



Management Discussion and Analysis

For the First Quarter of 2021 ended March 31, 2021

(Reviewed Consolidated Financial Statements)

Investor Relations
TISCO Financial Group Public Company (Limited)
Tel: 02 633 6868
Email : ir@tisco.co.th
Website: www.tisco.co.th

Economic Conditions and Movement of Financial Market

Domestic economy for the first quarter of 2021 showed a slight recovery despite the resurgence of Covid-19 at the beginning of the year. Owing to the partial lockdown in some areas, the economic impacts were not as severe as the previous year. At the same time, the government continued to launch various economic stimulus programs including “Rao Chana”, “Kon La Krueng” and “Rao Ruk Kan”, together with the rollout of vaccine distribution, therefore the private consumption has shown a sign of improvement. Nevertheless, the domestic car sale for the first 3 months of 2021 totaled 194,137 units, decreased by 3.0% from the same period of last year where the spread of Covid-19 was not yet critical. Export sector started to recover in relation to improved demands from trading partners, whereas private investment also exhibited a sign of recovery. However, tourism sector remained subdued albeit the tourist arrival through Special Tourist Visa (STV). For the first quarter of 2021, the headline inflation declined by 0.53%.

In term of debt relief programs, the Bank of Thailand has extended the assistance programs for retail customers until June 30, 2021, and has launched new Financial Rehabilitation measures to support affected SMEs namely Soft loan facility for businesses and Debt restructuring through Asset Warehousing. During the quarter, the policy rate remained stable at 0.50%. The average 3-month fixed deposit rates of Top-4 commercial banks decreased from 0.37% to 0.33% (QoQ) while all lending rates of Top-4 commercial banks remained unchanged. The average minimum lending rate (MLR) stood at 5.31%, the average minimum overdraft rate (MOR) at 5.85%, and the average minimum retail rate (MRR) at 5.98%.

The capital market in the first quarter of 2021 improved with SET index closed at 1,587.21 points, increased by 137.86 points or 9.5% comparing to 1,449.35 points at the end of the previous year. Moreover, market trading volume also increased with the average daily turnover increased from 79,354.12 million baht in the fourth quarter of 2020 to 93,639.43 million baht, driven by increasing investor confidence amid the situation of Covid-10 started to unwind.

Operating Results

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations in the first quarter of 2021 on a standalone basis totaling 67.96 million baht, mainly contributed by dividend income. 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.

Operating Results for the First Quarter of 2021

The net profit attributed to owners of the Company for the first quarter of 2021 was reported at 1,763.63 million baht or increased by 18.7% (YoY), driven by the improvement in core business operations particularly fee income from capital market businesses and the recognition of gain from an increase in investment value, together with a decline in ECL following an effective asset quality control.

Comparing to the first quarter of 2020, net interest income decreased by 10.1% (YoY) caused by a contraction in loan portfolio and decreasing proportion of high-yield loans. Whilst, non-interest income grew by 36.9% (YoY) mainly due to an expansion in fee income from capital market businesses, which included asset management basic fee income from the issuances of new foreign investment funds that received satisfactory responses from investors, brokerage fee income from higher trading volume, and investment banking fee from underwriting service during the quarter. Furthermore, the Company recorded gain from an increase in investment value. On the other hand, banking fee income weakened from bancassurance business that was affected by the slowdown in economic activities comparing to the first quarter of last year.

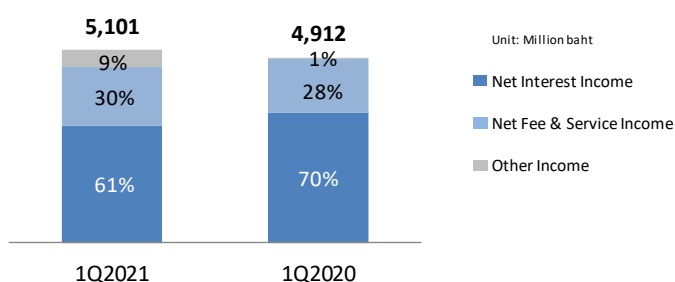
Expected credit loss (ECL) decreased from the first quarter of 2020, reporting at 1.50% of average loans, stemming from an improvement in asset quality thanks to an effective asset quality control, along with the Company maintained a prudent provisioning policy to cushion against any potential risks arising from the resurgence of the outbreak in early April. NPL ratio stood at 2.51%, consequently coverage ratio at the end of the quarter remained high at 221.8%.

