

Management Discussion and Analysis For the First Quarter ended March 31, 2016

(This report discusses principal changes in the unaudited consolidated financial statement for the first quarter ended March 31, 2016)

Movement of Money Market and Capital Market

In the first quarter of 2016, domestic economy remained sluggish amidst the slowdown in private consumption and private investment, which was partly affected from the severe drought problem. Moreover, export sector has not yet recovered along with the weak global economy. Thus, the domestic car sale in the first 2 months of 2016 contracted by 11.9% (YoY), totaled 108,914 units. Nonetheless, tourism sector and the government stimulus programs started to grow, resulting in the sign of better economic sentiment. The headline inflation for the first quarter of 2016 was reported at -0.5%, following the decline in global oil price and commodity price.

The Bank of Thailand (BOT) maintained the policy rate at 1.50%. The average 3-month fixed deposit rates of Top-4 commercial banks declined from 1.01% to 0.93% (QoQ), while the average minimum lending rate of Top-4 commercial banks remained stable at 6.51% (QoQ).

The capital market in the first quarter of 2016 improved from the previous quarter with the higher market trading volume and the increasing foreign capital inflow. Thus, SET index closed at 1,407.70 points, increased by 119.68 points from the end of 2015. While, the average daily turnover increased from 39,040.74 million baht in the fourth quarter of 2015 to 45,168.38 million baht.

Operating Results

The Management Discussion and Analysis compares operating performance of the first quarter of 2016 and 2015

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 60.38 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 the first quarter of 2016, the net profit attributed to owners of the Company totaled 1,255.03 million baht, increased by 62.57 million baht (5.2% YoY), which mainly contributed by improved net interest income of 12.2% (YoY) from the ability to maintain overall loan yield and the effective cost management. Meanwhile, non-interest income from core business¹ declined by 0.9% (YoY), mainly resulting from the slowdown in business related to capital market. Brokerage fee income declined by 22.9% (YoY) following lower market trading volume, while asset management basic fee dropped by 14.5% (YoY) following fewer issuances of mutual funds during the quarter. Nonetheless, banking fee increased by 10.5% (YoY) from the

improvement in bancassurance business. Furthermore, the Company also recorded investment banking fee from underwriting service in March 2016. In addition, non-performing loans (NPLs) continued to decline thanks to the effective credit control, resulting in the decreasing NPL ratio from 3.23% to 3.07% (QoQ).

Basic earnings per share for the first quarter of 2016 was at 1.57 baht per share, increased from 1.49 baht per share in the first quarter of 2015. Meanwhile, the return on average equity (ROAE) was at 17.5%, compared with 18.1% (YoY).

Net Interest Income

Net interest income in the first quarter of 2016 was 2,692.20 million baht, increased by 292.66 million baht (12.2% YoY). Total interest income was 4,066.60 million baht, decreased by 307.16 million baht (7.0% YoY) while interest expense dropped by 599.83 million baht (30.4% YoY) to 1,374.40 million baht, owing to the continuing decline in cost of fund and the Company's effective cost management.

Yield on loan improved from 6.4% to 6.6% (YoY) while cost of fund decreased from 2.9% to 2.3% (YoY) driven by a continual decline in funding cost. Consequently, loan spread increased from 3.5% to 4.3% (YoY). In addition, the net interest margin also rose from 3.1% to 3.9% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 1,710.71 million baht, increased by 282.73 million baht (19.8% YoY). Impairment losses on loans totaled 981.48 million baht, slightly increased from 971.55 million baht (YoY), mainly resulting from setting up countercyclical excess provisions against economic volatility.

Non-interest Income

Non-interest income of the Company's core businesses reported at 1,483.79 million baht, decreased by 13.41 million baht (0.9% YoY), mainly due to the decrease in brokerage fee income by 57.21 million baht (22.9% YoY) following the lower market trading volume, as well as the decline in asset management basic fee by 42.34 million baht (14.5% YoY) following fewer issuances of mutual funds comparing to the previous year. However, banking fee income increased by 92.13 million baht (10.5% YoY) contributed by strong bancassurance fee. Moreover, the Company recorded investment banking fee from underwriting service amounting 21.35 million baht in March 2016.

Non-interest Expenses

Non-interest expenses were 1,566.34 million baht, increased by 65.77 million baht (4.4% YoY), mainly from the increase in variable expenses associated with revenue growth. The Company still maintained effective operating cost control, resulting in low cost to income ratio at 38.1%, compared with 37.9% in the first quarter of 2015.

Corporate Income Tax

In the first quarter of 2016, the corporate income tax was 308.88 million baht, equivalent to the effective tax rate of 19.7%, comparing to 19.6% in the same quarter of 2015.

¹ Non-interest income from core business was net of promotion expenses relating to the hire purchase business.

