

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, 2019

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, 2019 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, 2019, 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, 2018

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The Consolidated Financial Statements of the Company and its Subsidiaries for the Year Ended December 31, 2017

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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, 2019	December 31, 2018	December 31, 2017
Assets			
Cash	1,102,557	1,191,800	1,324,808
Interbank and money market items - net	45,300,141	54,071,389	44,647,149
Derivatives assets	21,907	5,685	-
Investment - net	9,363,032	9,012,345	7,547,143
Investment in subsidiaries and joint venture - net	813,602	800,151	573,925
Loans to customers and accrued interest receivables			
Loans to customers	263,569,157	261,056,899	271,125,255
Accrued interest receivables	1,240,929	642,526	715,653
Total loans to customers and accrued interest receivables	264,810,086	261,699,425	271,840,908
Less: Deferred revenue	(20,743,017)	(20,402,559)	(19,741,455)
Less: Allowance for doubtful accounts	(10,709,365)	(11,665,492)	(11,447,166)
Less: Allowance for loss on debt restructuring	(7,343)	(8,146)	(8,948)
Loans to customers and accrued interest receivables - net	233,350,361	229,623,228	240,643,339
Properties foreclosed - net	18,429	10,857	5,274
Investment properties	30,304	39,388	32,396
Premises and equipment - net	2,984,152	2,992,229	2,653,195
Intangible assets - net	329,460	448,222	537,696
Deferred tax assets	1,324,904	991,525	743,145
Securities and derivatives business receivables - net	1,164,066	948,528	2,342,040
Other assets	2,501,180	2,409,287	2,338,299
Total assets	298,304,095	302,544,634	303,388,409

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

As of

(Unit: Thousand Baht)

Consolidated financial statements			
	December 31, 2019	December 31, 2018	December 31, 2017
Liabilities and equity			
Liabilities			
Deposits	216,084,551	193,108,310	180,803,844
Interbank and money market items	4,656,133	4,374,674	4,017,507
Liabilities payable on demand	306,867	238,219	431,361
Derivatives liabilities	-	10,653	29,815
Debts issued and borrowings	25,016,919	55,556,919	71,078,619
Provision for long-term employee benefits	1,485,868	827,442	734,853
Deferred tax liabilities	-	8,499	15,633
Securities and derivatives business payables - net	820,545	995,276	2,216,256
Accrued interest payable	1,005,621	881,275	729,377
Income tax payable	911,330	753,846	849,052
Other liabilities	8,820,147	7,960,065	7,750,327
Total liabilities	259,107,981	264,715,178	268,656,644
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	99	99	99
(31 December 2018: 9,859 shares of Baht 10 each)			
(31 December 2017: 9,859 shares of Baht 10 each)			
800,645,624 ordinary shares of Baht 10 each	8,006,456	8,006,456	8,006,456
(31 December 2018: 800,645,624 shares of Baht 10 each)			
(31 December 2017: 800,645,624 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	1,810,936	1,753,824	1,653,202
Retained earnings			
Appropriated-statutory reserve	801,000	801,000	801,000
Unappropriated	27,556,084	26,116,740	23,125,364
Equity attributable to equity holders of the Company	39,192,983	37,696,527	34,604,529
Non-controlling interest of the subsidiaries	3,131	132,929	127,236
Total equity	39,196,114	37,829,456	34,731,765
Total liabilities and equity	298,304,095	302,544,634	303,388,409

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 31,2019	December 31,2018	December 31,2017
Profit or loss:			
Continuing operations			
Interest income	17,881,207	17,690,276	16,381,521
Interest expenses	(5,088,798)	(5,075,507)	(4,814,374)
Net interest income	12,792,409	12,614,769	11,567,147
Fee and service income	6,510,972	6,339,093	6,344,652
Fee and service expenses	(325,754)	(243,666)	(245,964)
Net fee and service income	6,185,218	6,095,427	6,098,688
Net gains (losses) on trading and foreign exchange transactions	(24,227)	6,339	(83,857)
Net gains on investments	6,817	496,291	41,968
Share of profit from investment accounted for under equity method	12,108	222,708	130,420
Dividend income	64,617	62,584	138,178
Penalty fee income from loans	294,907	331,035	375,524
Other operating income	103,796	204,018	125,952
Total operating income	19,435,645	20,033,171	18,394,020
Operating expenses			
Employee's expenses	6,410,362	5,839,300	5,073,893
Directors' remuneration	18,125	16,425	12,740
Premises and equipment expenses	1,304,846	1,213,428	1,148,613
Taxes and duties	296,605	303,080	252,389
Other operating expenses	1,240,853	1,381,034	1,183,075
Total operating expenses	9,270,791	8,753,267	7,670,710
Bad debt, doubtful accounts and impairment losses	1,109,103	2,701,452	3,078,651
Profit from operations before income tax expenses	9,055,751	8,578,452	7,644,659
Income tax expenses	1,782,553	1,663,017	1,486,816
Profit for the year from continuing operations	7,273,198	6,915,435	6,157,843
Discontinued operations			
Profit for the year from discontinued operations	-	128,306	(40,536)
Total profit for the year	7,273,198	7,043,741	6,117,307

