

Management Discussion and Analysis For the year ended December 31, 2019

(This report discusses principal changes in the audited consolidated financial statement for the year ended December 31, 2019)

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 sale 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 Results

The Management Discussion and Analysis compares operating performance of the year 2019 and 2018

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.

Operating results for the year 2019

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%.

Composition of Operating Income

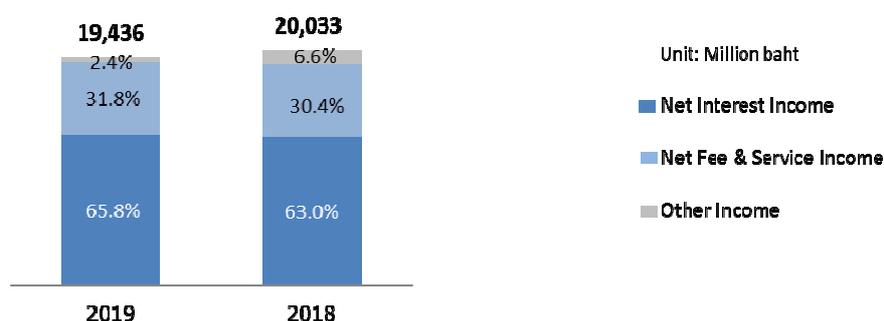


Table 1 : Income Statement

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

Basic earnings per share for the year 2019 was 9.08 baht per share, increased from 8.76 baht per share in 2018, with the return on average equity (ROAE) at 18.9%.

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

%	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.

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.

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%.

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.

Financial Positions

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of December 31, 2019 and December 31, 2018

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

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)

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

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)

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.

Business Segment Operations

(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 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 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 Lending 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 portfolio totaled 2,285.59 million baht, increased by 30.5% (YoY)

Table 5 : Loans Breakdown

Type of Loans	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

Deposits and Borrowings

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 6 : Deposits Structure

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

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 225.7% 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, and the estimated remaining excess loan loss reserve is approximately 2,000 million baht which will be gradually released under straight-line method for 5-years. However, the estimated loan loss reserve amount is subject to the auditor's review.

Table 7 : NPLs Breakdown

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)

(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

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

Capital and Risk Management

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.

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%.

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 137.11.86 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.

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	137.11	263.55

*Note: * Exclude saving and current account*