

## Management Discussion and Analysis For the First Quarter ended March 31, 2017

(This report discusses principal changes in the unaudited consolidated financial statement for the first quarter ended March 31, 2017)

### Movement of Money Market and Capital Market

In the first quarter of 2017, the domestic economy gradually improved following the continual improvement in export sector, together with the government spending still remained a growth driver. Private consumption also exhibited sign of recovery as seen from the domestic car sale in the first 2 months of 2017 which increased by 15.4% (YoY), totaled 125,689 units. Hence, the headline inflation for the quarter was reported at 1.3%, following the increase in oil and food prices.

The Bank of Thailand (BOT) maintained the policy rate at 1.50%. The average 3-month fixed deposit rates of Top-4 commercial banks remained stable at 0.93% (YTD), while the average minimum lending rate of Top-4 commercial banks remained at 6.26% (YTD). Moreover, in March 2017, US Federal Reserve raised the policy rate by 0.25%.

The capital market in the first quarter of 2017 slowed down from the previous quarter following the lower market trading volume. The average daily turnover decreased from 52,452.72 million baht in the fourth quarter of 2016 to 48,336.95 million baht, resulting from the increasing foreign capital outflow amid volatile domestic and global market conditions, as well as the U.S. Federal Reserve's interest rate raise. Hence, SET index closed at 1,575.11 points, increased by 32.17 points or 2.1% from the end of 2016.

### Major Events

On March 29, 2017, the Bank of Thailand ("BOT") has approved the transfer of retail banking business, considered to be part of important business, of Standard Chartered Bank (Thai) Public Company Limited including personal loan business, business client loan business, mortgage loan business, wealth management, retail deposits business and also branches to TISCO Bank Public Company Limited. The BOT also approved the transfer of credit card business, considered to be part of important business, from the Standard Chartered Bank (Thai) Public Company Limited to All-Ways Company Limited, the subsidiaries which the Company. The transaction shall be effective starting from April 1, 2017. TISCO Bank Public Company Limited, All-Ways Company Limited and Standard Chartered Bank (Thai) Public Company Limited will jointly determine the business transfer date, however, the transfer is expected to be completed within year 2017.

## Operating Results

### The Management Discussion and Analysis compares operating performance of the first quarter of 2017 and 2016

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 74.80 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 2017, the net profit attributed to owners of the Company totaled 1,490.76 million baht, increased by 235.73 million baht (18.8% YoY), which mainly contributed by improved net interest income and non-interest income from core business<sup>1</sup>, as well as the lower provision expense comparing to the same period of last year. Net interest income increased by 2.7% (YoY) from the ability to maintain overall loan yield and the effective cost management. Non-interest income from core business improved by 13.3% (YoY), from all business sectors. Banking fee increased by 3.4% (YoY) amid economic recovery. Brokerage fee income grew by 10.5% (YoY) following increasing market trading volume and the improved market share of TISCO Securities. Asset management basic fee also increased by 20.1% (YoY) from the issuance of funds corresponding to the market demand during the volatile capital market. Moreover, the Company recorded investment banking fee from underwriting service during the quarter. In addition, provision expense declined by 23.3% (YoY) from the improved asset quality.

Non-performing loans (NPLs) continually declined following improved asset quality in both hire purchase business and corporate lending business, thanks to effective credit control. As a result, the NPL ratio at the end of the first quarter decreased from 2.54% to 2.37% (YTD) while the loan loss provision coverage ratio increased to 164.0%.

Basic earnings per share for the first quarter of 2017 was at 1.86 baht per share, increased from 1.57 baht per share in the first quarter of 2016. Meanwhile, the return on average equity (ROAE) was at 18.6%, increased from 17.5% (YoY).

### Net Interest Income

Net interest income in the first quarter of 2017 was 2,763.96 million baht, increased by 71.76 million baht (2.7% YoY). Total interest income was 3,925.12 million baht, decreased by 141.48 million baht (3.5% YoY) while interest expense declined by 213.25 million baht (15.5% YoY) to 1,161.15 million baht, owing to a further decline in cost of fund and the Company's effective cost management.

Yield on loan improved from 6.6% to 6.7% (YoY) from the shift in loan portfolio mix from hire purchase loan to consumer loans that offer higher yield. While, cost of fund decreased from 2.3% to 2.0%

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

(YoY) driven by a continual decline in funding cost. Consequently, loan spread increased from 4.3 to 4.7% (YoY). In addition, the net interest margin also rose from 3.9% to 4.1% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 2,011.45 million baht, increased by 300.73 million baht (17.6% YoY). Impairment losses on loans totaled 752.51 million baht, comparing with 981.48 million baht in the first quarter of 2016, mainly resulting from the effective credit control.