Basic earnings per share for the first quarter of 2021 were 2.20 baht per share, increased from 1.86 baht per share in the first quarter of 2020, and the return on average equity (ROAE) was reported at 17.5%.

Table 1 : Statement of Comprehensive Income

Statement of Comprehensive Income Unit: Million baht	1Q2021	1Q2020	%YoY
Interest Income			
Interest on Loans	1,806.14	2,148.49	(15.9)
Interest on Interbank and Money Market Items	43.24	94.32	(54.2)
Hire Purchase and Financial Lease Income	1,902.37	2,268.12	(16.1)
Investments	24.54	41.98	(41.5)
Total Interest Income	3,776.29	4,552.92	(17.1)
Interest Expenses	(665.99)	(1,095.02)	(39.2)
Net Interest Income	3,110.30	3,457.89	(10.1)
Fee Income	1,627.65	1,476.25	10.3
Fee Expenses	(84.78)	(78.44)	8.1
Net Fee Income	1,542.87	1,397.81	10.4
Gain (Loss) on Financial Instruments measured at fair value and Investment	316.04	(85.62)	n.a.
Share of Profit (loss) from Subsidiaries	13.16	15.51	(15.2)
Other Operating Income	119.07	126.38	(5.8)
Total Operating Income	5,101.43	4,911.97	3.9
Operating Expenses	(2,064.54)	(1,994.83)	3.5
Expected Credit Loss	(833.05)	(1,073.35)	(22.4)
Profit before Tax and Minority Interest	2,203.85	1,843.79	19.5
Corporate Income Tax Expenses	(440.13)	(357.62)	23.1
Profit before Minority Interest	1,763.72	1,486.17	18.7
Non-controlling Interests of subsidiaries	(0.09)	(0.10)	(11.5)
Net Profit	1,763.63	1,486.07	18.7

Composition of Operating Income



Net Interest Income

In the first quarter of 2021, net interest income was 3,110.30 million baht, decreased by 347.60 million baht (10.1% YoY). Total interest income was 3,776.29 million baht, dropped by 776.63 million baht (17.1% YoY), whereas interest expense was 665.99 million baht, declined by 429.03 million baht (39.2% YoY).

Yield on loans decreased from 7.38% to 6.76% (YoY) resulting from a decline in the proportion of high-yield consumer loans, together with the reduction of market benchmark rate. Meanwhile, the cost of

fund decreased from 1.83% to 1.24% (YoY) owing to an effective cost management during a declining interest rate environment. Consequently, loan spread decreased from 5.56% to 5.52% (YoY) whereas the net interest margin was at 4.66%.

Table 2 : Loan Spread

Unit: %	2020	1Q2020	4Q2020	1Q2021
Yield on Loans	7.08	7.38	6.97	6.76
Cost of Fund	1.58	1.83	1.34	1.24
Loan Spread	5.50	5.56	5.63	5.52
Net Interest Margin	4.62	4.72	4.76	4.66

Non-interest Income

Non-interest income totaled 1,991.14 million baht, grew by 36.9% (YoY) from an improvement in fee income from capital market businesses, as well as the recognition of gain on financial instruments measured at fair value through profit or loss (FVTPL) amounting 312.62 million baht following an increase in investment value, comparing to the loss of 87.27 million baht during the first quarter of 2020. Non-interest income from core businesses totaled 1,704.71 million baht, increased by 8.5% (YoY). The growth consisted of an increase in brokerage fee income by 22.75 million baht (10.5% YoY) to 238.58 million baht following higher trading volume, a strong increase in asset management basic fee by 176.16 million baht (47.0% YoY) to 550.91 million baht from the issuances of foreign investment funds that received satisfactory responses from investors, and the record of investment banking fee from underwriting service amounting 76 million baht. On the contrary, banking fee income dropped by 147.75 million baht (15.1% YoY) to 828.19 million baht, caused by weaker bancassurance business following lower new business volume that was affected by the slowdown in economic activities comparing to the first quarter of last year.

