

Management Discussion and Analysis For the First Quarter ended March 31, 2014

(This report discusses principal changes in the unaudited consolidated financial statement for the first quarter ended March 31, 2014)

Movement of Money Market and Capital Market

In the first quarter of 2014, domestic economy continued to decelerate since the end of 2013, following the slowing domestic demand, gradual recovery in export sector, and unfolded political tension. The private consumption remained weak following high level of household debt and softened farm income. Meanwhile, private sectors have deferred their investment spending, awaiting for the recovery in private consumption and political clarity. In addition, the headline inflation was slightly edged up led by rising energy cost.

The Bank of Thailand (BOT) adjusted the policy rate from 2.25% at the end of 2013 to 2.00% in the first quarter of 2014, to stimulate domestic consumption. Furthermore, average 3-month fixed deposit rates of Top 4 commercial banks decreased from 1.76% at the end of 2013 to 1.18%, while the average minimum lending rate of Top 4 commercial banks decreased from 6.84% at the end of 2013 to 6.75% in this quarter.

During the first quarter of 2014, the capital market was pressured from both internal and external factors. The key factors affecting capital market were the prolonged political uncertainty and US Federal Reserve's QE tapering. As a result, SET index closed at 1,376.26, increased by 77.55 from the end of 2013, and decreased by 184.80 from the first quarter of 2013. The average daily turnover dropped from 61,542.45 million baht in the first quarter of 2013 to 29,895.53 million baht in this quarter.

Operating Results

The Management Discussion and Analysis compares operating performance and financial position of the first quarter of 2014 and the first quarter of 2013

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 77.73 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 2014, TISCO Group had net profit after minority interest of 934.69 million baht, decreased by 218.81 million baht (19.0% YoY) following a decline in non-interest income, the setup of provision expense to cushion against economic slowdown, as well as the contraction of loan portfolio by 2.6% (YTD). Nonetheless, total interest income increased by 11.9% (YoY) following the loan portfolio expansion of 6.7% (YoY). Meanwhile, the spread was at 3.0%. Meanwhile, non-interest income from core

business¹ was 1,404.98 million baht, decreased by 291.99 million baht (17.2% YoY) contributed by the decrease in banking fee of 5.2% (YoY) due to there was a non-recurring income from bancassurance business in the first quarter of 2013 together with the slowdown in loan and bancassurance businesses. Moreover, the brokerage fee declined by 54.2% (YoY) following lower average trading volume.

Basic earnings per share for the first quarter of 2014 was 1.17 baht, compared with 1.58 baht (YoY). Meanwhile, the return on average equity (ROAE) was at 15.9% compared with 24.6% (YoY).

Net Interest Income

Net interest income in the first quarter of 2014 was 2,305.85 million baht, increased by 202.50 million baht (9.6% YoY), while total interest income was 4,998.27 million baht, increased by 531.31 million baht (11.9% YoY), following an expansion of loan business. Meanwhile, interest expense increased by 328.81 million baht (13.9% YoY) to 2,692.42 million baht, resulting from an expansion of funding base and higher funding cost from client base expansion.

Yield on loan remained stable at 6.5% while cost fund slightly rose from 3.4% to 3.5% (YoY) following the client base expansion and deposit market competition. As the result, loan spread slightly dropped from 3.1% to 3.0% (YoY). In addition, net interest margin was slightly decreased from 2.8% to 2.7% (YoY).

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,135.83 million baht, decreased by 27.43 million baht (2.4% YoY). Impairment loss of loans and debt securities totaled 1,170.02 million baht, compared with 940.09 million baht (YoY), following loan portfolio expansion and rising NPL, as well as set up of provision to cushion against increasing economic volatility.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,404.98 million baht, decreased by 291.99 million baht (17.2% YoY) resulting from a decline in banking fee of 53.25 million baht (5.2% YoY) due to the contraction of loan and bancassurance businesses led by the slowdown in domestic economy as well as the record of non-recurring income from bancassurance business in the first quarter of 2013. Furthermore, brokerage fee decreased by 196.80 million baht (54.2% YoY) due to significantly decrease in average market trading volume. In addition, basic fee income from asset management business decreased by 12.65 million baht (5.7% YoY) due to the contraction in the capital market condition comparing to the first quarter of 2013.

Non-interest Expenses

Non-interest expenses were 1,310.04 million baht, decreased by 138.61 million baht (9.6% YoY) mainly from variable expenses associated with revenue slowdown. In addition, the cost to income ratio further decreased to 35.6% compared with 37.5% (YoY) following the effective operating cost control.

