

## Management Discussion and Analysis For the First Quarter ended March 31, 2015

(This report discusses principal changes in the unaudited consolidated financial statement for the first quarter ended March 31, 2015)

### Movement of Money Market and Capital Market

In the first quarter of 2015, domestic economy showed a slower-than-expected recovery, as the economic momentum from the private consumption was softer than expected particularly the domestic car sales in the first two months totaled 123,670 units, contracted by 11.8% (YoY). The slowdown was mainly contributed by the subdued purchasing power and the high level of household debt, together with weaker economic confidence. At the same time, the private sector postponed their investment and awaiting a sign of solid recovery in domestic demand and progress of public investment. The export sector remained weak as the demand of trading partners has yet to recover. In addition, the headline inflation was negative in the first quarter, following the sharp decrease in global oil and commodity prices.

The Bank of Thailand (BOT) cut the policy rate to 1.75% in the first quarter of 2015 from 2.00% at the end of 2014, to support economic recovery. Accordingly, the average 3-month fixed deposit rates of Top 4 commercial banks decreased from 1.30% at the end of 2014 to 0.99%, while the average minimum lending rate of Top 4 commercial banks decreased to 6.63% in this quarter from 6.75% at the end of 2014.

During the first quarter of 2015, the capital market was highly volatile, with the pressure from declining investor confidence amidst slow domestic recovery and a drastic drop in global oil prices. However, SET index closed at 1,505.94, increased by 8.27 from the end of 2014, and increased by 129.68 from the first quarter of 2014 after the political crisis resolved. The average daily turnover improved from 29,895.53 million baht in the first quarter of 2014 to 49,345.40 million baht in this quarter.

### Operating Results

#### **The Management Discussion and Analysis compares operating performance and financial position of the first quarter of 2015 and the first quarter of 2014**

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 59.18 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 2015, the net profit attributed to owners of the Company totaled 1,192.47 million baht, increased by 257.78 million baht (27.6% YoY), supported by a decrease in interest expense, an

increase in non-interest income from core business<sup>1</sup>, as well as the decline in provision expense following the effective credit quality control. Furthermore, net interest income increased by 5.9% (YoY), driven by a decrease in cost of fund which starting from 2014. Non-interest income from core business rose by 7.3% (YoY), mainly due to the growth in brokerage fee of 50.6% following higher market trading volume comparing to the previous year, together with increasing basic fee of asset management business by 38.9% (YoY) following improved capital market and issuances of various mutual funds in correspondence with the market demand.

Basic earnings per share in the first quarter of 2015 was 1.49 baht, compared with 1.17 baht (YoY) in the first quarter of 2014. Meanwhile, the return on average equity (ROAE) was at 18.1% compared with 15.9% (YoY).

### **Net Interest Income**

Net interest income in the first quarter of 2015 was 2,399.53 million baht, increased by 134.62 million baht (5.9% YoY). Total interest income was 4,373.76 million baht, decreased by 542.74 million baht (11.0% YoY) while interest expense dropped by 677.36 million baht (25.5% YoY) to 1,974.23 million baht, from the lower cost of fund in line with the declining policy rate from the Bank of Thailand since the beginning of 2014, along with effective cost management.

Yield on loan slightly declined from 6.5% to 6.4% (YoY) while cost fund significantly declined from 3.5% to 2.9% (YoY) driven by a continual decline in funding cost. Consequently, loan spread improved from 3.0% to 3.5% (YoY). In addition, the net interest margin also rose from 2.7% to 3.1% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 1,427.98 million baht, grew by 338.83 million baht (31.1% YoY). Impairment losses on loans totaled 971.55 million baht, declined from 1,175.76 million baht (YoY), resulting from effective asset quality control and lower loss from the repossessed cars sale in the used car market.

### **Non-interest Income**

Non-interest income of the Company's core businesses reported at 1,497.20 million baht, increased by 102.26 million baht (7.3% YoY), mainly contributed by increasing brokerage fee of 84.00 million baht (50.6% YoY) from the increasing market trading volume. Moreover, basic fee income of asset management business rose by 82.01 million baht (38.9% YoY) from improving capital market condition, as well as issuances of various mutual funds corresponding with the market demand during the sluggish economy. On the other hand, banking fee declined by 84.86 million baht (8.8% YoY) aligning with the contraction in lending business. In addition, the Company recorded net gains on investments of 106.11 million baht, comparing with 5.34 million baht (YoY) in the first quarter of 2014, from equity investment liquidation.