### **Non-interest Income**

Non-interest income of the Company's core businesses reported at 1,680.93 million baht, increased by 197.14 million baht (13.3% YoY), from the growth in all business sectors. Banking fee income reported at 1,006.00 million baht, increased by 32.66 million baht (3.4% YoY) amid the economic recovery. Brokerage fee income increased by 20.17 million baht (10.5% YoY) to 213.11 million baht following increasing market trading volume and the improvement in TISCO Securities' market share. Meanwhile, asset management basic fee reported at 301.00 million baht, grew by 50.36 million baht (20.1% YoY). Moreover, the Company recorded the investment banking fee amounting 114 million baht from underwriting service during the quarter.

### **Non-interest Expenses**

Non-interest expenses were 1,798.17 million baht, increased by 231.83 million baht (14.8% 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 40.9%.

### **Corporate Income Tax**

In the first quarter of 2017, the corporate income tax was 350.84 million baht, equivalent to the effective tax rate of 19.0%, declined from 19.7% (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, 2017 and December 31, 2016**

**Assets**

As of March 31, 2017, the Company's total assets were 266,850.41 million baht, decreased by 1.6% (YTD) mainly due to the decline in loan portfolio from 224,934.00 million baht to 220,522.70 million baht (2.0% YTD) and the decrease in interbank and money market from 38,067.42 million baht to 36,446.20 million baht (4.2% YTD).

**Liabilities**

As of March 31, 2017, total liabilities were 233,947.72 million baht, decreased by 2.5% (YTD), due to the decrease in total deposits from 161,034.44 million baht to 160,955.96 million baht (0.05% YTD) and the decline in debentures from 64,362.00 million baht to 57,400.00 million baht (10.8% YTD). The liabilities mix comprised of 68.8% total deposits including bill of exchange, 2.2% interbank and money market items, 24.5% debentures, and 4.4% other liabilities.

**Shareholders' Equity**

As of March 31, 2017, shareholders' equity was 32,902.69 million baht, increased by 1,577.14 million baht (5.0% YTD) from an increase in retained earnings of the first quarter of 2017. As a result, the book value per share (BVPS) as of March 31, 2017 was 41.10 baht per share, increased from 39.13 baht per share (YTD).

## Business Segment Performance

### (1) Banking Business

#### Loans

Total loans and receivables as of March 31, 2017 were 220,522.70 million baht, declined by 4,411.31 million baht (2.0% YTD), following the cautious lending policy. The composition of loan portfolio was 71.9% of retail loans, 21.5% of corporate loans, 6.3% of commercial loans and 0.3% of other loans.

**Retail Lending** portfolio totaled 158,485.05 million baht or decreased by 1.9% (YTD), where the portfolio consisted of 84.5% car and motorcycle hire purchase, 14.9% consumer loans and 0.6% mortgage loans. The outstanding hire purchase loans totaled 133,887.68 million baht, declined by 2.5% (YTD), resulting from the cautious lending policy amid high level of household debt. The domestic car sale in the first 2 months of 2017 was 125,689 units, increased by 15.4% (YoY), compared to 108,914 units in the first 2 months of 2016. The car penetration rate of TISCO for the first 2 months declined from 10.3% to 7.4% (YoY). Meanwhile, consumer loans amounted 23,648.61 million baht, increased by 420.41 million baht (1.8% YTD).

**Corporate Lending** portfolio totaled 47,482.78 million baht, increased by 972.83 million baht (2.1% YTD), partly due to the loan drawdown from the clients in real estate and construction sector. Furthermore, during the quarter, the Company has made loan classification adjustment by reclassifying some clients in Commercial Lending sector to Corporate Lending sector at the approximate amount of 2,100 million baht, with purpose to improve efficiency of loan management.

**Commercial Lending** portfolio totaled 13,864.04 million baht, dropped by 2,590.03 million baht (15.7% YTD) primarily from the decline in loan demand from logistic sector and the reclassification of some clients to Corporate Lending sector.

**Other Loans** portfolio totaled 690.83 million baht, increased by 213.15 million baht (44.6% YTD).

#### Deposits and Borrowings

Total deposits and borrowings totaled 218,355.96 million baht, decreased by 3.1% (YTD). Total deposits totaled 160,955.96 million baht, decreased by 78.48 million baht (0.05% YTD), while debentures totaled 57,400.00 million baht, decreased by 6,962.00 million baht (10.8% YTD). As of March 31, 2017, the Bank had liquid assets totaling 40,222.45 million baht or 18.4% of total deposits and borrowings.