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

Corporate Income Tax

In the first quarter of 2014, the corporate income tax was 238.33 million baht, equivalent to the effective tax rate of 19.9%, compared to 19.3% (YoY).

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of March 31, 2014 and December 31, 2013

Assets

As of March 31, 2014, TISCO Group's total assets were 332,807.05 million baht, decreased by 7.4% (YoY) mainly due to decreasing loan portfolio from 292,150.65 million baht to 284,655.45 million baht (2.6% YoY). In addition, interbank and money market items also declined from 53,241.96 million baht to 29,553.75 million baht (44.5% YoY).

Liabilities

As of March 31, 2014, total liabilities were 308,606.48 million baht, decreased by 8.2% (YoY), mainly contributed by the decrease in deposits from 270,915.37 million baht to 234,312.43 million baht (13.5% YoY). The liabilities mix comprised of 69.7% total deposit including bill of exchange, 4.9% interbank and money market items, 14.3% debentures, and 3.0% other liabilities.

Shareholders' Equity

As of March 31, 2014, shareholders' equity was 24,200.57 million baht, increased by 982.51 million baht (4.2% YoY) following an increase in retained earnings of the first quarter of 2014. As a result, book value per share (BVPS) as of March 31, 2014 was 30.23 baht per share, increased from 29.00 baht per share (YoY).

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables as of March 31, 2014 were 284,655.45 million baht, dropped by 7,495.21 million baht (2.6% YoY) due to sluggish domestic economy and impact of political uncertainty. The composition of loan portfolio was 70.1% of retail loans, 18.6% of corporate loans, 10.5% of commercial loans and 0.9% of other loans.

Retail lending portfolio totaled 199,498.98 million baht decreased by 2.3% (YoY), consisted of 92.2% car, motorcycle and other hire purchase, 7.1% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 183,852.66 million baht, decreased by 4,484.66 million baht (2.4% YoY). The domestic car sales in the first 2 months of 2014 reported at 140,188 units, decreased from 255,727 units due mainly to weakened economy and consumption causing by prolonged political instability together with the high level of household debt and the lower purchasing power. Meanwhile, car penetration rate for the first 2 months was reported at 7.9%. Moreover, consumption loans amounted 14,234.96 million baht dropped by 189.54 million baht (1.3% YoY) following economic slowdown and more stringent credit policy.

Corporate lending portfolio totaled 52,806.63 million baht, decreased by 873.14 million baht (1.6% YoY) following the loan repayment of clients in manufacturing and commercial sectors.

Commercial lending portfolio totaled 29,785.19 million baht, declined by 2,249.26 million baht (7.0% YoY) following the declining demand of car dealer as the market has more balance between demand and supply.

Other loan portfolio totaled 2,564.66 million baht, increased by 318.22 million baht (14.2% YoY).

Deposits¹

Total deposits totaled 234,312.43 million baht, decreased by 36,602.94 million baht (13.5% YoY) following the excess liquidity management strategy as well as the rebalancing of liabilities mix to match with business plan. As of March 31, 2014, TISCO Group had excess liquidity amounting to approximately 28,498 million baht, combining with the BoT required liquidity of 14,459 million baht (including bill of exchange), resulting in liquidity ratio of 16.3% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of March 31, 2014, NPL ratio increased to 1.89% from 1.70% (YoY). NPL ratio of retail loan, corporate loan, and commercial loan were 2.37%, 0.60%, and 0.83% respectively. Total NPLs reported at 5,365.99 million baht, increased by 399.60 million baht (8.0% YoY), comprising of 4,603.92 million baht of the Bank NPLs and 762.07 million baht of other subsidiaries NPLs. NPL ratio increased following the loan

portfolio contraction which was affected by the overall economic slowdown, political turmoil and rising household debt.

TISCO Group set up provision for impairment loss of loans and debt securities totaling 1,170.02 million baht, compared to 940.09 million baht (YoY), which accounted for 1.62% of average loan portfolio whereby the rising credit cost aimed to cushion against economic slowdown. However, the credit cost was declined compared with the previous quarter as assets quality has improved. As of March 31, 2014, loan loss reserve of TISCO Group was 6,476.64 million baht while total loan loss reserve of the Bank was 5,914.50 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,275.89 million baht accounted 182.07% of minimum loan loss reserve requirement, reflecting the prudent provisioning policy to mitigate potential risk. In addition, the excess reserve increased by 272.06 million baht in this quarter.