Table 3 : Non-Interest Income Breakdown

Type of Income Unit: Million baht	1Q2021	1Q2020	%YoY
Banking Fee	828.19	975.95	(15.1)
<i>Bancassurance Fee</i>	533.16	679.25	(21.5)
<i>Other Banking Fee</i>	295.03	296.70	(0.6)
Asset Management Basic Fee	550.91	374.75	47.0
Brokerage Fee	238.58	215.83	10.5
Investment Banking Fee	87.02	3.97	2,093.4
Total Non-Interest Income from Core Businesses	1,704.71	1,570.50	8.5
Gain (Loss) from Financial Instruments and Investments	316.04	(85.62)	n.a.
Share Profit from subsidiaries	13.16	15.51	(15.2)
Dividend Income	37.42	31.36	19.3
Asset Management Performance Fee	4.60	0.77	494.4
Fee Expenses	(84.78)	(78.44)	8.1
Total Non-Interest Income	1,991.14	1,454.07	36.9

Operating Expenses

Operating expenses totaled 2,064.54 million baht, increased by 69.70 million baht (3.5% YoY), resulting from an increase in variable expenses associated with revenue and profit growth. The Company still maintained effective operating cost control with cost to income ratio at 40.5%.

Expected Credit Loss

Expected credit loss (ECL) totaled 833.05 million baht, declined comparing with 1,073.35 million baht the first quarter of 2020, and accounted for 1.50% of average loans. The setup of ECL in this quarter was stemming from an improvement in asset quality thanks to an effective asset quality control. Nonetheless, with the resurgence of the pandemic in early April, the Company still maintained a prudent provisioning policy to cushion against any potential risks, despite the setup of upfront provisions since 2020. In addition, the ECL included the release of excess reserve amounting 264 million baht according the Bank of Thailand's guideline.

Corporate Income Tax

In the first quarter of 2021, the corporate income tax was 440.13 million baht, equivalent to the effective tax rate of 20.0%, increased from 19.4% in the first quarter of 2020.

Financial Positions

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as March 31, 2021 and March 31, 2020.

Assets

As of March 31, 2021, the Company's total assets were 268,704.73 million baht, decreased by 2.4% (QoQ). Loan portfolio declined from 224,811.55 million baht to 220,757.14 million baht (1.8% QoQ). Interbank and money market decreased from 38,212.03 million baht to 36,728.96 million baht (3.9% QoQ). Financial assets measured at fair value through profit or loss increased from 2,173.02 million baht to 2,423.07 million baht (11.5% QoQ) and net investments declined from 9,953.26 million baht to 8,194.99 million baht (17.7% QoQ).

Table 4 : Assets Breakdown

Assets Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Cash	1,125.39	1,220.21	(7.8)
Interbank and Money Market Items	36,728.96	38,212.03	(3.9)
Derivatives	-	62.09	n.a.
Financial assets measured at fair value through profit or loss	2,423.07	2,173.02	11.5
Investments – Net	8,194.99	9,953.26	(17.7)
Investments in Subsidiaries, associates and JV	819.81	804.92	1.8
Loans	220,757.14	224,811.55	(1.8)
Allowance for Expected Credit Loss	(12,267.90)	(11,825.54)	3.7
Other Assets	10,923.26	10,031.68	8.9
Total Assets	268,704.73	275,443.21	(2.4)

Liabilities

As of March 31, 2021, total liabilities were 227,484.05 million baht, decreased by 3.6% (QoQ). Total deposits decreased from 203,509.74 million baht to 198,188.39 million baht (2.6% QoQ), interbank and money market decreased from 5,807.65 million baht to 5,137.14 million baht (11.5% QoQ) and debentures declined from 12,789.00 million baht to 9,840.00 million baht (23.1% QoQ).

Table 5 : Liabilities Breakdown

Liabilities Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Deposits	198,188.39	203,509.74	(2.6)
Interbank and Money Market Items	5,137.14	5,807.65	(11.5)
Debentures	9,840.00	12,789.00	(23.1)
Others	14,318.53	13,874.74	3.2
Total Liabilities	227,484.05	235,981.13	(3.6)

Shareholders' Equity

As of March 31, 2021, shareholders' equity was 41,220.67 million baht, increased by 1,758.59 million baht (4.5% QoQ) from an increase in retained earnings of the first quarter of 2021. As a result, the book value per share (BVPS) as of March 31, 2021 was 51.48 baht per share, increased from 49.29 baht per share at the end of 2020.