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of March 31, 2016 and December 31, 2015

Assets

As of March 31, 2016, the Company's total assets were 279,059.75 million baht, decreased by 0.4% (QoQ) mainly due to the decline in loan portfolio from 238,259.84 million baht to 233,165.91 million baht (2.1% QoQ). In addition, investment also dropped from 8,332.42 million baht to 6,870.94 million baht (17.5% YoY).

Liabilities

As of March 31, 2016, total liabilities were 249,565.05 million baht, decreased by 1.0% (QoQ), mainly due to the decrease in deposits from 165,281.11 million baht to 157,859.55 million baht (4.5% QoQ). The liabilities mix comprised of 63.3% total deposit including bill of exchange, 4.9% interbank and money market items, 28.1% debentures, and 3.8% other liabilities.

Shareholders' Equity

As of March 31, 2016, shareholders' equity was 29,494.70 million baht, increased by 1,300.38 million baht (4.6% QoQ) from an increase in retained earnings of the first quarter of 2016. As a result, the book value per share (BVPS) as of March 31, 2016 was 36.84 baht per share, increased from 35.21 baht per share (QoQ).

Business Segment Performance

(1) Banking Business

Loans

Total loans and receivables as of March 31, 2016 were 233,165.91 million baht, declined by 5,093.92 million baht (2.1% QoQ), following subdued domestic economy and weak consumption, reflecting the continued slowdown in auto market from the previous year. The composition of loan portfolio was 71.6% of retail loans, 18.1% of corporate loans, 8.2% of commercial loans and 2.2% of other loans.

Retail lending portfolio totaled 166,885.15 million baht or decreased by 1.9% (QoQ), where the portfolio consisted of 89.7% car, motorcycle and other hire purchase, 9.6% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 149,664.59 million baht, declined by 2.1% (QoQ), stemming from the weak domestic consumption and high level of household debt, along with the continuing effect from sluggish auto market. As a result, the domestic car sale in the first 2 months of 2016 was 108,914 units, decreased by 11.9% (YoY), compared to 123,670 units in the first 2 months of 2015. However, the car penetration rate of TISCO for the first 2 months improved from 7.4% to 10.3% (YoY). In addition, consumption loans amounted 16,291.50 million baht, increased by 304.99 million baht (1.9% QoQ).

Corporate lending portfolio totaled 42,103.04 million baht, decreased by 1,224.26 million baht (2.8% QoQ), mainly due to the loan repayment from the clients in manufacturing and commercial sector.

Commercial lending portfolio totaled 19,143.16 million baht, declined by 745.45 million baht (3.7% QoQ) from the weak lending demand from Car Inventory Financing during economic slowdown, and the impact from weak industry car sale.

Other loan portfolio totaled 4,845.48 million baht, decreased by 79.61 million baht (1.6% QoQ).

Deposits¹

Total deposits totaled 157,859.55 million baht, decreased by 7,421.56 million baht (4.5% QoQ) following the contraction in loan portfolio. As of March 31, 2016, the Company had liquid assets totaling 40,336.50 million baht or 17.4% of total deposit and borrowings.

Non-Performing Loans (NPLs) and Loan Loss Provision

In the first quarter of 2016, the NPL ratio decreased from 3.23% to 3.07% (QoQ). NPL ratio of retail loan, corporate loan, and commercial loan were 3.18%, 2.87%, and 2.58% respectively. The NPL amount continued to decline following the improved credit quality of the loan portfolio, which consists of hire purchase loan and corporate loan, from the effective credit control. Total NPLs reported at 7,158.09 million baht, decreased by 542.74 million baht (7.0% QoQ), which comprised of 6,431.12 million baht from the Bank and 726.97 million baht from other subsidiaries.

The Company set up provision for the quarter of 981.48 million baht, accounted for 1.67% of average loan, and slightly increased comparing with 971.55 million baht in the previous quarter, mainly due to the setup of general provisions to adhere the Company's prudent provisioning policy. Therefore, the Company set up excess loan loss reserve of 520 million baht, to cushion against business volatility. As of the first quarter of 2016, loan loss reserve of the Company was 6,389.06 million baht while total loan loss reserve of the Bank was 5,834.90 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,184.82 million baht or accounted 139.43% of minimum loan loss reserve requirement.

(2) Securities Business

At the end of the first quarter of 2016, average daily turnover of TISCO Securities was 1,881.08 million baht, decreased by 23.8% (YoY) from 2,468.85 million baht, from a decrease in market trading volume, together with the declining TISCO Securities' market share from 2.5% to 2.1% (YoY). The market share of retail investors decreased from 2.0% to 1.7% (YoY), while the market share of local institution sector (excluding proprietary trading) declined from 7.2% to 6.5% (YoY). Moreover, the market share of foreign institution sector decreased from 3.0% to 2.0% (YoY). Hence, TISCO brokerage volume comprised of 32.7% of local institutions, 25.4% of foreign institutions, and 42.0% of retail customers.

