

Management Discussion and Analysis For the Second Quarter ended June 30, 2013

(This report discusses principal changes in the unreviewed consolidated financial statement for the second quarter ended June 30, 2013)

Movement of Money Market and Capital Market

In the second quarter of 2013, domestic economy growth tended to decelerate amidst softening private investment and consumption due partly to domestic car sales was returned to normalcy level after ending of government's tax incentive for first-car buyer. Meanwhile, the recovery in export sector remained fragile amidst counterparties' economic uncertainty as well as volatile exchange rate.

In capital market, the market was highly volatile amidst concerns over uncertainty of global economic and partly due to US Federal reserve hinted the plan to taper off the quantitative easing as well as china economic slowdown. The SET closed at 1,451.90 points decreased from 1,561.06 points at the end of the first quarter of 2013 on backdrop of foreign fund outflow. The average daily turnover was 56,278.32 million baht, decreased from 61,542.45 million baht (QoQ).

The Bank of Thailand (BOT) reduced the policy rate from 2.75% to 2.50% during the second quarter of 2013. Meanwhile, average 3-month fixed deposit rates of Top 4 commercial banks slightly increased from 1.90% at the end of the first quarter of 2013 to 1.93%, while the average minimum lending rate of Top 4 commercial banks was unchanged at 7.00% as same as the first quarter of 2013.

Operating Results

The Management Discussion and Analysis compares operating performance for the second quarter of 2013 and second quarter of 2012

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 99.30 million baht, mainly contributed by 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 second quarter of 2013, TISCO Group had net profit after minority interest of 1,159.14 million baht, increased by 239.40 million baht (26.0% YoY) contributed by an increase in total interest income of 31.8% (YoY) following the loan portfolio expansion of 33.6% (YoY). Meanwhile, the loan spread was remained stable at 3.0%. Furthermore, non-interest income from core business was 1,575.58 million baht, increased by 218.00 million baht (16.1% YoY) contributed by growth in banking fee of 9.5% (YoY) following the expansion of loan and bancassurance businesses, as well as strong growth in brokerage business

whereby the brokerage fee increased by 77.5% (YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. together with an increased in total fee income from asset management business of 29.6% (YoY) mainly contributed by expansion of asset under management and the issuance of new fund that matched with market demand.

For the first half of 2013, TISCO Group had the net profit after minority interest at 2,312.64 million baht, increased by 556.25 million baht (31.7% YoY) compared to 1,756.39 million baht in the same period of previous year resulting from an increase in net interest income of 31.3% (YoY) following the expansion in all loan businesses. However, loan spread remained at 3.0% which was at the same level as the same period of previous year. Moreover, non-interest income from core business reported at 3,663.08 million baht, increased by 997.89 million baht (37.4% YoY) contributed by growth in fee income from banking business of 37.2% (YoY) following the loan portfolio expansion and bancassurance businesses. Furthermore, the brokerage income was significantly rose 91.0% (YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. In addition, total fee from asset management business increased by 34.2% (YoY), which was mainly contributed by expansion of asset under management and improving capital market condition.

Basic earnings per share for the second quarter and first half of 2013 were 1.59 and 3.17 baht per share respectively compared with those in the same period in 2012 of 1.26 and 2.41 baht per share, respectively. The return on average equity (ROAE) for the second quarter and first half of 2013 was at 23.5% and 24.1% respectively compared with 22.1% and 21.7% for the second quarter and first half of 2012. As of June 30, 2013, TISCO Group has paid-up capital in amount of 8,006,554,830.00 baht, comprising of 800,621,625 of common shares and 33,858 of preferred shares with par value of 10 baht per share, increased from paid-up capital as of March 31, 2013 totaling 7,279,120,860 baht following the issuance and exercise of transferable subscription rights during the quarter.

Net Interest Income

Net interest income in this quarter was 2,229.01 million baht, increased by 500.42 million baht (28.9% YoY), while total interest income was 4,766.06 million baht, increased by 1,149.24 million baht (31.8% YoY), following a continuous expansion of loan portfolio. Meanwhile, interest expense increased by 648.83 million baht (34.4% YoY) to 2,537.05 million baht, following an expansion of capital base and higher funding cost from contribution to FIDF and DPA.