(2) Securities Business

At the end of the first quarter of 2014, average daily turnover through TISCO Securities was 1,562.09 million baht, decreased by 53.7% (YoY) from 3,375.03 million baht following the lower market average trading volume. TISCO Securities market share slightly dropped from 2.6% to 2.5% (YoY) due to the lower market share of foreign institution sector from 4.2% to 3.0% (YoY) and local institution sector (excluding proprietary trading) from 8.2% to 7.4% (YoY) amidst ongoing concerns over economic and political situation. Moreover, TISCO brokerage volume in the first quarter of 2014 comprised of 30.0% of local institutions, 34.2% of foreign institutions, and 35.8% of retail customers.

(3) Asset Management Business

As of March 31, 2014, assets under management of TISCO Asset Management Co., Ltd. was 157,830.98 million baht, decreased by 431.36 million baht (0.3% YoY). In the first quarter of 2014, basic fee income from asset management totaled 210.95 million baht, decreased by 12.65 million baht (5.7% YoY) partly due to the drop in asset under management from provident fund.

The composition of total asset under management was 63.7% provident fund, 20.5% private fund, and 15.8% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2014 was 3.6%, ranking 9th in the market. The market share of provident fund was 13.1%, ranking 3rd in the market. The market share of private fund was 6.8%, ranking 7th in the market. For mutual fund, the market share was 0.8%, ranking 13th in the market.

Risk Management

As of March 31, 2014, TISCO Group's internal capital stood at 20,996.05 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 328.51 million baht from the end of 2013 to 10,353.71 million baht, resulting from a decrease in credit risk capital. In addition, the capital surplus remained strong at 10,642.34 million baht or 50.7% of total internal capital.

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

Comparing to the end of 2013, the credit risk capital stood at 8,221.65 million baht, decreasing by 327.51 million baht or 3.8% following the portfolio contraction in overall lending segment by 2.6% during the period. The non-performing loan of TISCO Group rose from 1.70% at the end of 2013 to 1.89% at the end of the first quarter of 2014, mainly from an increase in non-performing loan of hire purchase portfolio.

The market risk capital decreased from 334.05 million baht to 328.31 million baht, resulting from a decline in risk capital of investment and non-listed portfolios as gain in market value increased along with SET index as well as decreasing in market volatility. Meanwhile, the overall duration gap fell to 1.09 year, which was still in a manageable level. The assets duration remained at 1.53 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.37 year to 0.44 year.

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 March 2014, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) stood at 14.25%, 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 9.38% and 4.87%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6.00%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 39.7%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q13		1Q14		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,344.67	34.8	1,517.02	41.3	12.8
Interest on interbank and money market items	215.24	5.6	236.28	6.4	9.8
Hire purchase and financial lease income	2,865.38	74.1	3,139.05	85.4	9.6
Investments	41.67	1.1	105.92	2.9	154.2
Total interest income	4,466.97	115.6	4,998.27	136.0	11.9
Interest expenses	(2,363.62)	(61.2)	(2,692.42)	(73.3)	13.9
Net interest income	2,103.35	54.4	2,305.85	62.7	9.6
Fee income					
Fee income	1,639.19	42.4	1,283.72	34.9	(21.7)
Fee expenses	(66.31)	(1.7)	(48.48)	(1.3)	(26.9)
Net fee income	1,572.89	40.7	1,235.24	33.6	(21.5)
Gain on investment and foreign exchange transaction	130.67	3.4	12.89	0.4	(90.1)
Other operating income	448.31	11.6	229.41	6.2	(48.8)
Total operating income	4,255.21	110.1	3,783.39	102.9	(11.1)
Expenses to business promotion relating to the business	(390.53)	(10.1)	(108.15)	(2.9)	
Total net operating income	3,864.69	100.0	3,675.24	100.0	(4.9)
Other operating expenses	(1,448.65)		(1,310.04)		
Bad debt and doubtful account and impairment loss of debt securities	(940.09)		(1,170.02)		
Profit before income tax and minority interest	1,475.95		1,195.18		(19.0)
Corporate income tax	(284.43)		(238.33)		
Profit before minority interest	1,191.52		956.84		(19.7)
Minority interest in net earnings in subsidiary company	(38.02)		(22.15)		
Net profit	1,153.50		934.69		(19.0)

Table2: Interest Spread

%	2013	1Q13	4Q13	1Q14
Yield on Loans	6.6	6.5	6.6	6.5
Cost of fund	3.5	3.4	3.5	3.5
Loan spread	3.1	3.1	3.1	3.0