Business Segment Operations

(1) Banking Business

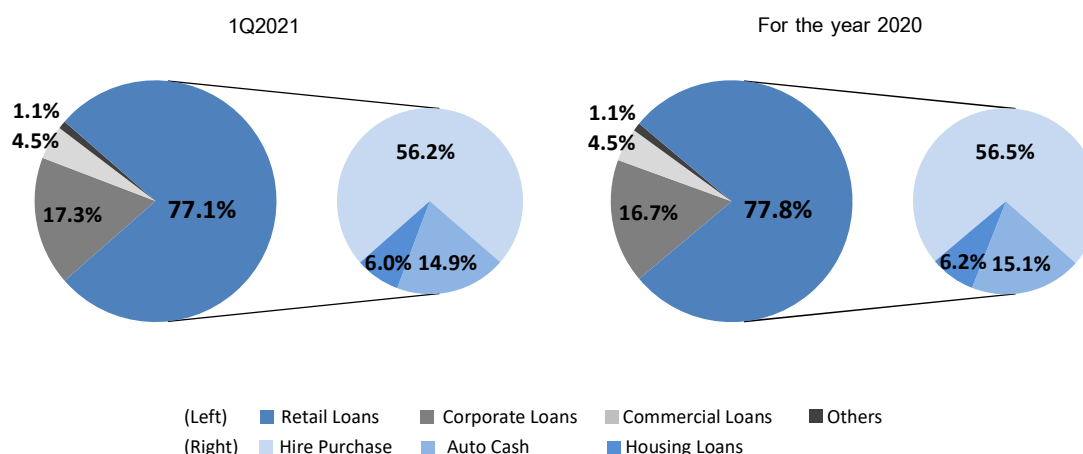
1.1 Loans

Total loans and receivables as of March 31, 2021 were 220,757.14 million baht, declined by 4,054.41 million baht (1.8% QoQ) primarily from a contraction in retail lending business following a tightened loan underwriting policy amid high-risk economic environment. On the other hand, corporate lending business grew owing to the difficulty in raising funds through bond market.

Table 6 : Loans

Loans Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Manufacturing and Commerce	1,420.68	1,686.33	(15.8)
Real Estate and Construction	17,322.23	16,430.04	5.4
Public Utilities and Services	19,401.99	19,317.22	0.4
Corporate Loans	38,144.90	37,433.59	1.9
Commercial Loans	10,011.99	10,035.11	(0.2)
Hire Purchase	124,002.10	127,110.32	(2.4)
Loans against Auto Licenses	32,910.29	33,889.01	(2.9)
Housing Loans	13,279.62	13,871.64	(4.3)
Retail Loans	170,192.01	174,870.98	(2.7)
Others	2,408.23	2,471.87	(2.6)
Total Loans	220,757.14	224,811.55	(1.8)

Loan Breakdown



Retail Lending portfolio totaled 170,192.01 million baht, decreased by 2.7% (QoQ). The total retail portfolio as of March 31, 2021 consisted of 72.9% car and motorcycle hire purchase loans, 19.3% loans against auto license and 7.8% housing loans. The outstanding hire purchase loans totaled 124,002.10 million baht, dropped by 2.4% (QoQ) following a tightened loan underwriting policy amid highly uncertain economic conditions and high level of household debt. The domestic car sale for the first 3 months of 2021

was 194,137 units, decreased by 3.0% (YoY), compared to 200,064 units in the first 3 months of 2020. The car penetration rate of TISCO for the period declined to 5.1% (YoY).

Loans against auto licenses ("Auto Cash") amounted 32,910.29 million baht, contracted by 2.9% (QoQ) driven by the prudent and cautious underwriting policy despite the demand for consumer loans remained high. Loans from "Somwang" channels amounted 17,633.40 million baht, declined by 2.3% (QoQ), and accounted for 53.6% of total loans against auto licenses. At the end of the first quarter of 2021, "Somwang" loan offices totaled 347 branches nationwide.

Housing loans totaled 13,279.62 million baht, dropped by 4.3% (QoQ) following highly competitive market condition and rising risk.

Corporate Lending portfolio totaled 38,144.90 million baht, increased by 1.9% (QoQ), due to the loan drawdown from real estate and construction sector. The loan growth derived from corporates turning the source of financial capitals back to commercial bank loans amid the difficulty in raising funds through bond market.

Commercial Lending portfolio totaled 10,011.99 million baht, slightly declined by 0.2% (QoQ) from a slowdown in car inventory financing business.

Other Loans portfolio totaled 2,408.23 million baht, decreased by 2.6% from the end of previous year.