Yield on loan decreased from 6.8% to 6.5% (YoY) following a decrease of policy rate. Nonetheless, TISCO Group had maintained effective cost management resulting in reduction of cost of fund from 3.7% to 3.6% (YoY). Although funding cost contributed to FIDF and DPA was rise from 0.3% to 0.4% (YoY). As the result, loan spread was at 3.0% which was at the same level as the first quarter of 2013. Net interest margin was at 2.8% which was at the same level as the first quarter of 2013.

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,418.87 million baht, increased by 281.61 million baht (24.8% YoY). Impairment loss of loans and debt

securities was 810.13 million baht, compared with 591.33 million baht in the second quarter of 2012, following loan portfolio expansion as well as rising NPL during the quarter mainly from used car portfolio.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,575.58 million baht, moderately improved by 218.00 million baht (16.1% YoY) following the growth in all businesses. Furthermore, the banking fee increased by 69.52 million baht (9.5% YoY) to 802.05 million baht following strong growth in loan and bancassurance businesses as well as the strong growth in brokerage business whereby the brokerage fee increased by 133.33 million baht (77.5% YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. together with an increase in total fee income from asset management business of 46.93 million baht (29.6% YoY) mainly contributed by expansion of asset under management as well as continually fund product development that response with market condition.

Non-interest Expenses

Non-interest expenses for this quarter were 1,388.04 million baht, increased by 209.14 million baht (17.7% YoY) mainly driven by variable expenses associated with revenue growth in which strongly expanded in this quarter. In addition, the cost to income ratio was decreased to 37.7% compared with 39.9% in the second quarter of 2012 following the strong revenue growth in coupled with effective operating cost control.

Corporate Income Tax

In the second quarter of 2013, the corporate income tax was 302.60 million baht, equivalent to the effective tax rate of 20.4%, compared to 21.8% (YoY) following the adjusted corporate tax from 23% to 20% according to the government policy.

Financial Status

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of June 30, 2013 and March 31, 2013.

Assets

As of June 30, 2013, TISCO Group's total assets were 323,969.26 million baht increased by 1.6% (QoQ) due mainly to strong loan growth from 266,785.02 million baht in the first quarter of 2013 to 280,558.43 million baht (5.2% QoQ) and increased by 13.0% from the end of 2012.

Liabilities

As of June 30, 2013, total liabilities were 303,524.86 million baht, increased by 1.3% from previous quarter mainly contributed by the increase in debt instrument from 8,746.90 million baht to 20,343.00 million baht (132.6% QoQ) led by the issuance of new debentures to replace the matured series of debenture as well as rebalancing of liabilities mix to match with the interest rate trend. The liabilities mix comprised of 83.1% total deposit including bill of exchange, 6.2% interbank and money market items, 6.7% debentures, and 3.9% other liabilities.

Shareholders' Equity

As of June 30, 2013, shareholders' equity was 20,444.40 million baht, increased by 913.48 million baht (4.7% QoQ). Furthermore, TISCO Group paid annual dividend from operation result for the year 2012 at 2.40 baht per common and preferred share in May 2013. The total dividend payment was 1,746.91 million baht with dividend payout ratio of 47.1%. In addition, TISCO Group has issued newly capital increased share through the exercise of Transferable Subscription Rights (TSRs). After the exercise of TSRs, 72,743,397 capital increased shares were allocated, accounted for new capital of 1,745.84 million baht.

Business Segment Performance**(1) Banking Business****Loans**

Total consolidated loans and receivables were 280,558.43 million baht, up by 13,773.41 million baht (5.2% QoQ), following growth in loan portfolio following strong loan growth in all businesses. The composition of loan portfolio was 70.2% of retail loans, 17.0% of corporate loans, 11.6% of commercial loans and 1.2% of other loans.