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 31,2019	December 31,2018	December 31,2017
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	74,272	(233,032)	270,399
Share of other comprehensive income of joint venture:			
Cash flow hedges of joint venture	1,342	3,517	755
Income tax effects	(14,854)	45,062	(55,109)
Other comprehensive income to be reclassified to profit or loss in subsequent periods - net of income tax	60,760	(184,453)	216,045
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	(288,575)	(56,943)	(155,385)
Income tax effects	57,556	(66,712)	30,909
Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax	(231,019)	263,968	(124,476)
Other comprehensive income for the year from continuing operations	(170,259)	79,515	91,569
Total other comprehensive income for the year	(170,259)	79,515	91,569
Total comprehensive income			
Total comprehensive income from continuing operations	7,102,939	6,994,950	6,249,412
Total comprehensive income from discontinued operations	-	128,306	(40,536)
Total comprehensive income for the year	7,102,939	7,123,256	6,208,876
Profits attributable to			
Equity holders of the Company			
Profit for the year from continuing operations	7,270,233	6,887,379	6,130,544
Profit (loss) for the year from discontinued operations	-	128,306	(40,536)
Profit for the year attributable to the Company	7,270,233	7,015,685	6,090,008
Non-controlling interests of the subsidiaries			
Profit for the year from continuing operations	2,965	28,056	27,299
Profit for the year from discontinued operations	-	-	-
Profit for the year attributable to non-controlling interests of the subsidiaries	2,965	28,056	27,299
	7,273,198	7,043,741	6,117,307
Total comprehensive income attributable to			
Equity holders of the Company			
Total comprehensive income for the year from continuing operations	7,100,094	6,966,734	6,222,446
Total comprehensive income for the year from discontinued operations	-	128,306	(40,536)
Total comprehensive income for the year attributable to the Company	7,100,094	7,095,040	6,181,910
Non-controlling interests of the subsidiaries			
Total comprehensive income for the year from continuing operations	2,845	28,216	26,966
Total comprehensive income for the year from discontinued operations	-	-	-
Total comprehensive income for the year attributable to non-controlling interests of the subsidiaries	2,845	28,216	26,966
	7,102,939	7,123,256	6,208,876
Earnings per share of equity holders of the Company			
Basic earnings per share (Baht per share)			
Equity holder of the Company	9.08	8.60	7.66
Profit from continuing operations	-	0.16	(0.05)
Profit (loss) from discontinued operations	9.08	8.76	7.61

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

(Unit: Thousand Baht)

	Consolidated financial statements		
	December 31, 2019	December 31, 2018	December 31, 2017
Cash flows from operating activities			
Profit before income tax from continuing operations	9,055,751	8,578,452	7,644,659
Profit (loss) before income tax from discontinued operations	-	128,306	(1,042)
Profit from operation before income tax	9,055,751	8,706,758	7,643,617
Adjustments to reconcile profit before income tax expenses to net cash provided by (paid from) operating activities:			
Depreciation and amortisation	381,961	390,757	350,638
Bad debts and doubtful accounts	2,971,802	4,898,708	5,064,167
Share of profit from investments accounted for under equity method	(12,108)	(222,708)	(130,420)
Allowance for impairment of investments (reversal)	4,769	(1,355)	(3,671)
Allowance for impairment of properties foreclosed (reversal)	(11,111)	(268)	394
Gains on disposal of investments in securities	(12,501)	(495,267)	(38,157)
Unrealised (gains) losses on foreign exchange transactions and trading derivatives	41,056	(6,455)	83,376
Gains (losses) on changes in value of investment properties	1,022	(6,992)	(239)
Gains on disposal of equipment and intangible assets	(3,290)	(5,661)	(12,997)
Losses on written-off of equipment and intangible assets	2,297	472	3,441
Gains on disposal of properties foreclosed	(42,934)	(71,336)	(81,678)
Employee benefit expenses	406,899	83,138	42,708
(Increase) decrease in accrued income	(306,256)	261,429	(317,317)
Increase in accrued expenses	383,486	536,621	601,873
Net interest income	(12,792,409)	(12,828,669)	(11,654,786)
Dividend income	(64,617)	(62,584)	(138,178)
Cash received on interest income	16,948,275	17,680,774	16,743,707
Cash paid on interest expenses	(3,900,762)	(3,844,808)	(3,824,667)
Cash received on dividend income	64,617	62,584	138,178
Cash received on income tax	18,967	-	-
Cash paid on income tax	(1,839,085)	(2,018,179)	(1,484,013)
Profit from operating activities before changes in operating assets and liabilities	11,295,829	13,056,959	12,985,976
Operating assets (increase) decrease			
Interbank and money market items - net	8,758,584	(9,424,150)	(6,579,740)
Loans to customers	(7,808,565)	4,253,506	3,718,910
Securities and derivatives business receivables	(215,538)	1,393,513	(968,284)
Receivables from clearing house	114,006	(114,224)	144,621
Properties foreclosed	1,746,124	1,849,032	2,071,939
Other assets	76,061	(201,668)	(883,412)
Operating liabilities increase (decrease)			
Deposits	22,976,241	12,304,466	11,114,657
Interbank and money market items	281,459	357,167	(1,179,096)
Liabilities payable on demand	68,648	(193,142)	251,119
Securities and derivatives business payables	(174,731)	(1,220,980)	705,386
Short-term debts issued and borrowings	460,000	(25,021,700)	8,072,700
Payable to clearing house	278,256	(52,820)	113,385
Provision for long-term employee benefits	(37,048)	(47,493)	(39,353)
Other liabilities	(638,380)	(1,099,657)	(395,852)
Net cash flows from (used in) operating activities	37,180,946	(4,161,191)	29,132,956