### **Non-interest Expenses**

Non-interest expenses were 1,500.57 million baht, increased by 213.61 million baht (16.6% YoY), mainly from expenses related to business expansion along with the improved operating result compared to

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

the same period of last year. The Company still maintained effective operating cost control resulting in the cost to income ratio remained low at 37.9%, slightly increased compared with 35.4% during the first quarter of 2014.

### **Corporate Income Tax**

In the first quarter of 2015, the corporate income tax was 291.67 million baht, equivalent to the effective tax rate of 19.6% which remained at the same level as in the first quarter of 2014.

## **Financial Position**

**The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of March 31, 2015 and December 31, 2014**

### **Assets**

As of March 31, 2015, the Company's total assets were 302,206.99 million baht, decreased by 4.9% (QoQ) mainly due to decreasing loan portfolio from 262,783.83 million baht to 254,437.06 million baht (3.2% QoQ). In addition, interbank and money market items also declined from 38,057.99 million baht to 30,056.95 million baht (21.0% QoQ).

### **Liabilities**

As of March 31, 2015, total liabilities were 275,214.59 million baht, decreased by 5.7% (QoQ), mainly due to the decrease in deposits from 213,090.11 million baht to 206,200.17 million baht (3.2% QoQ), together with the decline in debentures from 57,699.90 million baht to 46,875.90 million baht (18.8% QoQ). The liabilities mix comprised of 74.9% total deposit including bill of exchange, 4.1% interbank and money market items, 17.0% debentures, and 3.9% other liabilities.

### **Shareholders' Equity**

As of March 31, 2015, shareholders' equity was 26,992.40 million baht, increased by 1,168.70 million baht (4.5% QoQ) following an increase in retained earnings of the first quarter of 2015. As a result, book value per share (BVPS) as of March 31, 2015 was 33.71 baht per share, increased from 32.25 baht per share (QoQ).

## Business Segment Performance

### (1) Banking Business

#### Loans

Total consolidated loans and receivables as of March 31, 2015 were 254,437.06 million baht, declined by 8,346.77 million baht (3.2% QoQ) following the slow recovery of domestic economy and weakened consumption sector. The composition of loan portfolio was 69.4% of retail loans, 19.7% of corporate loans, 9.0% of commercial loans and 1.8% of other loans.

**Retail lending** portfolio totaled 176,702.99 million baht or decreased by 2.6% (QoQ), which consisted of 90.6% car, motorcycle and other hire purchase, 8.6% consumer loans and 0.8% mortgage loans. The outstanding hire purchase loans totaled 160,082.34 million baht, decreased by 5,012.67 million baht (3.0% QoQ), from the slowdown in domestic economy and consumption, together with high household debt level and weak purchasing power. The domestic car sales in the first 2 months of 2015 reported at 123,670 units, decreased by 11.8% (YoY) compared to 140,188 units in the first 2 months of 2014. Meanwhile, car penetration rate for the first two months was reported at 7.4%, declined from 7.9% (YoY). In addition, consumption loans amounted 15,199.89 million baht, increased by 111.55 million baht (0.7% QoQ).

**Corporate lending** portfolio totaled 50,038.59 million baht, decreased by 3,044.62 million baht (5.7% QoQ) following the cautious loan expansion, along with loan repayment of clients in manufacturing and commercial sector and real estate and construction sector.

**Commercial lending** portfolio totaled 23,006.53 million baht, declined by 382.98 million baht (1.6% QoQ) mainly contributed by the contraction in car inventory financing due to the declining demand of car dealer aligning with the weakened industry car sales.

**Other loan** portfolio totaled 4,688.95 million baht, decreased by 127.99 million baht (2.7% QoQ).

#### Deposits<sup>1</sup>

Total deposits totaled 206,200.17 million baht, decreased by 6,889.93 million baht (3.2% QoQ) following the contraction in loan portfolio. As of March 31, 2015, The Company had excess liquidity amounting to approximately 29,328 million baht, combining with the BoT required liquidity of 12,708 million baht (including bill of exchange), resulting in liquidity ratio of 19.9% which was well over the required liquidity by BoT of 6.0%.

#### Non-Performing Loans (NPLs) and Loan Loss Provision

In the first quarter of 2015, NPL amount started to stabilize, with total reported NPLs of 6,742.42 million baht, slightly decreased by 7.78 million baht (0.1% QoQ). NPLs comprised of 5,932.86 million baht of the Bank NPLs and 809.56 million baht of other subsidiaries NPLs. However, NPL ratio increased to 2.65%

from 2.57% (QoQ), mainly driven by the contraction in loan portfolio amidst the overall economic slowdown. NPL ratio of retail loan, corporate loan, and commercial loan were 3.35%, 0.66%, and 1.16% respectively.

The Company set up provision for impairment losses on loans totaling 971.55 million baht, which accounted for 1.50% of average loan portfolio and declined by 204.21 million baht (YoY), in line with the improvement in credit quality following the effective credit control. Even so, the Company set up excess loan loss reserve of 170 million baht, reflecting the prudent provisioning policy to mitigate potential risk, of which was partly contributed by the extraordinary gain from selling investment during the first quarter. As of March 31, 2015, loan loss reserve of the Company was 7,096.03 million baht while total loan loss reserve of the Bank was 6,513.73 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,471.77 million baht accounted 187.62% of minimum loan loss reserve requirement.

## **(2) Securities Business**

At the end of the first quarter of 2015, average daily turnover through TISCO Securities was 2,468.85 million baht, increased by 58.0% (YoY) from 1,562.09 million baht following the increasing market average trading volume, therefore income from brokerage business improved from 160 million baht to 250 million baht (YoY). However, TISCO Securities market share slightly dropped from 2.6% to 2.5% (YoY) due to the lower market share of local institution sector (excluding proprietary trading) from 7.4% to 7.2% (YoY), resulting from the pressure from pricing competition among brokerage firms. In addition, TISCO brokerage volume in the first quarter of 2015 comprised of 27.0% of local institutions, 24.6% of foreign institutions, and 48.4% of retail customers.

## **(3) Asset Management Business**

As of March 31, 2015, assets under management of TISCO Asset Management Co., Ltd. was 174,243.95 million baht, grew by 4,527.22 million baht (2.7% QoQ). In the first quarter of 2015, basic fee income from asset management totaled 292.97 million baht, increased by 82.01 million baht (38.9% YoY) due to the growth in assets under management amid the better capital market condition, as well as the issuance of various mutual funds, such as 4 of "TISCO Oil trigger funds", 3 of "TISCO China Equity trigger funds", 1 of "TISCO Japan trigger fund" and 3 of "TISCO Thai Equity trigger funds", of which were well responded to market demand.

The composition of total asset under management was 64.0% provident fund, 17.0% private fund, and 19.0% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2015 was 3.4%, ranking 9<sup>th</sup> in the market. The market share of provident fund was 13.1%, ranking 4<sup>th</sup> in the market. The market share of private fund was 5.7%, ranking 8<sup>th</sup> in the market. For mutual fund, the market share was 0.9%, ranking 13<sup>th</sup> in the market.

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<sup>1</sup> Total Deposits includes deposits and short-term bill of exchanges

**Risk Management**

As of March 31, 2015, TISCO Group's internal capital stood at 25,126.90 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 84.02 million baht from the end of 2014 to 8,834.03 million baht, resulting from a decrease in credit risk capital. In addition, the capital surplus remained strong at 16,292.87 million baht or 64.8% of total internal capital.

Comparing to the end of 2014, the credit risk capital stood at 6,561.11 million baht, decreasing by 125.34 million baht or 1.9% following loan portfolio contraction by 2.8% during the period. The non-performing loan of TISCO Group slightly increased from 2.58% at the end of 2014 to 2.65% at the end of the first quarter of 2015 resulted from lower loan base.