Retail lending portfolio totaled 196,921.96 million baht increased by 4.2% (QoQ), consisted of 93.0% car, motorcycle, and other hire purchase, 6.3% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 183,140.23 million baht, rose by 6,956.23 million baht (3.9% QoQ). The domestic car sales in the first 5-month of 2013 reported at 634,775 units, increased from 483,077 units (31.4% YoY). The car penetration rate for the first 5-month was reported at 9.1%. Moreover, consumption loans amounted 12,340.32 million baht increased by 920.45 million baht (8.1% QoQ) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 47,624.90 million baht, increased by 2,856.94 million baht (6.4% QoQ) due partly to an increase in loan to public utilities and services business, and loan to manufacturing and commerce business.

Commercial lending portfolio totaled 32,651.66 million baht, increased by 2,980.82 million baht (10.0% QoQ), following an increase in loan to manufacturing and commerce, especially loan to car dealer.

Other loan portfolio totaled 3,359.91 million baht, increased by 71.41 million baht (2.2% QoQ).

Deposits¹

Total deposits totaled 252,370.01 million baht, decreased by 9,604.42 million baht (3.7% QoQ) following the rebalancing of liabilities mix to match with the interest rate trend. As of June 30, 2013, TISCO Group had excess liquidity amounting to approximately 22,722 million baht, combining with the BoT required liquidity of 15,559 million baht (including bill of exchange), resulting in liquidity ratio of 14.8% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of June 30, 2013, NPL ratio increased to 1.45% from 1.28% from the previous quarter. NPL ratio of retail loan, corporate loan, and commercial loan were 1.78%, 0.89%, and 0.27% respectively. Total NPLs reported at 4,068.79 million baht, increased by 664.77 million baht (19.5% QoQ), comprising of 3,537.11 million baht of the Bank NPLs and 531.67 million baht of other subsidiaries NPLs. NPLs increased along with loan portfolio growth as well as rising NPL from used car hire purchase business as a result of slow

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

liquidation of repossessed-car inventory following substantial decline in market price of used cars during the period.

TISCO Group set up provision for impairment loss of loans and debt securities totaling 810.13 million baht, compared to 591.33 million baht (YoY), accounted for 1.18% of average loan portfolio. As of June 30, 2013, loan loss reserve of TISCO Group was 5,913.14 million baht or 145.3% of NPLs. Total loan loss reserve of the Bank was 5,417.35 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,091.45 million baht, reflecting the prudent provisioning policy to mitigate potential risk. Total reserve comprised minimum required reserve of 3,133.14 million baht and excess reserve of 2,293.21 million baht. At present, TISCO Group already has sufficient excess reserve to comply with current loan provision and potential impaired loan provision guidelines of the Bank of Thailand.

(2) Securities Business

At the end of the second quarter of 2013, the SET index continually declined driven by strong foreign sector sell-off. Average daily turnover through TISCO Securities was 3,098.28 million baht, increased by 117.4% (YoY) from 1,425.05 million baht in the same period of 2012 following the higher average trading volume as well as average market share of TISCO Securities improved from 2.4% to 2.6% (YoY). The higher market share was due mainly to an increase in market share of local and foreign institution sectors from 6.2% to 7.2% (YoY) and 3.7% to 4.5% (YoY) respectively. This was partly contributed by professional investment advisory service and securities research of Deutsche TISCO Investment Advisory Co., Ltd. Moreover, Brokerage fee was 305.34 million baht, up by 77.5% (YoY) from 172.01 million baht in same period of 2012. TISCO brokerage volume in the second quarter of 2013 comprising of 23.1% of local institutions, 38.2% of foreign institutions, and 38.7% of retail customers.

(3) Asset Management Business

As of May 31, 2013, overall asset under management of industry increased from March 31, 2013 by 92,214.28 million baht (2.5% QoQ). The assets under management of TISCO Asset as of June 30, 2013 were 154,030.64 million baht, decreased by 2,892.14 million baht (1.8% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2013 was 4.2%, ranking 8th in the market. The market share of provident fund was 13.3%, ranking 3rd in the market. The market share of private fund was 10.3%, ranking 4th in the market. For mutual fund, the market share was 0.9%, ranking 14th in the market.

In the second quarter of 2013, total fee income from asset management totaled 205.72 million baht, increased by 46.93 million baht (29.6% YoY) following launches of variety of funds to meet market demands. However, variable incentive fee was volatile following the fluctuation of capital market in the second quarter of 2013. The composition of total asset under management was 63.5% provident fund, 21.6% private fund, and 14.9% mutual fund.