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, 2019	December 31, 2018	December 31, 2017
Cash flows from investing activities			
Cash paid for purchase of investments in securities held for investment	(36,584,587)	(12,333,737)	(7,578,768)
Cash received from disposal of investments in securities held for investment	36,256,313	11,125,400	7,447,916
Cash paid for purchase of equipment	(206,836)	(191,004)	(203,271)
Cash paid for purchase of intangible assets	(46,891)	(77,495)	(116,253)
Cash received from disposal of equipment	3,565	8,061	13,006
Cash received from disposal of intangible assets	395	-	(18,394,496)
Cash paid for acquisition of a subsidiary	(87,719)	-	-
Net cash flows used in investing activities	(665,760)	(1,468,775)	(18,831,866)
Cash flows from financing activities			
Cash received from issuance of long-term debentures	2,400,000	20,000,000	19,600,000
Cash paid for redemption of long-term debentures	(33,400,000)	(10,500,000)	(26,923,000)
Dividend paid	(5,604,429)	(4,003,042)	(2,802,287)
Net cash flows from (used in) financing activities	(36,604,429)	5,496,958	(10,125,287)
Net increase (decrease) in cash	(89,243)	(133,008)	175,803
Cash at beginning of the year	1,191,800	1,324,808	1,149,005
Cash at end of the year	1,102,557	1,191,800	1,324,808

13.2 Important Financial Ratios

		2019	2018	2017
Profitability Ratio				
Gross Profit Margin	(%)	77.8	77.9	77.7
Net Profit Margin	(%)	37.4	34.4	33.1
Return on Average Shareholders' Equity	(%)	18.9	19.3	18.4
Interest Income Ratio	(%)	5.9	5.8	5.7
Interest Expense Ratio	(%)	2.0	2.0	2.0
Interest Spread	(%)	3.9	3.8	3.7
Return on Investment	(%)	2.3	8.5	2.1
Efficiency Ratio				
Net Interest Income to Total Assets	(%)	4.3	4.2	4.0
Return on Average Assets	(%)	2.4	2.3	2.1
Total Asset Turnover	(times)	0.06	0.07	0.06
Financial Ratio				
Debt to Equity Ratio	(times)	6.6	7.0	7.7
Total Loans to Total Borrowing and Deposits	(%)	100.6	96.7	99.6
Total Loans to Public Borrowing	(%)	112.4	124.6	139.0
Public Borrowing to Total Liabilities	(%)	83.4	72.9	67.3
Dividend Payout Ratio	(%)	N.A.	79.9	65.7
Asset Quality Ratio				
Allowance for Doubtful Account to Total Loans	(%)	4.4	4.8	4.5
Bad Debt and Doubtful Account to Total Loans	(%)	1.6	1.8	1.4
Non-accrued loans ¹ to Total Loans	(%)	2.8	2.6	2.4
Allowance for Doubtful Account to Non-performing loans	(%)	183.7	169.8	196.5
Accrued Interest Receivable to Total Loans	(%)	0.5	0.3	0.3
Other Ratios				
Capital Funds to Risk Weighted Asset (BIS)	(%)	22.10	22.91	20.72
Net Capital Rule (TISCO Securities)	(%)	67.21	105.91	58.24

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 2019, with those of the year 2018

Movement of Money Market and Capital Market

In 2019, domestic economy was sluggish resulting from subdued export following US and China trade tensions together with Thai Baht appreciation. Private consumption growth softened driven by weak domestic demand and the stringent lending practices of financial institutions. The domestic car sales for the year 2019 was 1,007,552 units or decreased by 3.3% (YoY). The headline inflation for the year 2019 was reported at 0.7% following stabilized food and oil prices.

During the year, US Federal Reserve reduced its policy interest rate 3 times to 1.50 – 1.75% to stimulate the economy amid the slowdown in global economy and prolonged trade war. The Bank of Thailand (BOT) reduced the policy rate 2 times to 1.25%. As a result, the average 3-month fixed deposit rates of Top-4 commercial banks declined from 0.93% to 0.86% (YoY) and the average minimum lending rate (MLR) of Top-4 commercial banks also declined from 6.20% to 6.01% (YoY). Meanwhile, the average minimum overdraft rate (MOR) and the average minimum retail rate (MRR) decreased to 6.84% and 6.87% respectively.