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

In the first quarter of 2017, the NPL ratio was reported at 2.37%, decreased from 2.54% (YTD). NPL ratio of retail loan, corporate loan, and commercial loan were 2.70%, 0.81%, and 3.99% respectively. Total NPLs reported at 5,220.80 million baht, decreased by 489.35 million baht (8.6% YTD), which comprised of 4,683.68 million baht from the Bank and 537.12 million baht from other subsidiaries. The NPL amount continually declined (YoY) driven by the improved credit quality of the overall loan portfolio and the effective credit control.

The Company set up provision for the quarter at 752.51 million baht, accounted for 1.35% of average loan, and decreased comparing with 981.48 million baht (YoY), mainly due to the improved asset quality of the loan portfolio. At the end of the first quarter of 2017, loan loss reserve of the Company was 8,560.33 million baht while total loan loss reserve of the Bank was 8,110.49 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,167.53 million baht or accounted 194.61% of minimum loan loss reserve requirement. Most of the provision set up for this quarter was general reserve for countercyclical buffer, reflecting the Company's prudent policy to cushion against business volatility. As a result, the loan loss provision coverage ratio at the end of the quarter increased to 164.0%.

## **(2) Securities Business**

In the first quarter of 2017, average daily turnover of TISCO Securities was 2,253.39 million baht, increased by 19.8% (YoY) from 1,881.08 million baht, following an increase in market trading volume during the capital market volatility, as well as the improved market share. TISCO Securities' market share improved from 2.4% to 2.6% (YoY). The market share of retail investors increased from 1.7% to 1.9% (YoY), while the market share of foreign institution sector increased from 2.0% to 2.6% (YoY). Meanwhile, the market share of local institution sector (excluding proprietary trading) declined from 6.5% to 5.6% (YoY). All in all, TISCO brokerage volume comprised of 27.8% of local institutions, 33.3% of foreign institutions, and 38.9% of retail customers. In addition, TISCO Securities reported brokerage fee income growth of 10.5% (YoY) totaled 213.11 million baht.

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

As of March 31, 2017, assets under management of TISCO Asset Management Co., Ltd. was reported at 211,910.16 million baht, increased by 9.7% (YTD), mainly from the growth in all business areas. The basic fee income from asset management totaled 301.00 million baht, grew by 20.1% (YoY) where during the quarter, TISCO Asset Management Co., Ltd. continuously issued various types of mutual funds corresponding to market demands amid capital market volatility.

The composition of total asset under management was 64.0% provident fund, 17.7% private fund, and 18.4% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2017 was 3.1%, ranking 9<sup>th</sup> in the market. The market share of provident fund was 13.7%, ranking 3<sup>rd</sup> in the market. The market share of private fund was 3.6%, ranking 8<sup>th</sup> in the market. For mutual fund, the market share was 0.8%, ranking 15<sup>th</sup> in the market.

## **Risk Management**

As of March 31, 2017, TISCO Group's internal capital stood at 29,561.77 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 203.74 million baht from the end of 2016 to 10,033.81 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 19,527.96 million baht or 66.1% of total capital.

Comparing to the end of 2016, the credit risk capital stood at 7,535.67 million baht, which increased by 255.77 million baht or 3.5% following some conservative adjustment in risk capital buffer, while loan portfolio contracted by 2.0% during the quarter. The non-performing loan of TISCO Group decreased from 2.54% to 2.37% compared to the end of 2016.