Risk Management

As of June 30, 2013, TISCO Group's internal capital stood at 17,011.38 million Baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 624.98 million Baht from the end of the first quarter of 2013 to 11,460.01 million Baht, resulting from continuous business expansion during the quarter. In addition, the capital surplus remained strong at 5,551.37 million Baht or 32.6% of total internal capital.

Comparing to the end of March, 2013, the credit risk capital was 9,391.37 million baht, increasing by 326.53 million baht or 3.6% following the portfolio expansion in overall lending segment by 5.2% during the period. The non-performing loan of TISCO Group increased from 1.3% in the end of March, 2013 to 1.5% at the end of June, 2013 resulting from an increase in non-performing loan of hire purchase portfolio for used car.

The market risk capital increased from 226.11 million baht to 400.78 million baht, resulting from higher volatilities of stock exchange and capital market during the quarter. Meanwhile, the overall duration gap increased following the portfolio expansion. The assets duration increased from 1.54 years to 1.56 years resulting from increasing in lending portfolio with longer duration, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased from 0.46 year to 0.42 year. Therefore, the duration gap of assets and liabilities stood at 1.14 year, which was still in a manageable level.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of June 2013, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) stood at 13.48%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 9.07% and 4.41%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 63.87%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q12		2Q13		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,049.04	35.5	1,447.09	39.3	37.9
Interest on interbank and money market items	154.58	5.2	245.87	6.7	59.1
Hire purchase and financial lease income	2,372.49	80.3	3,026.98	82.1	27.6
Investments	40.71	1.4	46.12	1.3	13.3
Total interest income	3,616.81	122.4	4,766.06	129.3	31.8
Interest expenses	(1,888.22)	(63.9)	(2,537.05)	(68.8)	34.4
Net interest income	1,728.59	58.5	2,229.01	60.5	28.9
Fee income					
Fee income	974.07	33.0	1,268.15	34.4	30.2
Fee expenses	(50.36)	(1.7)	(58.60)	(1.6)	16.3
Net fee income	923.70	31.3	1,209.56	32.8	30.9
Gain on investment and foreign exchange transaction	160.21	5.4	156.49	4.2	(2.3)
Other operating income	383.52	13.0	307.43	8.3	(19.8)
Total operating income	3,196.02	108.2	3,902.48	105.9	22.1
Expenses to business promotion relating to the business	(241.07)	(8.2)	(217.57)	(5.9)	
Total net operating income	2,954.95	100.0	3,684.91	100.0	24.7
Non-interest expenses	(1,178.91)		(1,388.04)		
Bad debt and doubtful account and impairment loss of debt securities	(591.33)		(810.13)		
Profit before income tax and minority interest	1,184.71		1,486.73		25.5
Corporate income tax	(258.52)		(302.60)		
Profit before minority interest	926.19		1,184.13		27.8
Minority interest in net earnings in subsidiary company	(6.46)		(24.99)		
Net profit	919.74		1,159.14		26.0

Table2: Interest Spread

%	2012	6M12	6M13	2Q12	2Q13
Yield on Loans	6.6	6.7	6.6	6.8	6.5
Cost of fund	3.6	3.7	3.6	3.7	3.6
Loan spread	3.0	3.0	3.0	3.1	3.0

Table 3: Assets Breakdown

Assets	March 31, 2013		June 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Cash	1,014.62	0.3	983.01	0.3	(3.1)
Interbank and Money Market Items	41,625.20	13.0	32,376.50	10.0	(22.2)
Derivative Asset	70.68	0.0	28.80	0.0	0.0
Fixed income	4,746.76	1.5	6,016.16	1.9	26.7
Equity	1,956.69	0.6	1,624.32	0.5	(17.0)
Corporate Loans	44,767.96	14.0	47,624.90	14.7	6.4
Retail Loans	189,057.72	59.3	196,921.96	60.8	4.2
Commercial Loans	29,670.84	9.3	32,651.66	10.1	10.0
Other Loans	3,288.50	1.0	3,359.91	1.0	2.2
Allowance for doubtful accounts and for loss on debt restructuring	(5,684.98)	(1.8)	(5,913.15)	(1.8)	4.0
Other Assets	8,501.30	2.7	8,295.19	2.6	(2.4)
Total – The Company and Subsidiaries	319,015.30	100.0	323,969.26	100.0	1.6

