Press Release

No. 71/2017
11 April 2017

TRIS Rating Affirms Company Rating and Outlook of "TISCO" at "A-/Stable"

TRIS Rating has affirmed the company rating of TISCO Financial Group PLC (TISCO) at "A-" with "stable" outlook. The rating reflects TISCO's creditworthiness as the holding company of the TISCO Group which has its main operating asset in TISCO Bank PLC (TISCOB) through a 99.99% equity stake. The rating is based on the stable stream of dividends it receives from TISCOB which has a strong market position in automobile hire-purchase lending. The rating also takes into consideration its diverse sources of income and its strengthened capital base. These strengths, however, are constrained by TISCOB's small market shares in loans and deposits, concentrated exposure in automobile hire-purchase loans, and its reliance on wholesale funding.

TISCO's company rating is one notch lower than that of its core bank subsidiary, TISCOB ("A"). The one notch difference reflects the structural subordination of TISCO's obligations to those of TISCOB, TISCO's dependence on dividends from TISCOB, and the risk of regulatory barriers surrounding the payment of the dividends from TISCOB.

The "stable" outlook reflects the expectation that TISCOB will maintain its strong competitive position in automobile hire-purchase lending and a strong capital and earnings position. The rating could be revised downward in case of a sustained period of substantially weakened profitability and severe deterioration of asset quality. The rating upgrade will depend on TISCOB's ability to sustainably gain market shares, significantly diversify its loan portfolio, and materially improve its funding capability.

TISCO was set up in 2008 as the holding company of the TISCO Group of companies that has TISCOB as its flagship operating subsidiary. TISCOB was ranked 8th among 11 listed Thai commercial banks based on consolidated asset size in 2016, with a 2.1% market share in loans and a 1.4% share in deposits. In 2016, the commercial banking operation under TISCOB contributed more than 89% of TISCO's total net interest income and non-interest income. The remaining portion of TISCO's revenue came from its other subsidiaries and affiliates in securities brokerage and asset management businesses - TISCO Asset Management Co., Ltd. (TISCOASSET), TISCO Securities Co., Ltd. (TSC), and Hi-Way Co., Ltd. (Hi-Way). TISCO has a relatively stable business profile based on its diverse business lines, with net interest and dividend income representing 64.2% and net fees and service income representing 30.4% of total revenue in 2016.

TISCO's balance sheet mirrors TISCOB's commercial banking operation with automobile hire-purchase loans accounting for 61%, whilst lending to corporate and small and medium enterprise (SME) segments accounted for 20.7% and 7.3% of its loan portfolio at end of 2016, respectively. TISCOB was the fourth-largest of 16 automobile loan providers included in TRIS Rating's database, with an approximately 10% market share as of December 2015. In line with the sluggish automobile sales amid the economic slowdown, TISCO's loan portfolio has contracted since 2014. At the end of 2016, TISCO's loans and receivables amounted to Bt225.5 billion, down by 5.6% year-on-year (y-o-y).

The TISCO Group has recently entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT). The acquisition, expected to be completed in the third quarter of 2017, will entail transfers of loan assets and liabilities from SCBT's retail banking operation to TISCOB and Hi-Way. As of 30 September 2016, the net asset value of the transfers was approximately Bt5.5 billion, comprised of Bt41.6 billion in assets and Bt36.1 billion in liabilities. Some of SCBT's existing retail banking staffs are expected to be retained by TISCOB to ensure continued operation of the acquired business comprising personal loans, mortgage loans, wealth management, and retail deposit products. The acquisition will enable TISCOB to have an immediate entry to some of the retail banking products which currently are not parts of its business. TRIS Rating views the acquisition as a credit positive event as it will support the bank's strategy to reduce its dependence on automobile hire-purchase lending.

TISCO has a relatively strong capital position, with its Basel-III compliant total capital ratio of 18.36% at the end of 2016, around 75% was the core equity tier-1. Its capital position is viewed sufficient to support its business expansion in the next few years. TISCO's profitability has outperformed its Thai bank peers as indicated by its return-on-average-asset and return-on-average-equity ratios.

(Continue on page 2)

Contribution of fee and service income was higher than an average of Thai commercial banks. Its earnings capacity is viewed sufficient to withstand potential volatility across a business cycle.

TISCOB's credit cost lowered to 1.7% in 2016 after its peak of 2.1% in 2015. TISCOB continues to add to its excess reserves for loan losses. Non-performing loan (NPL) coverage ratio has significantly improved from a low 80.1% in 2015 to 132% in 2016, which was around peers' average. NPL also lowered to 2.28% in 2016 from 2.90% in 2015, with a notable decrease among its hire-purchase loans and its corporate lending. TISCOB's loss experience over the past five years with its credit costs averaging 1.57% per annum was around an average of its Thai bank peers.

TISCOB's funding profile mirrors the typical funding structure of small-size Thai banks, characterised by high proportions of fixed deposits and borrowings and the low current account and savings account (CASA) ratio relative to their larger peers. TISCOB's CASA ratio of 35% at the end of 2016, though improved from 31% the previous year, remained one of the lowest among the Thai banks. Borrowings of 26.9% of total funding including shareholders' equities at the end of 2016, which mainly consisted of senior debentures and has been on a rise over the past five years, reflected TISCO's strategy towards cheaper and more flexible funding sources relative to its fixed deposits. Its loan-to-deposit ratio of 145% was well above the industry average. Its liquidity is assessed to be adequate although its liquid asset to total deposit ratio, including bills of exchange (B/Es) and interbank borrowing of 28% at end of 2016, appeared to be lower than an average among peers.

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd./www.trisrating.com
Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand