

# TISCO FINANCIAL GROUP PLC

No. 60/2021  
21 April 2021

## FINANCIAL INSTITUTIONS

Company Rating:	A-
Outlook:	Stable

Last Review Date: 17/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
30/04/13	A-	Stable
13/05/11	A-	Positive

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## RATIONALE

TRIS Rating affirms the company rating on TISCO Financial Group PLC (TISCO) at “A-” with a “stable” outlook. The rating reflects TISCO’s credit profile as a non-operating holding company (NOHC) of the TISCO Group, whose main operating entities include TISCO Bank PLC (TISCOB) and other major subsidiaries engaged in the asset management and securities brokerage businesses.

The rating is one notch below the company rating assigned to TISCOB due to structural subordination. There is also a risk of potential regulatory barriers surrounding payments of dividend from TISCOB to TISCO in a stress scenario.

## KEY RATING CONSIDERATIONS

### An NOHC

TISCO is an NOHC that mainly operates commercial banking business through its wholly-owned banking subsidiary, TISCOB (rated “A/Stable” by TRIS Rating). TISCOB has contributed a majority of the Group’s profits, assets, and equity in recent years, based on the Group’s consolidated profile. TISCOB’s consolidated assets represented 96.2% of TISCO’s consolidated assets as of the end of 2020.

The rating assigned to TISCO is one notch below that assigned to its core banking subsidiary, TISCOB. The one notch difference reflects the structural subordination of TISCO’s obligations to those of TISCOB with respect to claims against the operating assets at TISCOB. As an NOHC, TISCO relies largely on dividends from TISCOB to service its debts, and there is a risk of potential regulatory intervention surrounding payments of dividends from TISCOB to TISCO in a stress scenario.

### Diversified revenue mix

Our assessment of TISCO’s business position reflects its relatively diversified sources of income encompassing commercial banking, securities brokerage, investment banking, and asset management. TISCO’s share of net fee and service income to total revenue is considered high compared with other Thai commercial banks. The figure stood at 27.2% in 2020, the highest among listed Thai commercial banks. The company’s net fee and service income comprised mainly fees from bancassurance, securities brokerage, and fund management. Additionally, non-interest income made up 30.7% of TISCO’s total revenue in 2020.

### Solid position in managing provident funds

TISCO Asset Management Co., Ltd. (TISCOAM), the Group’s key subsidiary operating fund management, has a solid franchise in provident fund management. This is evidenced by its highest market share of 16.5% in this segment at the end of 2020. For provident funds, assets under management stood at THB206 billion, up 11.8% compared with the previous year.

### Strong capital base

We expect TISCO to maintain its strong capitalization over the next few years. At the end of 2020, the Group’s common equity Tier-1 (CET-1) ratio remained sound at 17.5%. CET-1 made up 79.3% of total capital at the same period, indicating an average quality of capital. TISCO’s capital position has been anchored by that of TISCOB which is the Group’s main operating bank. We

estimate TISCOB's CET-1 ratio will be within the range of 18%-19% over the next three years, assuming flat loan growth in 2021 and a 2% expansion both in 2022 and 2023 as well as a dividend pay-out ratio of 50%-85% of net profit over the next three years.

#### **Low financial leverage on a stand-alone basis**

We expect TISCO will continue to maintain a low level of financial leverage on a stand-alone basis, over the next few years. At the end of 2020, the company had the debt of THB1.6 billion in short-term senior unsecured debentures outstanding, on an unconsolidated basis. On a consolidated basis, TISCO's funding profile largely reflects that of TISCOB's which included deposits of THB204.8 billion, interbank liabilities of THB5.5 billion, debt issued and borrowings of THB11.2 billion as of the end of 2020.

#### **Sufficient liquidity**

We assess TISCO's liquidity position as adequate over the next 12 months. On a consolidated basis, the liquid assets to total asset ratio was 18.7% at the end of 2020, the same level as the previous year. The liquid assets comprised mainly THB38 billion of interbank assets and THB12 billion of net investments.

#### **BASE-CASE ASSUMPTIONS**

The following are our assumptions for TISCO's operations on a consolidated basis during 2021-2023:

- Flat loan growth in 2021 and 2% growth thereafter.
- TISCO's credit cost to range between 1.0%-1.1%.
- TISCO's risk-adjusted NIM at 3.8%-3.9%.
- CET-1 ratio of 18%-19%.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that TISCOB will maintain its strength in auto lending, good asset quality, high earnings capacity, and strong capital. The outlook is also based on our view that TISCO's other major subsidiaries will likely continue to contribute healthy earnings to TISCO.