Regarding the extension of the BOT's debt relief programs to June 30, 2021, TISCO continued the assistance to support all affected customers. The outstanding amount of retail clients in the program remained approximately at 2.8% of total loans.

1.2 Asset Quality and Expected Credit Loss

At the end of the first quarter of 2021, the Company reported NPLs amounting 5,531.86 million baht, decreased by 86.62 million baht (1.5% QoQ), and accounted for stable NPL ratio of 2.51%. The improvement in credit quality was a result of an effective asset quality control which led to most clients being able to resume their normal debt repayment after the expiry of debt relief measures in the earlier phase, aligning with the unwinding outbreak situation and economic recovery in the first quarter.

Table 7 : Loan Classification

Loan Classification Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Loans with no significant increase in credit risk (Performing)	188,562.64	189,675.65	(0.6)
Loans with significant increases in credit risk (Under-performing)	26,662.63	29,517.41	(9.7)
Loans that are credit-impaired (NPLs)	5,531.86	5,618.48	(1.5)
Total Loans	220,757.14	224,811.55	(1.8)

Table 8 : NPLs Breakdown

NPLs Unit: Million baht, %	As of Mar 31, 2021		As of Dec 31, 2020		%QoQ
	Million baht	%	Million baht	%	
Manufacturing and Commerce	-	-	-	-	-
Real Estate and Construction	-	-	-	-	-
Public Utilities and Services	-	-	-	-	-
NPLs - Corporate Loans	-	-	-	-	-
NPLs - Commercial Loans	77.98	0.78	64.03	0.64	21.8
Hire Purchase	3,156.70	2.55	3,267.99	2.57	(3.4)
Loans against Auto Licenses	1,300.44	3.95	1,295.44	3.82	0.4
Housing Loans	994.14	7.49	986.35	7.11	0.8
NPLs - Retail Loans	5,451.28	3.20	5,549.77	3.17	(1.8)
Others	2.60	0.11	4.68	0.19	(44.4)
Total NPLs	5,531.86	2.51	5,618.48	2.50	(1.5)

Expected credit loss (ECL) was reported at 833.05 million baht, decreased comparing with 1,073.35 million baht in the first quarter of 2020, and accounted for 1.50% of average loans. The setup of ECL in this period was stemming from the improvement in asset quality thanks to an effective asset quality control. Nonetheless, amid the resurgence of the pandemic in early April, the Company still maintained a prudent provisioning policy to cushion against any potential risks, despite the setup of upfront provisions since 2020. In addition, the ECL included the release of excess reserve amounting 264 million baht according the Bank of Thailand's guideline.

Total allowance for expected credit loss of the Company was 12,267.90 million baht, which consisted of ECL impairment of 11,475.60 million baht and excess reserve of 792.30 million baht. Hence, loan loss coverage ratio improved to 221.8%.

1.3 Deposits and Borrowings

Total deposits and borrowings amounted 208,028.39 million baht, decreased by 3.8% (QoQ). Total deposits reported at 198,188.39 million baht, decreased by 5,321.36 million baht (2.6% QoQ), and debentures totaled 9,840.00 million baht, decreased by 2,949.00 million baht (23.1% QoQ), aligning with the contraction of loan portfolio. As of March 2021, the Bank had high-quality liquid assets according to the Liquidity Coverage Ratio (LCR) of approximately 43,588.85 million baht, decreased by 3,683.14 million baht (7.8% QoQ). Thus, the high-quality liquid assets were accounted for 20.9% of total deposits and borrowings, and LCR ratio was at 158.1%.

Table 9 : Deposits Structure

Deposits Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Current Accounts	2,495.76	3,199.91	(22.0)
Saving Accounts	46,309.82	50,319.59	(8.0)
Fixed Accounts	42,990.95	43,882.32	(2.0)
Negotiate Certificate Deposits	106,354.94	106,071.01	0.3
Short-term Borrowings	36.92	36.92	0.0
Total Deposits	198,188.39	203,509.74	(2.6)

(2) Securities Business

In the first quarter of 2021, average daily turnover of TISCO Securities increased to 2,249.67 million baht following higher market trading volume, coupled with an increase in trading volume from foreign institutions derived from the co-brand alliance with Jefferies Hong Kong Limited. Therefore, brokerage fee income of TISCO Securities grew by 10.5% (YoY) to 238.58 million baht. TISCO Securities' overall market share contracted from 1.6% to 1.3% (YoY) from a decline in market share of local institutions (excluding proprietary trading) from 6.6% to 6.3% (YoY) and retail investors from 1.5% to 1.4% (YoY). On the other hand, the market share of foreign institutions increased from 0.02% to 0.2% (YoY). All in all, TISCO brokerage volume comprised of 41.8% of local institutions, 5.7% of foreign institutions, and 52.6% of retail investors.