The capital market in 2019 was highly volatile driven by uncertainty of global economy. The overall market trading volume has declined, mostly by retail investors. The average daily turnover decreased from 56,409.06 million baht in 2018 to 52,467.57 million baht. The SET index closed at 1,579.84 points, rose by 15.96 points or 1.0% (YoY) compared with 1,563.88 points in 2018.

Major Events

On September 4, 2019, TISCO Financial Group Public Company (Limited) and TISCO Securities Company Limited, which is a subsidiary in TISCO Group, signed an agreement to terminate the joint venture agreement in “Deutsche TISCO Investment Advisory Company Limited”, a joint venture between TISCO Securities and Deutsche Bank group that operated under an investment advisory license in Thailand. The agreement was effective from September 9, 2019 onward. Subsequent to the termination, TISCO Securities will continue its businesses to provide securities brokerage service and equity research as usual.

Operating Performance for the year 2019

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations on a standalone basis totaling 6,224.28 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 companies and no other major business. Therefore, the analysis was based on the Company’s consolidated operating performance and financial position which comprised of two main businesses: commercial banking business and securities business.

In 2019, the net profit attributed to owners of the Company totaled 7,270.23 million baht, increased by 254.55 million baht or 3.6% (YoY), mainly driven by lower provision expense. Net interest income increased by 1.4% (YoY) while the Company still maintained a high level of loan spread amid declining interest rate trend. Non-interest income declined from the absence of extraordinary income from gain on sale of investment in 2018. Meanwhile, fee income from core business was decelerated due to the unfavorable economic conditions. However, the Company recorded performance fee income from asset management business which recorded at the end of the year in compliance with TFRS 15 – “Revenue from Contracts with Customers”. In 2019, the Company recorded asset management performance fee income of 362 million baht. In addition, provision expense declined by 58.9% (YoY), in aligning with credit quality of loan portfolios together with adjustment of excess reserve level to ensure readiness prior to TFRS 9 implementation. Accordingly, the Company maintained the high level of return on average equity (ROAE) at 18.9%. Basic earnings per share for the year 2019 was 9.08 baht per share, increased from 8.76 baht per share in 2018.

Income Statement

The Company and its subsidiaries' income statement in 2018 and 2019 are illustrated in Table 1.

Table 1: Income Statement for year 2018 -2019

Type of Revenue (Million baht)	2019	2018	%YoY
Interest income			
Interest on loans	8,047.67	8,090.39	(0.5)
Interest on interbank and money market items	575.86	706.37	(18.5)
Hire purchase and financial lease income	9,025.26	8,691.42	3.8
Investments	232.41	202.09	15.0
Total interest income	17,881.21	17,690.28	1.1
Interest expenses	(5,088.80)	(5,075.51)	0.3
Net interest income	12,792.41	12,614.77	1.4
Fee income			
Fee income	6,510.97	6,339.09	2.7
Fee expenses	(325.75)	(243.67)	33.7
Net fee income	6,185.22	6,095.43	1.5
Gain on investment and foreign exchange transaction	(17.41)	502.63	(103.5)
Share of profit from invest in subsidiaries	12.11	222.71	(94.6)
Other operating income	463.32	597.64	(22.5)
Total operating income	19,435.65	20,033.17	(3.0)
Other operating expenses	(9,270.79)	(8,753.27)	5.9
Bad debt and doubtful account and impairment loss of debt securities	(1,109.10)	(2,701.45)	(58.9)
Profit before income tax and minority interest	9,055.75	8,578.45	5.6
Corporate income tax expenses	(1,782.55)	(1,663.02)	7.2
Profit from continuing operations	7,273.20	6,915.43	5.2
Profit/Loss from discontinued operations	-	128.31	-
Profit before minority interest	7,273.20	7,043.74	3.3
Non-controlling interests of the subsidiaries	(2.96)	(28.06)	(89.4)
Net profit	7,270.23	7,015.69	3.6

(1) Net Interest Income

Net interest income for the year 2019 was at 12,792.41 million baht, increased by 1.4% (YoY). Total interest income was 17,881.21 million baht, increased by 190.93 million baht (1.1% YoY) and interest expenses slightly increased by 13.29 million baht to 5,088.80 million baht (0.3% YoY).

Yield on loan increased to 7.1% partly from the revision of interest income recognition prior to TFRS 9 implementation in 2020. Whilst, the cost of fund increased from 2.0% to 2.1% (YoY) following the offerings of high interest rate deposits to replace the matured debentures. Consequently, loan spread improved to 5.0% and the net interest margin also increased to 4.4%. If excluding the revision of interest income during the period, yield on loan was stable at 6.9% and loan spread dropped to 4.8%. Whereas, the net interest margin was steady at 4.2% (YoY).

Table 2: Loan Spread for year 2018 – 2019

%	2019	2019*	2018
Yield on Loans	7.1	6.9	6.9
Cost of fund	2.1	2.1	2.0
Loan spread	5.0	4.8	4.9

*Excluding the revision of interest income recognition prior to TFRS 9 implementation

In 2019, the Company reported the net interest income after impairment loss of loans and debt securities totaled 11,683.31 million baht, increased by 1,769.99 million baht (17.9% YoY). Impairment losses on loans totaled 1,109.10 million baht, reduced comparing with 2,701.45 million baht in the previous year aligning with credit quality of loan portfolios together with adjustment of excess reserve level to ensure readiness prior to TFRS 9 implementation.

(2) Non-interest Income

In 2019, the non-interest income was at 6,643.24 million baht, declined by 10.4% (YoY) mainly due to the absence of gain on investment recorded in the first and the third quarter of 2018. Meanwhile, non-interest income from core business totaled 6,974.29 million baht, increased by 0.5% (YoY) mainly contributed by an increase in asset management fee of 238.85 million baht (15.7% YoY) to 1,760.08 million baht, resulted from the record of asset management performance fee amounting 362 million baht which was recognized at the end of the year in compliance with TFRS 15 – “Revenue from Contracts with Customers”. Banking fee income declined by 29.24 million baht (0.7% YoY) to 4,407.45 million baht following a decrease in loan related fee whereas bancassurance business continued to grow strongly by 9.5% (YoY). Brokerage fee income decreased by 116.07 million baht (13.9% YoY) to 718.04 million baht following the weakened market trading volume, coupled with the termination of the joint venture agreement in “Deutsche TISCO Investment Advisory Company Limited”, a joint venture with Deutsche Bank group.

In addition, the Company did not report “Profit from discontinued operations” which derived from the sale of credit card business in the third quarter of 2018.

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

The Company set aside provision expense at 1,109.10 million baht, accounted for 0.46% of average loan, and declined from 2,701.45 million baht (YoY), aligning with credit quality of loan portfolios together with adjustment of excess reserve level to ensure readiness prior to TFRS 9 implementation.

(4) Operating Expenses

Operating expenses were 9,270.79 million baht, increased by 517.53 million baht (5.9% YoY) partly due to additional expenses for the adjustment of compensation on retirement and dismissal of employees in accordance with to the New Labor Protection Act and an increase in variable expenses associated with revenue growth. The Company still maintained effective operating cost control with cost to income after provision ratio at 50.6%.

(5) Corporate Income Tax

In 2019, the corporate income tax was 1,782.55 million baht, equivalent to the effective tax rate of 19.7%, increased from 19.4% in 2018

14.1 Financial Position

(1) Assets

As of December 31, 2019, the Company’s total assets were 298,304.10 million baht, decreased by 1.4% (YoY), due to a contraction in interbank and money market items from 54,071.39 million baht to 45,300.14 million baht (16.2% YoY). However, total loan portfolios grew from 240,654.34 million baht to 242,826.14 million baht (0.9% YoY), and investment increased from 9,012.34 million baht to 9,363.03 million baht (3.9% YoY).

Table 3: Assets Breakdown as of December 31, 2018 and 2019

Assets	December 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,102.56	0.4	1,191.80	0.4	(7.5)
Interbank and Money Market Items	45,300.14	15.2	54,071.39	17.9	(16.2)
Derivatives	21.91	0.0	5.68	0.0	285.4
Investment – Net	9,363.03	3.1	9,012.34	3.0	3.9
Investments in subsidiaries, associate and JV	813.60	0.3	800.15	0.3	1.7
Corporate Loans	36,693.77	12.3	31,804.90	10.5	15.4
Commercial Loans	13,200.02	4.4	14,865.66	4.9	(11.2)
Retail Loans	190,646.76	63.9	192,232.74	63.5	(0.8)
Other Loans	2,285.59	0.8	1,751.05	0.6	30.5
Allowance for doubtful accounts and for loss on debt restructuring	(10,716.71)	(3.6)	(11,673.64)	(3.9)	(8.2)
Other Assets	9,593.42	3.2	8,482.56	2.8	13.1
Total Assets	298,304.10	100.0	302,544.63	100.0	(1.4)

(2) Liabilities

As of December 31, 2019, total liabilities were 259,107.98 million baht, decreased by 2.1% (YoY) due mainly to the decrease in debentures from 49,680.00 million baht to 24,980.00 million baht (49.7% YoY). Total deposits rose from 198,985.23 million baht to 216,121.47 million baht (8.6% YoY) and interbank and money market items increased from 4,374.67 million baht to 4,656.13 million baht (6.4% YoY).