(3) Asset Management Business

As of March 31, 2016, assets under management of TISCO Asset Management Co., Ltd. was reported at 178,210.07 million baht, stable comparing to the previous quarter. The basic fee income from asset management in the first quarter of 2016 totaled 250.63 million baht, dropped by 42.34 million baht (14.5% YoY) following fewer issuances of mutual funds. However, in this quarter, TISCO Asset Management continued to issue various types of mutual funds corresponding to market demands, namely Equity Trigger funds investing in Thai, Japan, China and German markets, totaled of 5 trigger funds.

The composition of total asset under management was 68.3% provident fund, 13.3% private fund, and 18.3% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of February 29, 2016 was 3.1%, ranking 9th in the market. The market share of provident fund was 13.4%, ranking 3rd in the market. The market share of private fund was 3.6%, ranking 8th in the market. For mutual fund, the market share was 0.8%, ranking 15th in the market.

Risk Management

As of March 31, 2016, TISCO Group's internal capital stood at 25,150.07 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 320.46 million baht from the end of 2015 to 9,497.40 million baht, mainly resulting from a decrease in credit and market risk capital. In addition, the capital surplus remained strong at 15,652.67 million baht or 62.2% of total capital.

¹ Total Deposits includes deposits and short-term bill of exchanges

Comparing to the end of year 2015, the credit risk capital stood at 6,933.38 million baht, decreased by 101.55 million baht or 1.4% following loan portfolio contraction by 2.1% during the quarter. The non-performing loan of TISCO Group decreased from 3.2% to 3.1% mainly resulting from improved credit profile, particularly HP business.

The market risk capital decreased from 495.33 million baht to 276.42 million baht, resulting from a decrease in risk capital of investment portfolio along with improved SET Index. Meanwhile, the overall duration gap remained stable at 0.92 year, which was in a manageable level. The assets duration increased from 1.47 year to 1.53 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.56 year to 0.61 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 March 2016, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 18.08%, remaining higher than the 9.125% required by the Bank of Thailand. Tier-I and Tier-II capital adequacy ratio stood at 14.08% and 4.00%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6.625%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 109.42%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q15		1Q16		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,455.76	36.7	1,352.69	32.9	(7.1)
Interest on interbank and money market items	140.40	3.5	140.51	3.4	0.1
Hire purchase and financial lease income	2,699.71	68.1	2,527.85	61.5	(6.4)
Investments	77.89	2.0	45.54	1.1	(41.5)
Total interest income	4,373.76	110.4	4,066.60	98.9	(7.0)
Interest expenses	(1,974.23)	(49.8)	(1,374.40)	(33.4)	(30.4)
Net interest income	2,399.53	60.6	2,692.20	65.4	12.2
Fee income					
Fee income	1,302.50	32.9	1,338.82	32.5	2.8
Fee expenses	(58.40)	(1.5)	(57.85)	(1.4)	(0.9)
Net fee income	1,244.09	31.4	1,280.97	31.1	3.0
Gain on investment and foreign exchange transaction	103.20	2.6	(24.11)	(0.6)	(123.4)
Share of profit from invest in subsidiaries	20.70	0.5	19.53	0.5	(5.6)
Other operating income	247.37	6.2	237.65	5.8	(3.9)
Total operating income	4,014.89	101.3	4,206.23	102.3	4.8
Expenses to business promotion relating to the business	(52.67)	(1.3)	(92.68)	(2.3)	
Total net operating income	3,962.22	100.0	4,113.55	100.0	3.8
Other operating expenses	(1,500.57)		(1,566.34)		
Bad debt and doubtful account and impairment loss of debt securities	(971.55)		(981.48)		
Profit before income tax and minority interest	1,490.10		1,565.73		5.1
Corporate income tax expenses	(291.67)		(308.88)		
Profit before minority interest	1,198.43		1,256.85		4.9
Non-controlling interests of the subsidiaries	(5.97)		(1.82)		
Net profit	1,192.47		1,255.03		5.2

Table2: Interest Spread

%	2015	1Q15	4Q15	1Q16
Yield on Loans	6.5	6.4	6.6	6.6
Cost of fund	2.6	2.9	2.3	2.3
Loan spread	3.9	3.5	4.3	4.3