#### **RATING SENSITIVITIES**

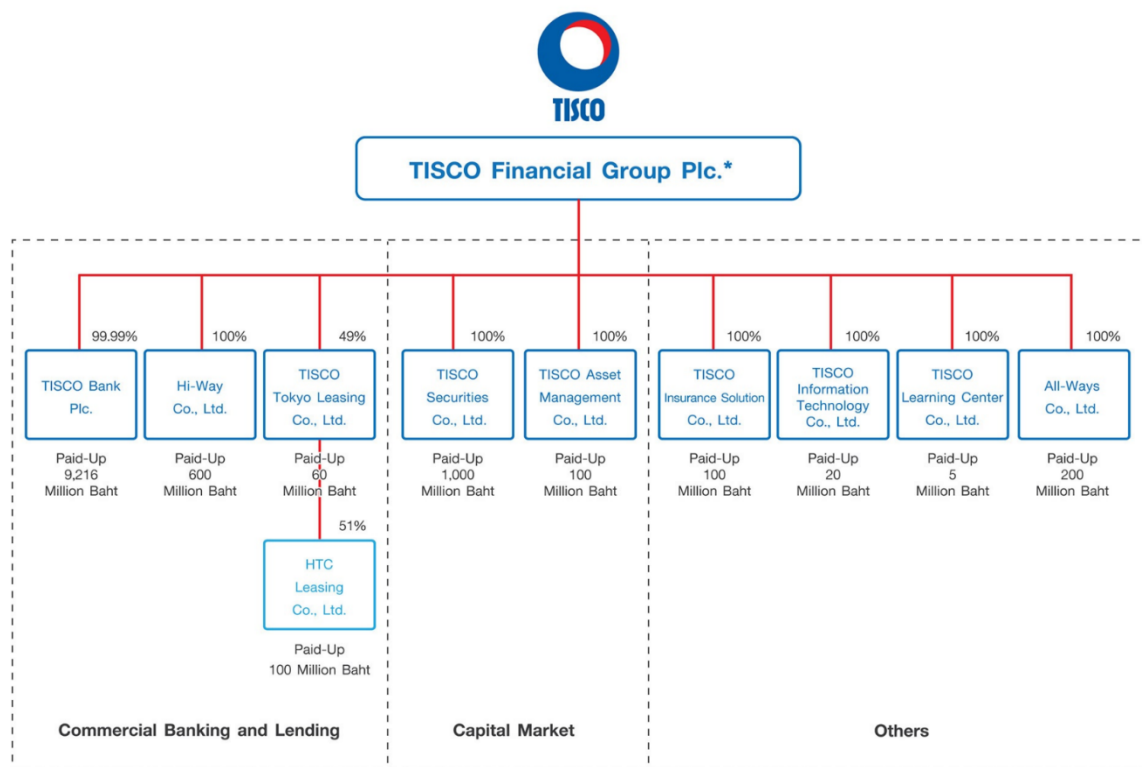
TISCO's rating is closely linked to that of TISCOB, which is the main operating entity of the TISCO Group. A change in the rating on TISCOB will impact the rating on TISCO. A change in the Group's structure that results in a weakening relationship between TISCOB and TISCO may also lead to a downward rating action.

**COMPANY OVERVIEW**

TISCO was established in 2008 as a holding company, replacing TISCOB as the parent company of the TISCO Group. The change took place after the holding company’s restructuring plan, under the consolidated supervision scheme, was approved by the Bank of Thailand (BOT) in November 2008. TISCO made a tender offer for 99.99% shares of TISCOB in exchange for its own newly-issued shares. The swap ratio was 1:1. TISCO commenced operations on 1 January 2009, with registered capital of THB11 billion and paid-up capital of THB7.2 billion. On 15 January 2009, TISCO was listed on the Stock Exchange of Thailand (SET) as TISCOB was simultaneously delisted from the SET. TISCO later acquired 99.99% shares of TISCOB and its subsidiaries (i.e., TISCO Securities Co., Ltd., (TSC), TISCO Asset Management Co., Ltd. (TISCOASSET), Hi-Way Co., Ltd. (Hi-Way), TISCO Leasing Co., Ltd. (TISCOL), and TISCO Information Technology Co., Ltd. (TISCOIT). As of December 2017, TISCO’s issued and paid-up capital was THB8 billion.

The TISCO Group entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT) in 2016. Towards the end of 2017, the Group completed the transfer. The transaction entailed transfers of loan assets and liabilities from SCBT’s retail banking operation to TISCOB and All-Ways Co., Ltd.

**Table 1: TISCO Group Structure**



\*Listed in The Stock Exchange of Thailand

Source: TISCO’s company website

TISCOB is the core bank of the TISCO Group. TISCOB, formerly named “TISCO Finance PLC”, was established in 1969 as a finance company. TISCOB was listed on the SET in 1983. In October 2004, TISCOB received approval from the Ministry of Finance (MOF) to upgrade its status to a commercial bank. TISCOB commenced banking operations on 1 July 2005 and changed its name to “TISCO Bank PLC”.

TSC, formerly named “Thai Securities Co., Ltd.”, was founded in 1975 as a subsidiary of the TISCO Group. TSC provides securities brokerage and investment banking services. In March 2011, TISCO Investment Advisory Co., Ltd. (TISCOIA) was established. TISCOIA was later renamed Deutsche TISCO Investment Advisory Co., Ltd. (DTIA), after TSC partnered with Deutsche Bank in 2012. TSC holds a 51% stake in DTIA, while the remainder is owned by Deutsche Bank. DTIA was granted approval from the MOF and the Securities and Exchange Commission (SEC) to operate an investment advisory business.