Table 4: Liabilities Breakdown by Area as of December 31, 2018 and 2019

Liabilities	December 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	216,121.47	83.4	198,985.23	75.2	8.6
Interbank and money market items	4,656.13	1.8	4,374.67	1.7	6.4
Debentures	24,980.00	9.6	49,680.00	18.8	(49.7)
Others	13,350.38	5.2	11,675.28	4.4	14.3
Total Liabilities	259,107.98	100.0	264,715.18	100.0	(2.1)

(3) Shareholders' Equity

As of December 31, 2019, shareholders' equity totaled 39,196.11 million baht, increased by 1,366.66 million baht (3.6% YoY) from an increase in retained earnings for the year 2019. As a result, the book value per share (BVPS) as of December 31, 2019 was 48.96 baht per share, increased from 47.25 baht per share in 2018.

(4) Liquidity

As of December 31, 2019, The Company's cash was 1,102.56 million baht, decreased by 7.5% (YoY). There was net cash flow received in operating activities total of 37,180.95 million baht mainly contributed by an increase of deposits while net cash flow used in investing activities totaled 665.76 million baht, primarily from the cash paid for purchase of investment in securities held. Meanwhile, the net cash flows used in financing activities totaled 36,604.43 million baht, mainly driven by the cash paid for long-term debentures.

(5) Sources and Uses of Funds

As of December 31, 2019, the funding structure as shown in the consolidated financial statement comprised of 259,107.98 million baht in liabilities and 39,196.11 million baht in shareholders' equity, resulting in a debt-to-equity ratio of 6.6 times. The major source of funds on liabilities side was deposits, which accounted for 72.5% of total source of funds. Other sources of funds included interbank and money market items accounted for 1.6% of total source of funds, 12.8% of debenture and other liabilities, and 13.1% of shareholders' equity, respectively. The Company's major use of funds was loans, amounting 242,826.14 million baht, resulting in a loan-to-deposit ratio¹ of 112.4%. The other uses of funds include interbank and money market items, and various securities.

(6) Contingent liabilities

As of December 31, 2019, TISCO Bank, a subsidiary of The Company, had avals, guarantees, and commitments totaled 2,054.09 million baht, decreased by 42.0%(YoY) mainly driven by maturity of interest rate swap agreements.

14.2 Business Segment Performances

(1) Banking Business

Loans

Total loans and receivables as of December 31, 2019 were 242,826.14 million baht, rose by 2,171.80 million baht (0.9% YoY), mainly driven by corporate loan expansion. The composition of loan portfolios was 78.5% of retail loans, 15.1% of corporate loans, 5.4% of commercial loans and 0.9% of other loans.

Retail Lending

Retail Lending portfolio totaled 190,646.76 million baht, dropped by 0.8% (YoY). The total retail portfolio as of December 31, 2019 consisted of 72.4% car and motorcycle hire purchase loans, 18.7% loans against auto license and 8.9% housing loans. The outstanding hire purchase loans totaled 137,990.30 million baht, decreased by 1.3% (YoY) following the weakened domestic demand. The domestic car sale for the year 2019 was 1,007,552 units, decreased by 3.3% (YoY), compared to 1,041,739 units in 2018. The car penetration rate of TISCO for the year 2019 dropped from 6.6% to 6.5% (YoY).

Loans against auto license ("Auto Cash") amounted 35,660.00 million baht, grew by 3,630.41 million baht (11.3% YoY), from the increased new business through all channels – bank branches and loan offices – aligning with network expansion strategy, especially from the loan expansion through "Somwang" channels were at 4,089.90 million baht (28.6% YoY) to 18,412.92 million baht, representing 51.6% of total loans against auto license. All in all, at the end of the year, "Somwang" loan offices totaled 287 branches nationwide.

Housing loans consisted of mortgage loans which totaled 14,806.18 million baht, dropped by 15.8% (YoY) and home-equity loans which totaled 2,190.28 million baht, declined by 22.8% (YoY) amidst the highly competitive market condition and the stringent mortgage lending measures.

Corporate Lending

Commercial Lending portfolio totaled 36,693.77 million baht, grew by 4,888.87 million baht (15.4% YoY), due to the loan drawdown from the clients in real estate and construction sector.

Commercial Loans

Portfolio totaled 13,200.02 million baht, dropped by 1,665.64 million baht (11.2% YoY) mainly from the loan repayment in car inventory financing.

Other Loans

Other Loans portfolio totaled 2,285.59 million baht, increased by 30.5% (YoY).

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

Table 5: Loans and Receivables Breakdown as of December 31, 2018 and 2019

Type of Business	December 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and Commerce	2,630.54	1.1	3,031.19	1.3	(13.2)
Real Estate and Construction	14,674.57	6.0	9,218.71	3.8	59.2
Public Utilities and Services	19,388.66	8.0	19,554.99	8.1	(0.9)
Corporate Loans	36,693.77	15.1	31,804.90	13.2	15.4
Commercial Loans	13,200.02	5.4	14,865.66	6.2	(11.2)
Hire Purchase	137,990.30	56.8	139,785.06	58.1	(1.3)
Loans against auto license	35,660.00	14.7	32,029.58	13.3	11.3
Mortgage Loans	14,806.18	6.1	17,581.10	7.3	(15.8)
Home-Equity Loans	2,190.28	0.9	2,836.99	1.2	(22.8)
Retail Loans	190,646.76	78.5	192,232.74	79.9	(0.8)
Others	2,285.59	0.9	1,751.05	0.7	30.5
Total Loans	242,826.14	100.0	240,654.34	100.0	0.9