Table 3: Assets Breakdown

Assets	December 31, 2013		March 31, 2014		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,131.00	0.3	1,087.40	0.3	(3.9)
Interbank and Money Market Items	53,241.96	14.8	29,553.75	8.9	(44.5)
Derivative Asset	32.86	0.0	12.51	0.0	(61.9)
Fixed income	9,840.22	2.7	14,708.92	4.4	49.5
Equity	1,649.38	0.5	1,645.48	0.5	(0.2)
Corporate Loans	53,679.77	14.9	52,806.63	15.9	(1.6)
Retail Loans	204,190.01	56.8	199,498.98	59.9	(2.3)
Commercial Loans	32,034.44	8.9	29,786.21	8.9	(7.0)
Other Loans	2,246.43	0.6	2,563.63	0.8	14.1
Allowance for doubtful accounts and for loss on debt restructuring	(6,354.34)	(1.8)	(6,476.64)	(1.9)	1.9
Other Assets	7,570.78	2.1	7,620.18	2.3	0.7
Total – TISCO Group	359,262.52	100.0	332,807.05	100.0	(7.4)

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2013		March 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	19,375.50	6.6	18,227.90	6.4	(5.9)
Real estate and construction	11,598.82	4.0	11,834.73	4.2	2.0
Public utilities and services	21,921.31	7.5	21,997.07	7.7	0.3
Agriculture and mining	784.14	0.3	746.93	0.3	(4.7)
Corporate Loans	53,679.77	18.4	52,806.63	18.6	(1.6)
Commercial Loans	32,034.44	11.0	29,786.21	10.5	(7.0)
Hire purchase	188,337.32	64.5	183,852.66	64.6	(2.4)
Mortgage	1,428.19	0.5	1,411.36	0.5	(1.2)
Consumer	14,424.50	4.9	14,234.96	5.0	(1.3)
Retail Loans	204,190.01	69.9	199,498.98	70.1	(2.3)
Others	2,246.43	0.8	2,563.63	0.9	14.1
Total – TISCO Group	292,150.65	100.0	284,655.45	100.0	(2.6)

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2013			March 31, 2014			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.81	157.05	3.2	0.98	178.14	
Real estate and construction	0.42	48.29	1.0	0.52	61.62	1.1	27.6
Public utilities and services	0.34	75.31	1.5	0.28	60.94	1.1	(19.1)
Agriculture and mining	2.22	17.41	0.4	2.50	18.69	0.3	7.3
Total NPL - Corporate Loans	0.56	298.07	6.0	0.60	319.39	6.0	7.2
NPL-Commercial Loans	0.47	151.64	3.1	0.83	248.67	4.6	64.0
Hire purchase	2.21	4,156.42	83.7	2.39	4,389.57	81.8	5.6
Mortgage	4.85	69.23	1.4	5.56	78.44	1.5	13.3
Consumer	1.69	244.44	4.9	1.89	269.49	5.0	10.2
Total NPL - Retail Loans	2.19	4,470.09	90.0	2.37	4,737.50	88.3	6.0
Others	2.07	46.59	0.9	2.36	60.43	1.1	29.7
Total NPL – TISCO Group	1.70	4,966.39	100.0	1.89	5,365.99	100.0	8.0

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2013		March 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	270,915.37	80.6	234,312.43	75.9	(13.5)
Interbank and money market items	16,702.69	5.0	16,418.87	5.3	(1.7)
Debentures	37,809.00	11.3	47,925.00	15.5	26.8
Long-term borrowings	10,617.40	3.2	9,950.18	3.2	(6.3)
Others	336,044.46	100.0	308,606.48	100.0	(8.2)
Total – The Company and Subsidiaries	270,915.37	80.6	234,312.43	75.9	(13.5)

Table 7: Deposits Structure

Type of Deposits	December 31, 2013		March 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	2,480.90	0.9	3,118.34	1.3	25.7
Saving accounts	40,751.44	15.0	42,714.58	18.2	4.8
Fixed accounts	34,056.54	12.6	33,242.46	14.2	(2.4)
Negotiate certificate deposit	187,351.86	69.2	148,535.84	63.4	(20.7)
Short-term borrowings	6,274.62	2.3	6,701.22	2.9	6.8
Total deposits	270,915.37	100.0	234,312.43	100.0	(13.5)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2013		March 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	102,694.50	64.9	100,585.72	63.7	(2.1)
Private Fund	31,813.60	20.1	32,323.94	20.5	1.6
Mutual Fund	23,754.24	15.0	24,921.32	15.8	4.9
Total	158,262.34	100.0	157,830.98	100.0	(0.3)

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, 2013	March 31, 2014	December 31, 2013	March 31, 2014
	Assets	1.54	1.53	1,468.96
Liabilities*	0.37	0.44	(2,139.51)	(1,895.37)
Net Gap	1.16	1.09	(670.55)	(669.42)

Note: * Exclude saving and current account