Table 4: Loans and Receivables Breakdown

Type of Business	March 31, 2013		June 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,567.44	6.6	18,722.54	6.7	6.6
Real estate and construction	9,161.29	3.4	9,793.53	3.5	6.9
Public utilities and services	17,300.04	6.5	18,334.57	6.5	6.0
Agriculture and mining	739.19	0.3	774.26	0.3	4.7
Corporate Loans	44,767.96	16.8	47,624.90	17.0	6.4
Commercial Loans	29,670.84	11.1	32,651.66	11.6	10.0
Hire purchase	176,184.00	66.0	183,140.23	65.3	3.9
Mortgage	1,453.84	0.5	1,441.41	0.5	(0.9)
Consumer	11,419.87	4.3	12,340.32	4.4	8.1
Retail Loans	189,057.72	70.9	196,921.96	70.2	4.2
Others	3,288.50	1.2	3,359.91	1.2	2.2
Total – The Company and Subsidiaries	266,785.02	100.0	280,558.43	100.0	5.2

Table 5: NPL Breakdown by Area

Type of Business	March 31, 2013			June 30, 2013			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.55	96.52	2.8	0.54	100.69	
Real estate and construction	3.04	278.51	8.2	2.79	273.72	6.7	(1.7)
Public utilities and services	0.21	36.44	1.1	0.24	43.24	1.1	18.7
Agriculture and mining	1.21	8.95	0.3	1.11	8.59	0.2	(4.0)
Total NPL - Corporate Loans	0.94	420.42	12.4	0.89	426.24	10.5	1.4
NPL-Commercial Loans	0.16	48.34	1.4	0.27	89.56	2.2	85.3
Hire purchase	1.51	2,663.25	78.2	1.78	3,253.76	80.0	22.2
Mortgage	7.01	101.89	3.0	6.40	92.23	2.3	(9.5)
Consumer	1.08	122.90	3.6	1.26	155.16	3.8	26.3
Total NPL - Retail Loans	1.53	2,888.04	84.8	1.78	3,501.15	86.0	21.2
Others	1.44	47.22	1.4	1.54	51.83	1.3	9.8
Total NPL – The Company and Subsidiaries	1.28	3,404.02	100.0	1.45	4,068.79	100.0	19.5

Table 6: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2013		June 30, 2013		Change %
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	261,974.42	87.5	252,370.01	83.1	(3.7)
Interbank and money market items	16,454.85	5.5	18,910.84	6.2	14.9
Debentures	8,746.90	2.9	20,343.00	6.7	132.6
Long-term borrowings	108.70	0.0	107.50	0.0	(1.1)
Others	12,197.37	4.1	11,793.51	3.9	(3.3)
Total – The Company and Subsidiaries	299,482.24	100.0	303,524.86	100.0	1.3

Table 7: Deposits Structure

Type of Deposits	March 31, 2013		June 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	2,123.36	0.8	801.02	0.3	(62.3)
Saving accounts	26,850.85	10.2	23,0910.79	9.1	(14.0)
Fixed accounts	25,556.39	9.8	28,615.02	11.3	12.0
Negotiate certificate deposit	194,383.84	74.2	185,585.12	73.5	(4.5)
Short-term borrowings	13,059.98	5.0	14,277.06	5.7	9.3
Total deposits	261,974.42	100.0	252,370.01	100.0	(3.7)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2013		June 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	96,303.22	61.4	97,819.65	63.5	1.6
Private Fund	34,475.97	22.0	33,194.38	21.6	(3.7)
Mutual Fund	26,143.59	16.7	23,016.61	14.9	(12.0)
Total	156,922.78	100.0	154,030.64	100.0	(1.8)

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)	
	March 31, 2013	June 30, 2013	March 31, 2013	June 30, 2013
	Assets	1.54	1.56	1,314.61
Liabilities*	0.46	0.42	(1,991.15)	(2,045.58)
Net Gap	1.07	1.14	(676.54)	(775.68)

Note: * Exclude saving and current account