Non-Performing Loans (NPLs) and Loan Loss Provision

In 2019, the Company reported NPLs amounting 5,834.49 million baht, decreased by 1,041.72 million baht (15.1% YoY). The NPLs consisted of 5,291.79 million baht from the Bank and 542.70 million baht from other subsidiaries. NPL ratio reduced from 2.86% to 2.40% (YoY), partly due to the completion of payment hierarchy and loan classification alignment. Consequently, NPLs of related clients have been declined and reverted back to normal level. In addition, the Company wrote off some bad debt accounts in preparation for TFRS 9 adoption. NPL ratios of retail loans, corporate loans, and commercial loans were 2.84%, 0.71%, and 1.20%, respectively.

The Company set aside provision expense at 1,109.10 million baht, accounted for 0.46% of average loan, and declined from 2,701.45 million baht (YoY). Loan loss reserve of the Company was 10,716.71 million baht, consisting of the specific reserve of 5,101.30 million baht and excess reserve of 5,615.41 million baht. As of December 31, 2019, the loan loss provision coverage ratio improved to 183.7%. Meanwhile, total loan loss reserve of the Bank was at 10,081.46 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,360.24 million baht or accounted to 231.2% of minimum loan loss reserve requirement. On the impact from TFRS 9 which will come into effect on January 1, 2020, the loan loss reserve position remains sufficient.

Table 6: NPLs Breakdown by Area as of December 31, 2018 and 2019

Type of NPLs	December 31, 2019			December 31, 2018			Change (%YoY)
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and Commerce	9.86	259.45	4.4	-	-	-	n.a.
Real Estate and Construction	-	-	-	-	-	-	n.a.
Public Utilities and Services	-	-	-	-	-	-	n.a.
NPLs - Corporate Loans	0.71	259.45	4.4	-	-	-	n.a.
NPLs - Commercial Loans	1.20	158.45	2.7	0.75	111.60	1.6	42.0
Hire Purchase	2.35	3,248.91	55.7	2.75	3,845.32	55.9	(15.5)
Loans against auto license	2.38	848.02	14.5	4.88	1,563.50	22.7	(45.8)
Mortgage Loans	6.65	985.00	16.9	6.06	1,066.00	15.5	(7.6)
Home-Equity Loans	15.10	330.69	5.7	9.82	278.52	4.1	18.7
NPLs - Retail Loans	2.84	5,412.63	92.8	3.51	6,753.33	98.2	(19.9)
Others	0.17	3.97	0.1	0.64	11.28	0.2	(64.8)
Total NPLs	2.40	5,834.49	100.0	2.86	6,876.21	100.0	(15.1)

Deposits

Total deposits and borrowings amounted 241,101.47 million baht, decreased by 3.0% (YoY). Total deposits reported at 216,121.47 million baht, increased by 17,136.24 million baht (8.6% YoY) while debentures totaled 24,980.00 million baht, decreased by 24,700.00 million baht (49.7% YoY). As of December 31, 2019, the Bank had high quality liquid assets totaling 49,346.48 million baht, decreased by 11,071.09 million baht (18.3% YoY). Thus, the liquid assets were accounted for 20.5% of total deposits and borrowings.

Table 7: Deposits Structure as of December 31, 2018 and 2019

Type of Deposits	December 31, 2019		December 31, 2018		Change (% YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,638.32	1.2	2,483.56	1.2	6.2
Saving accounts	37,801.62	17.5	54,683.84	27.5	(30.9)
Fixed accounts	56,560.88	26.2	40,074.74	20.1	41.1
Negotiate certificate deposit	119,083.73	55.1	95,866.17	48.2	24.2
Short-term borrowings	36.92	0.0	5,876.92	3.0	(99.4)
Total Deposits	216,121.47	100.0	198,985.23	100.0	8.6

(2) Securities Business

In 2019, brokerage fee income of TISCO Securities dropped by 13.9% (YoY) to 718.04 million baht, resulting from a decline in average daily turnover from 2,486.32 million baht to 1,918.01 million baht driven by weakened market trading volume and the termination of the joint venture agreement in "Deutsche TISCO Investment Advisory Company Limited". In addition, TISCO Securities' market share decreased from 2.5% to 2.1% (YoY) mainly due to the decline in market share of foreign institution sector and local institution sector (excluding proprietary trading) from 2.2% to 1.2% (YoY) and from 6.5% to 6.3% (YoY), respectively. Nevertheless, the market share of retail investors improved from 1.7% to 1.9% (YoY). At the end of 2019, TISCO brokerage volume comprised of 39.9% of local institutions, 26.4% of foreign institutions, and 33.7% of retail investors.