Table 3: Assets Breakdown

Assets	December 31, 2015		March 31, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,101.29	0.4	1,093.98	0.4	(0.7)
Interbank and Money Market Items	31,162.64	11.1	36,656.64	13.1	17.6
Derivative Asset	0.00	0.0	0.00	0.0	n/a
Investment in Fixed income	6,998.30	2.5	5,520.83	2.0	(21.1)
Investment in Equity	1,334.14	0.5	1,350.12	0.5	1.2
Investments in subsidiaries, associate and joint venture	284.11	0.1	324.44	0.1	14.2
Corporate Loans	43,327.30	15.5	42,103.04	15.1	(2.8)
Retail Loans	170,118.84	60.7	167,074.23	59.9	(1.8)
Commercial Loans	19,888.60	7.1	19,143.16	6.9	(3.7)
Other Loans	4,925.09	1.8	4,845.48	1.7	(1.6)
Allowance for doubtful accounts and for loss on debt restructuring	(6,168.27)	(2.2)	(6,389.06)	(2.3)	3.6
Other Assets	7,321.65	2.6	7,336.91	2.6	0.2
Total – The Company	280,293.68	100.0	279,059.75	100.0	(0.4)

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2015		March 31, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	12,126.50	5.1	10,739.25	4.6	(11.4)
Real estate and construction	11,987.70	5.0	12,064.75	5.2	0.6
Public utilities and services	18,837.43	7.9	18,927.35	8.1	0.5
Agriculture and mining	375.67	0.2	371.70	0.2	(1.1)
Corporate Loans	43,327.30	18.2	42,103.04	18.1	(2.8)
Commercial Loans	19,888.60	8.3	19,143.16	8.2	(3.7)
Hire purchase	152,907.78	64.2	149,664.59	64.2	(2.1)
Mortgage	1,224.55	0.5	1,118.14	0.5	(8.7)
Consumer	15,986.52	6.7	16,291.50	7.0	1.9
Retail Loans	170,118.84	71.4	167,074.23	71.7	(1.8)
Others	4,925.09	2.1	4,845.48	2.1	(1.6)
Total – The Company	238,259.84	100.0	233,165.91	100.0	(2.1)

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2015			March 31, 2016			% Change
	% NPL	Amount	%	% NPL	Amount	%	
		(Bt. million)			(Bt. million)		
Manufacturing and commerce	8.08	979.54	12.7	9.33	1,001.83	14.0	2.3
Real estate and construction	0.79	94.42	1.2	0.68	81.51	1.1	(13.7)
Public utilities and services	0.57	107.26	1.4	0.62	117.93	1.6	9.9
Agriculture and mining	2.09	7.86	0.1	2.36	8.76	0.1	11.5
Total NPL - Corporate Loans	2.74	1,189.08	15.4	2.87	1,210.03	16.9	1.8
NPL-Commercial Loans	2.03	404.66	5.3	2.58	493.17	6.9	21.9
Hire purchase	3.55	5,427.69	70.5	3.23	4,830.39	67.5	(11.0)
Mortgage	6.67	81.62	1.1	5.90	65.99	0.9	(19.2)
Consumer	2.76	441.14	5.7	2.53	411.45	5.7	(6.7)
Total NPL - Retail Loans	3.50	5,950.45	77.3	3.18	5,307.83	74.2	(10.8)
Others	3.18	156.64	2.0	3.04	147.07	2.1	(6.1)
Total NPL – The Company	3.23	7,700.83	100.0	3.07	7,158.09	100.0	(7.0)

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2015		March 31, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	165,281.11	65.6	157,859.55	63.3	(4.5)
Interbank and money market items	10,030.06	4.0	12,304.45	4.9	22.7
Debentures	67,582.00	26.8	70,030.00	28.1	3.6
Others	9,206.18	3.7	9,371.04	3.8	1.8
Total – The Company and Subsidiaries	252,099.35	100.0	249,565.05	100.0	(1.0)

Table 7: Deposits Structure

Type of Deposits	December 31, 2015		March 31, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,122.04	1.9	3,970.97	2.5	27.2
Saving accounts	48,272.47	29.2	45,941.09	29.1	(4.8)
Fixed accounts	17,734.17	10.7	17,169.44	10.9	(3.2)
Negotiate certificate deposit	89,215.51	54.0	85,791.13	54.3	(3.8)
Short-term borrowings	6,936.92	4.2	4,986.92	3.2	(28.1)
Total deposits	165,281.11	100.0	157,859.55	100.0	(4.5)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2015		March 31, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	118,736.97	66.5	121,793.37	68.3	2.6
Private Fund	26,413.25	14.8	23,766.29	13.3	(10.0)
Mutual Fund	33,404.36	18.7	32,650.41	18.3	(2.3)
Total	178,554.58	100.0	178,210.07	100.0	(0.2)

Table 9: Average Duration Mismatch of Assets and Liabilities and Its Impact

Type of Fund	Duration (years)		1-Y Net interest income change to 1% interest rate increase (MB)	
	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016
	Assets	1.47	1.53	1,065.92
Liabilities*	0.56	0.61	(1,317.18)	(1,242.31)
Net Gap	0.91	0.92	(251.25)	(201.30)

Note: * Exclude saving and current account