(3) Asset Management Business

As of March 31, 2021, assets under management of TISCO Asset Management reported at 342,650.12 million baht, grew by 7.6% (QoQ) in all business areas especially mutual fund business. During the quarter, TISCO Asset Management issued 3 new foreign investment funds namely TISCO Genomic Revolution fund, TISCO China Consumer fund and TISCO New Energy fund, all of which received satisfactory responses from investors. As a result, basic fee income from asset management strongly increased by 34.1% (YoY), totaling 550.91 million baht.

The composition of total asset under management was 61.3% provident fund, 18.4% private fund, and 19.8% mutual fund. Total market share of TISCO Asset Management as of March 31, 2021 was 4.1%, ranking 8th in the market. The market share of provident fund was 16.5%, ranking 1st in the market. The market share of private fund was 3.1%, ranking 6th in the market and the market share of mutual fund was 1.3%, ranking 13th in the market.

Table 10 : Assets under Management Breakdown

Funds Unit: Million baht	As of Mar 31, 2021	As of Dec 31, 2020	%QoQ
Provident Fund	211,779.67	205,993.72	2.8
Private Fund	63,155.75	59,240.02	6.6
Mutual Fund	67,714.70	53,333.79	27.0
Total AUMs	342,650.12	318,567.53	7.6

Risk Management

As of March 31, 2021, TISCO Group's internal capital (ICAAP) stood at 36,498.64 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 231.18 million baht from the end of 2020 to 13,089.21 million baht mainly resulting from an increase in credit risk and market risk capital. In addition, the capital surplus remained strong at 23,409.43 million baht or 64.1% of total capital.

Comparing to the end of 2020, the credit risk capital rose by 113.21 million baht, or 1.1%, to 10,301.98 million baht. Loan portfolio contracted by 1.8% mostly in retail portfolio, while NPLs of TISCO Group remained at 2.5%. There was an improvement in loan quality which was in accordance with an effective quality control. As a result, most clients can resume normal debt repayment after the expiry of debt relief measures in the earlier phase.

The market risk capital increased from 73.09 million baht to 191.07 million baht as a result of an increase in market volatility. Meanwhile, the overall duration gap decreased from 0.73 year to 0.67 year, which was in a manageable level. The assets duration fell from 1.32 year to 1.26 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, was stable at 0.59 year.

Table 11 : Average Duration Mismatch of Assets and Liabilities and Its Impact

	Duration Unit: Years		1-Y Net interest income change to 1% interest rate increase Unit: Million baht	
	Mar 31, 2021	Dec 31, 2020	Mar 31, 2021	Dec 31, 2020
Assets	1.26	1.32	1,195.40	1,213.37
Liabilities ¹	0.59	0.59	(1,032.32)	(1,110.93)
Net Gap	0.67	0.73	163.08	102.44

¹ Excluding current accounts and saving accounts

In terms of regulatory capital requirement of the Bank, TISCO Group, 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 2021, the regulatory capital based on IRB approach of the Bank was 38,343 million baht, while the projected capital adequacy ratio (BIS ratio) stood at 23.07%, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II ratios of the Bank stood at 18.32% and 4.75%, respectively, in which Tier-I ratio also remained higher than the minimum requirement at 8.5%. For TISCO Group, the regulatory capital based on IRB approach was 40,561 million baht, with BIS ratio, Tier-I and Tier-II ratios at 21.95%, 17.56% and 4.39%, respectively, which also remained higher than the minimum capital requirement. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 36.81%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 12 : Regulatory Capital Requirement

Capital Adequacy Unit: %	As of Mar 31, 2021	As of Dec 31, 2020
TISCO Financial Group		
Tier-I	17.6	17.5
Tier-II	4.4	4.4
BIS Ratio	22.0	21.9
TISCO Bank		
Tier-I	18.3	18.1
Tier-II	4.8	4.7
BIS Ratio	23.1	22.8