(3) Asset Management Business

As of December 31, 2019, assets under management of TISCO Asset Management Co., Ltd. reported at 290,238.97 million baht, expanded by 16.5% (YoY), from the growth in all businesses. Total asset management fee income increased by 15.7% (YoY) to 1,760.08 million baht led by asset management incentive fee of 362 million baht which was recognized at the end of the year in compliance with IFRS 15 – "Revenue from Contracts with Customers". Excluding incentive fee, the basic fee income from asset management totaled 1,398.46 million baht or dropped by 0.9% (YoY)

The composition of total asset under management was 63.5% provident fund, 19.6% private fund, and 16.9% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of December 31, 2019 was 3.8%, ranking 8th in the market. The market share of provident fund was 15.1%, ranking 1st in the market. The market share of private fund was 5.1%, ranking 5th in the market and the market share of mutual fund was 0.9%, ranking 13th in the market.

Table 8: Assets under Management Breakdown by Type of Fund as of December 31, 2018 and 2019

Type of Funds	December 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	184,246.82	63.5	162,127.22	65.1	13.6
Private Fund	56,824.62	19.6	42,064.87	16.9	35.1
Mutual Fund	49,167.53	16.9	44,869.71	18.0	9.6
Total AUMs	290,238.97	100.0	249,061.80	100.0	16.5

14.4 Capital Requirements

In terms of regulatory capital requirement of TISCO Bank and TISCO Securities, the positions were strong and sufficient levels in accordance with the Bank of Thailand and Securities and Exchange Commission requirement. At the end of 2019, regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the Bank stood at 22.10, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 17.37% and 4.73%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 8.5%.

The capital adequacy ratio and Tier-I capital adequacy ratio have declined from 23.22% and 18.27% in the previous quarter. This was partly resulting from revised credit assessment process aligning with TFRS 9 which made higher risk-weighted assets at the end of 2019. On the effect of TFRS9 first time adoption, the Company has estimated the shareholders' equity to increase around 400 – 500 million baht, contributed by fair value of investment portfolio which is expected to be included with capital during the year 2020 in accordance with reviewed and audited financial statement.

As of December 31, 2019, TISCO Group's internal capital stood at 34,078.06 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 1,235.50 million baht from the end of 2018 to 15,624.46 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 18,453.60 million baht or 54.2% of total capital.

Comparing to the end of 2018, the credit risk capital stood at 12,715.24 million baht, which increased by 1,223.98 million baht or 10.7, while loan portfolio expanded by 1.0% during the period. The non-performing loan of TISCO Group decreased from 2.86% to 2.40% compared to the end of 2018 mainly resulting from completion of the revision of payment hierarchy system as mentioned earlier, together with write-off of some loan portfolio as preparation before applying TFRS 9.

The market risk capital decreased from 263.55 million baht to 137.10 million baht, as a result of lower risk capital of investment portfolio. Meanwhile, the overall duration gap increased to 0.93 year, which was in a manageable level. The assets duration declined from 1.47 year to 1.45 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased from 0.61 year to 0.52 year.

Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 67.21%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 9: 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, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Assets	1.45	1.47	1,519.18	1,467.38
Liabilities*	0.52	0.61	(1,382.07)	(1,203.83)
Net Gap	0.93	0.86	137.10	263.55

Note: * Exclude saving and current account

14.5 Credit Rating

The Company got credit rating 'A-' and rating outlook "Stable" as at April 26, 2019 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 26, 2019
Company Rating	A-
Rating Outlook	Stable

14.6 Forward Looking

Macro environment that may impact on the Company's operating performance can be categorized into 3 key factors including economy, market interest rate trend, and loan demand. The details are provided as follows;

Amid rising uncertainty of global and domestic economy driven by coronavirus outbreak and prolonged China-US trade war which will weigh on export and tourism sector, the Company expects that domestic economy will grow at decelerate pace in 2020. In addition, national budget delay and the drought result in decelerating growth of consumption and private investment.

Meanwhile, the high level of household debt is a key factor which continues to pressure on purchasing power. To limit the build-up of systemic financial risks in the long run, the Bank of Thailand implemented macroprudential policies to strengthen the resilience and stability of the financial system including credit card, personal loan, auto title loan, and mortgage loan. The policies are key factors that weigh on loan growth of commercial banks, leading to sluggish loan growth.

On market interest rate, the Company anticipates that the Bank of Thailand will remain accommodative monetary policy to shore up economic condition, in parallel with the government stimulus measures to support economic growth.

For the outlook of domestic car sales, a key factor that contributes to hire purchase business of the Company, is expected to be subdued from 2019 due to high level of domestic car sales for 2-3 consecutive years and weakening purchasing power along with the economic condition. Nevertheless, the launch of new models from various car manufacturers in the last quarter of 2019 may support domestic car sales growth in 2020. Meanwhile, auto cash business is expected to grow following the loan demand. For wealth management business, Company expects the solid growth driven by the search for yield amid low interest rate environment as well as Thailand's aging society, bringing about increasing trend of financial planning including life and health insurance in the long run.

Against 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 and resiliency in the long run.