	18.0

Deposits

Total deposits and borrowings amounted 248,665.23 million baht, decreased by 1.3% (YoY). Total deposits reported at 198,985.23 million baht, increased by 10,704.47 million baht (5.7% YoY) while debentures totaled 49,680.00 million baht, decreased by 13,921.70 million baht (21.9% YoY). As of December 31, 2018, the Bank had liquid assets totaling 61,062.26 million baht, increased by 11,041.89 million baht (22.1% YoY). Thus, the liquid assets were accounted for 24.6% of total deposits and borrowings.

Table 6: Deposits Structure as of December 31, 2017 and 2018

Type of Deposits	December 31, 2018		December 31, 2017		Change (% YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,483.56	1.2	3,785.00	2.0	(34.4)
Saving accounts	54,683.84	27.5	64,544.34	34.3	(15.3)
Fixed accounts	40,074.74	20.1	19,860.34	10.5	101.8
Negotiate certificate deposit	95,866.17	48.2	92,614.16	49.2	3.5
Short-term borrowings	5,876.92	3.0	7,476.92	4.0	(21.4)
Total Deposits	198,985.23	100.0	188,280.76	100.0	5.7

(2) Securities Business

In 2018, average daily turnover of TISCO Securities was 2,486.32 million baht, increased by 11.7% (YoY) from 2,226.82 million baht, following an increase in market trading volume amid the capital market volatility. Therefore, brokerage fee income rose by 0.4% (YoY), totaling 834.11 million baht. However, TISCO Securities' market share weakened from 2.6% to 2.5% (YoY). The market share of retail investors dropped from 1.9% to 1.7% (YoY) and the market share of foreign institution sector increased from 2.3% to 2.2% (YoY). Meanwhile, the market share of local institution sector (excluding proprietary trading) increased from 6.4% to 6.5% (YoY). All in all, TISCO brokerage volume comprised of 31.5% of local institutions, 37.8% of foreign institutions, and 30.7% of retail customers.

(3) Asset Management Business

As of December 31, 2018, assets under management of TISCO Asset Management Co., Ltd. reported at 249,061.80 million baht, increased by 3.7% (YoY), from the growth in provident fund business and private fund business. The basic fee income from asset management totaled 1,411.83 million baht, grew by 10.4% (YoY) owing to the issuance of various types of funds corresponding to market demands amidst the volatile capital market.

The composition of total asset under management was 65.1% provident fund, 16.9% private fund, and 18.0% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2018 was 3.5%, ranking 8th in the market. The market share of provident fund was 14.4%, ranking 2nd in the market. The market share of private fund was 4.3%, ranking 5th in the market and the market share of mutual fund was 0.9%, ranking 14th in the market.

Table 8: Assets under Management Breakdown by Type of Fund as of December 31, 2017 and 2018

Type of Funds	December 31, 2018		December 31, 2017		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	162,127.22	65.1	151,053.43	62.9	7.3
Private Fund	42,064.87	16.9	41,855.28	17.4	0.5
Mutual Fund	44,869.71	18.0	47,334.10	19.7	(5.2)
Total AUMs	249,061.80	100.0	240,242.80	100.0	3.7

14.4 Capital Requirements

As of December 31, 2018, TISCO Group's internal capital stood at 35,427.67 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 353.16 million baht from the end of 2017 to 14,795.51 million baht, mostly resulting from increasing in market and operational risk capital. In addition, the capital surplus remained strong at 20,632.16 million baht or 58.2% of total capital.

Comparing to the end of year 2017, the credit risk capital stood at 11,901.96 million baht, which increased by 48.28 million baht or 0.4%, while loan portfolio contracted by 4.3% during the year. The non-performing loan of TISCO Group increased from 2.3% to 2.9%.

The market risk capital rose from 125.06 million baht to 265.14 million baht, as a result of an increase in risk capital of investment portfolio along with pressure on SET index. Meanwhile, the overall duration gap increased to 0.85 year, which was in a manageable level. The assets duration increased from 1.32 year to 1.43 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, fell from 0.63 year to 0.58 year.

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 2018, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 22.91%, remaining higher than the 10.375% required by the Bank of Thailand. The projected Tier-I and Tier-II capital adequacy ratio stood at 17.85% and 5.06%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 7.875%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 105.91%, which was higher than the minimum required ratio by the SEC of 7.00%.

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

	Duration (years)		1-Y Net interest income change to 1% interest rate increase (MB)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Assets	1.43	1.32	1,398.00	1,423.78
Liabilities*	0.58	0.63	(1,198.29)	(1,154.74)
Net Gap	0.85	0.69	199.72	269.04

Note: * Exclude saving and current account

14.5 Credit Rating

The Company got credit rating 'A-' and rating outlook "Stable" as at April 25, 2018 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 25, 2018
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 economy is expected to grow at moderate pace in 2019. Exports and tourism will be the key growth drivers however the export sectors will likely be decelerated following the Chino-US trade war as well as global economic volatility. Meanwhile, the upcoming of new elected government and spending on government's infrastructure project will be the supporting factors to propel the growth in domestic demand. In addition, private consumption is pressured from the high level of household debt while the lending demand further increased along with the economic expansion.

On market interest rate, the Company anticipates that the Bank of Thailand will possibly raise the policy rate if the economy shows clear signs of expansion while the necessity to depend on accommodative monetary policy has subsided under current economic condition.

For the outlook of domestic car sales, a leading indicator that contributes to hire purchase business, is expected at same level as in 2018. However, the aggressive competition in hire purchase market will be a key challenge in year ahead. In addition, the digital transformation will pave the way for modernize services of financial institution.

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