The market risk capital increased from 163.92 million baht to 205.23 million baht, resulting from an increase in risk capital of investment and non-listed portfolios as gain in market value decreased along with SET index as well as increasing market volatility. Meanwhile, the overall duration gap decreased to 0.98 year, which was in a manageable level. The assets duration fell from 1.40 year to 1.39 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, stood at 0.41 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 2015, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 17.08%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 12.65% and 4.42%, 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 60.24%, which was higher than the minimum required ratio by the SEC of 7.0%.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	1Q14		1Q15		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,517.02	41.7	1,455.76	36.7	(4.0)
Interest on interbank and money market items	236.27	6.5	140.40	3.5	(40.6)
Hire purchase and financial lease income	3,057.29	84.1	2,699.71	68.1	(11.7)
Investments	105.92	2.9	77.89	2.0	(26.5)
<b>Total interest income</b>	<b>4,916.50</b>	<b>135.2</b>	<b>4,373.76</b>	<b>110.4</b>	<b>(11.0)</b>
Interest expenses	(2,651.59)	(72.9)	(1,974.23)	(49.8)	(25.5)
<b>Net interest income</b>	<b>2,264.91</b>	<b>62.3</b>	<b>2,399.53</b>	<b>60.6</b>	<b>5.9</b>
Fee income					
Fee income	1,283.72	35.3	1,302.50	32.9	1.5
Fee expenses	(48.48)	(1.3)	(58.40)	(1.5)	20.5
<b>Net fee income</b>	<b>1,235.24</b>	<b>34.0</b>	<b>1,244.09</b>	<b>31.4</b>	<b>0.7</b>
Gain on investment and foreign exchange transaction	12.89	0.4	103.20	2.6	700.5
Share of profit from invest in subsidiaries	12.73	0.4	20.70	0.5	62.6
Other operating income	219.37	6.0	247.37	6.2	12.8
<b>Total operating income</b>	<b>3,745.15</b>	<b>103.0</b>	<b>4,014.89</b>	<b>101.3</b>	<b>7.2</b>
Expenses to business promotion relating to the business	(108.15)	(3.0)	(52.67)	(1.3)	
<b>Total net operating income</b>	<b>3,637.00</b>	<b>100.0</b>	<b>3,962.22</b>	<b>100.0</b>	<b>8.9</b>
Other operating expenses	(1,286.96)		(1,500.57)		
Bad debt and doubtful account and impairment loss of debt securities	(1,175.76)		(971.55)		
<b>Profit before income tax and minority interest</b>	<b>1,174.28</b>		<b>1,490.10</b>		<b>26.9</b>
Corporate income tax expenses	(230.69)		(291.67)		
<b>Profit before minority interest</b>	<b>943.59</b>		<b>1,198.43</b>		<b>27.0</b>
Non-controlling interests of the subsidiaries	(8.90)		(5.96)		
<b>Net profit</b>	<b>934.69</b>		<b>1,192.47</b>		<b>27.6</b>

**Table2: Interest Spread**

%	2014	1Q14	4Q14	1Q15
Yield on Loans	6.5	6.5	6.5	6.4
Cost of fund	3.2	3.5	3.0	2.9
<b>Loan spread</b>	<b>3.3</b>	<b>3.0</b>	<b>3.5</b>	<b>3.5</b>

**Table 3: Assets Breakdown**

Assets	December 31, 2014		March 31, 2015		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,180.48	0.4	1,081.59	0.4	(8.4)
Interbank and Money Market Items	38,057.99	12.0	30,056.95	9.9	(21.0)
Derivative Asset	0.00	0.0	5.36	0.0	n.a.
Investment in Fixed income	13,119.50	4.1	13,934.66	4.6	6.2
Investment in Equity	1,675.95	0.5	1,520.35	0.5	(9.3)
Investments in subsidiaries, associate and joint venture	207.23	0.1	217.90	0.1	5.2
Corporate Loans	53,083.22	16.7	50,038.59	16.6	(5.7)
Retail Loans	181,494.16	57.1	176,702.99	58.5	(2.6)
Commercial Loans	23,389.51	7.4	23,006.53	7.6	(1.6)
Other Loans	4,816.94	1.5	4,688.95	1.6	(2.7)
Allowance for doubtful accounts and for loss on debt restructuring	(6,950.42)	(2.2)	(7,096.03)	(2.3)	2.1
Other Assets	7,598.94	2.4	8,049.14	2.7	5.9
<b>Total – The Company</b>	<b>317,673.50</b>	<b>100.0</b>	<b>302,206.99</b>	<b>100.0</b>	<b>(4.9)</b>

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2014		March 31, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	18,862.96	7.2	17,508.95	6.9	(7.2)
Real estate and construction	12,160.59	4.6	11,355.33	4.5	(6.6)
Public utilities and services	21,802.94	8.3	20,922.52	8.2	(4.0)
Agriculture and mining	256.73	0.1	251.79	0.1	(1.9)
<b>Corporate Loans</b>	<b>53,083.22</b>	<b>20.2</b>	<b>50,038.59</b>	<b>19.7</b>	<b>(5.7)</b>
<b>Commercial Loans</b>	<b>23,389.51</b>	<b>8.9</b>	<b>23,006.53</b>	<b>9.0</b>	<b>(1.6)</b>
Hire purchase	165,095.00	62.8	160,082.34	62.9	(3.0)
Mortgage	1,310.82	0.5	1,420.76	0.6	8.4
Consumer	15,088.34	5.7	15,199.89	6.0	0.7
<b>Retail Loans</b>	<b>181,494.16</b>	<b>69.1</b>	<b>176,702.99</b>	<b>69.4</b>	<b>(2.6)</b>
Others	4,816.94	1.8	4,688.95	1.8	(2.7)
<b>Total – The Company</b>	<b>262,783.83</b>	<b>100.0</b>	<b>254,437.06</b>	<b>100.0</b>	<b>(3.2)</b>