TISCOASSET, a fund management subsidiary, was established in 1992. TISCOASSET offers a complete line of asset management services, including provident funds, private funds, and mutual funds.

In 2017, TISCOB, its commercial banking operation unit, contributed more than 87% 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 - TISCOASSET, TSC, and Hi-Way.

In the same year, TISCO acquired the retail banking business of SCBT. This entailed a transfer of THB33.7 billion of loan assets and THB14.6 billion of deposits to TISCOB and All-Ways, a subsidiary of TISCO. Around THB31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans. The remaining THB2.2 billion were loans to small and medium-sized enterprises (SMEs). The majority of deposits were retail current accounts and savings accounts (CASA).

In 2018, TISCOB and All-Ways, respectively, completed a sale of personal loan portfolios and credit card business to Citibank N.A., Bangkok branch. The combined portfolios totaled an approximate THB5.2 billion.

On 4 September 2019, TISCO and TISCOS, which is a subsidiary in the TISCO Group, signed an agreement to terminate the joint venture agreement in "DTIA", a joint venture between TISCOS and Deutsche Bank Group that operated under an investment advisory license in Thailand. The agreement was effective from 9 September 2019 onward. Subsequent to the termination, TISCOS will continue its businesses to provide securities brokerage service and equity research as usual.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS<sup>1</sup>

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	275,443	298,250	302,560	303,436	271,280
Average assets	286,846	300,405	302,998	287,358	275,787
Investment in securities	9,953	9,363	9,012	7,547	7,189
Loans and receivables	226,714	243,709	241,297	252,111	225,455
Allowance for doubtful accounts	11,826	10,314	11,674	11,483	7,984
Deposits	203,473	216,085	193,108	180,804	155,068
Borrowings <sup>2</sup>	18,634	29,673	59,932	75,097	75,526
Shareholders' equities	39,462	39,196	37,829	34,732	31,296
Average equities	39,329	38,512	36,280	33,014	29,745
Net interest income	13,098	12,792	12,615	11,655	10,920
Non-interest income <sup>3</sup>	5,806	6,643	7,418	6,871	5,866
Total revenue	18,904	19,436	20,033	18,526	16,786
Operating expenses <sup>4</sup>	8,012	9,271	8,753	7,784	6,570
Pre-provision operating profit (PPOP)	10,892	10,165	11,280	10,742	10,216
Expected credit loss	3,331	1,109	2,701	3,098	3,972
Net income	6,064	7,273	6,915	6,117	5,023
Net fee and service income	5,146	6,185	6,095	6,146	5,167
Gains on investments	12	7	496	42	13

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fee and service expenses

4 Excluding fee and service expenses

Unit: %

	Year Ended 31 December				
	2020	2019	2018	2017	2016
<b>Earnings</b>					
Return on average assets	2.11	2.42	2.28	2.13	1.82
Net interest margins	4.59	4.25	4.15	4.06	3.99
Risk-adjusted net interest margins	3.42	3.89	3.26	2.98	2.54
Net interest income/average assets	4.57	4.26	4.16	4.06	3.96
Non-interest income <sup>5</sup> /average assets	2.02	2.21	2.45	2.39	2.13
Net fee and service income/total revenue	27.22	31.82	30.43	33.17	30.78
Cost-to-income	42.38	47.70	43.69	41.70	39.03
<b>Capitalization</b>					
CET-1 ratio <sup>6</sup>	17.48	16.38	16.75	14.96	13.77
Tier-1 ratio <sup>6</sup>	17.48	16.38	16.75	14.96	13.77
BIS ratio <sup>6</sup>	21.86	20.78	21.46	19.39	18.36
CET-1/BIS ratio <sup>6</sup>	80.00	78.82	78.08	77.15	75.00
<b>Asset Quality</b>					
Credit costs	1.42	0.46	1.10	1.30	1.71
Non-performing loans/total loans <sup>7</sup>	2.50	2.40	2.86	2.32	2.54
Allowance for expected credit loss/total loans <sup>7</sup>	5.26	4.41	4.85	4.57	3.55
Allowance for expected credit loss/non-performing loans	210.48	183.68	169.77	196.52	139.82
<b>Funding &amp; Liquidity</b>					
CASA/total deposits	26.30	18.71	29.60	37.79	35.87
Loan/total deposits	110.49	112.38	124.62	139.04	145.06
Deposits/total liabilities	86.22	83.40	72.95	67.30	64.63
Liquid assets/total deposits <sup>8</sup>	24.64	25.26	32.55	28.96	28.96

5 Net of fee and service expenses

6 Consolidated basis

7 Based on reported NPL, excluding accrued interests and interbank assets

8 Including interbank borrowing

#### RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

- Banks Rating Methodology, 3 March 2020

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**TISCO Financial Group PLC (TISCO)**

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**Company Rating:**

**A-**

**Rating Outlook:**

**Stable**

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**TRIS Rating Co., Ltd.**

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