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2014			March 31, 2015			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.61	115.63	1.7	0.92	161.47	
Real estate and construction	0.55	66.97	1.0	0.63	71.45	1.1	6.7
Public utilities and services	0.34	73.41	1.1	0.47	98.46	1.5	34.1
Agriculture and mining	0.75	1.92	0.0	0.52	1.32	0.0	(31.4)
<b>Total NPL - Corporate Loans</b>	<b>0.49</b>	<b>257.93</b>	<b>3.8</b>	<b>0.66</b>	<b>332.70</b>	<b>4.9</b>	<b>29.0</b>
<b>NPL-Commercial Loans</b>	<b>1.02</b>	<b>239.36</b>	<b>3.5</b>	<b>1.16</b>	<b>266.97</b>	<b>4.0</b>	<b>11.5</b>
Hire purchase	3.35	5,533.19	82.0	3.36	5,380.94	79.8	(2.8)
Mortgage	7.33	96.04	1.4	6.76	96.07	1.4	0.0
Consumer	2.57	387.39	5.7	2.88	437.64	6.5	13.0
<b>Total NPL - Retail Loans</b>	<b>3.32</b>	<b>6,016.62</b>	<b>89.1</b>	<b>3.35</b>	<b>5,914.66</b>	<b>87.7</b>	<b>(1.7)</b>
<b>Others</b>	<b>4.91</b>	<b>236.29</b>	<b>3.5</b>	<b>4.86</b>	<b>228.10</b>	<b>3.4</b>	<b>(3.5)</b>
<b>Total NPL – The Company</b>	<b>2.57</b>	<b>6,750.20</b>	<b>100.0</b>	<b>2.65</b>	<b>6,742.42</b>	<b>100.0</b>	<b>(0.1)</b>

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2014		March 31, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	213,090.11	73.0	206,200.17	74.9	(3.2)
Interbank and money market items	10,897.49	3.7	11,305.46	4.1	3.7
Debentures	57,699.90	19.8	46,875.90	17.0	(18.8)
Others	10,162.31	3.5	10,833.05	3.9	6.2
<b>Total – The Company and Subsidiaries</b>	<b>291,849.81</b>	<b>100.0</b>	<b>275,214.59</b>	<b>100.0</b>	<b>(5.7)</b>

Table 7: Deposits Structure

Type of Deposits	December 31, 2014		March 31, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	2,915.43	1.4	3,382.06	1.6	16.0
Saving accounts	49,606.05	23.3	51,808.58	25.1	4.4
Fixed accounts	23,961.31	11.2	23,873.64	11.6	(0.4)
Negotiate certificate deposit	128,900.99	60.5	121,084.67	58.7	(6.1)
Short-term borrowings	7,706.32	3.6	6,051.22	2.9	(21.5)
<b>Total deposits</b>	<b>213,090.11</b>	<b>100.0</b>	<b>206,200.17</b>	<b>100.0</b>	<b>(3.2)</b>



**Table 8: Assets under Management Breakdown by Type of Fund**

Type of Fund	December 31, 2014		March 31, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	110,451.63	65.1	111,539.58	64.0	1.0
Private Fund	29,645.55	17.5	29,561.22	17.0	(0.3)
Mutual Fund	29,619.55	17.5	33,143.14	19.0	11.9
<b>Total</b>	<b>169,716.73</b>	<b>100.0</b>	<b>174,243.95</b>	<b>100.0</b>	<b>2.7</b>

**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, 2014	March 31, 2015	December 31, 2014	March 31, 2015
	Assets	1.40	1.39	1,309.53
Liabilities*	0.37	0.41	(1,780.69)	(1,560.24)
<b>Net Gap</b>	<b>1.03</b>	<b>0.98</b>	<b>(471.16)</b>	<b>(344.39)</b>

Note: \* Exclude saving and current account