The market risk capital decreased from 204.62 million baht to 152.59 million baht, resulting from a decrease in risk capital of investment. Meanwhile, the overall duration gap increased to 0.81 year, which was in a manageable level. The assets duration remained at 1.48 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, fell from 0.70 year to 0.67 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 2017, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 19.77%, remaining higher than the 9.75% required by the Bank of Thailand. Tier-I and Tier-II capital adequacy ratio stood at 14.88% and 4.89%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 7.25%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 70.65%, which was higher than the minimum required ratio by the SEC of 7.0%.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	1Q2016		1Q2017		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,352.69	32.9	1,444.48	32.8	6.8
Interest on interbank and money market items	140.51	3.4	119.23	2.7	(15.1)
Hire purchase and financial lease income	2,527.85	61.5	2,309.92	52.5	(8.6)
Investments	45.54	1.1	51.48	1.2	13.0
<b>Total interest income</b>	<b>4,066.60</b>	<b>98.9</b>	<b>3,925.12</b>	<b>89.2</b>	<b>(3.5)</b>
Interest expenses	(1,374.40)	(33.4)	(1,161.15)	(26.4)	(15.5)
<b>Net interest income</b>	<b>2,692.20</b>	<b>65.4</b>	<b>2,763.96</b>	<b>62.8</b>	<b>2.7</b>
Fee income					
Fee income	1,338.82	32.5	1,512.06	34.4	12.9
Fee expenses	(57.85)	(1.4)	(60.67)	(1.4)	4.9
<b>Net fee income</b>	<b>1,280.97</b>	<b>31.1</b>	<b>1,451.39</b>	<b>33.0</b>	<b>13.3</b>
Gain on investment and foreign exchange transaction	(24.1)	(0.6)	(11.28)	(0.3)	(53.2)
Share of profit from invest in subsidiaries	19.53	0.5	27.26	0.6	39.5
Other operating income	237.65	5.8	237.61	5.4	(0.0)
<b>Total operating income</b>	<b>4,206.23</b>	<b>102.3</b>	<b>4,468.94</b>	<b>101.6</b>	<b>6.2</b>
Expenses to business promotion relating to the business	(92.68)	(2.3)	(68.74)	(1.6)	
<b>Total net operating income</b>	<b>4,113.55</b>	<b>100.0</b>	<b>4,400.20</b>	<b>100.0</b>	<b>7.0</b>
Other operating expenses	(1,566.34)		(1,798.17)		
Bad debt and doubtful account and impairment loss of debt securities	(981.48)		(752.51)		
<b>Profit before income tax and minority interest</b>	<b>1,565.73</b>		<b>1,849.52</b>		<b>18.1</b>
Corporate income tax expenses	(308.88)		(350.84)		
<b>Profit before minority interest</b>	<b>1,256.85</b>		<b>1,498.68</b>		<b>19.2</b>
Non-controlling interests of the subsidiaries	(1.82)		(7.91)		
<b>Net profit</b>	<b>1,255.03</b>		<b>1,490.76</b>		<b>18.8</b>

**Table2: Interest Spread**

%	2016	1Q16	4Q16	1Q17
Yield on Loans	6.6	6.6	6.7	6.7
Cost of fund	2.2	2.3	2.1	2.0
<b>Loan spread</b>	<b>4.5</b>	<b>4.3</b>	<b>4.6</b>	<b>4.7</b>

**Table 3: Assets Breakdown**

Assets	December 31, 2016		March 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,149.00	0.4	1,097.16	0.4	(4.5)
Interbank and Money Market Items	38,067.42	14.0	36,466.20	13.7	(4.2)
Derivative Asset	0.00	0.0	0.00	0.0	n.a.
Investment – Net	7,188.84	2.7	8,766.12	3.3	21.9
Investments in subsidiaries, associate and joint venture	442.75	0.2	469.44	0.2	6.0
Corporate Loans	46,509.94	17.1	47,482.78	17.8	2.1
Retail Loans	161,492.31	59.5	158,485.05	59.4	(1.9)
Commercial Loans	16,454.07	6.1	13,864.04	5.2	(15.7)
Other Loans	477.68	0.2	690.83	0.3	44.6
Allowance for doubtful accounts and for loss on debt restructuring	(7,983.64)	(2.9)	(8,560.33)	(3.2)	7.2
Other Assets	7,474.02	2.8	8,089.12	3.0	8.2
<b>Total – The Company</b>	<b>271,272.40</b>	<b>100.0</b>	<b>266,850.41</b>	<b>100.0</b>	<b>(1.6)</b>



**Table 4: Loans and Receivables Breakdown**

Type of Business	December 31, 2016		March 31, 2017		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	10,496.69	4.7	9,181.34	4.2	(12.5)
Real estate and construction	11,696.34	5.2	13,847.56	6.3	18.4
Public utilities and services	23,908.50	10.6	24,055.47	10.9	0.6
Agriculture and mining	408.41	0.2	398.40	0.2	(2.5)
<b>Corporate Loans *</b>	<b>46,509.94</b>	<b>20.7</b>	<b>47,482.78</b>	<b>21.5</b>	<b>2.1</b>
<b>Commercial Loans *</b>	<b>16,454.07</b>	<b>7.3</b>	<b>13,864.04</b>	<b>6.3</b>	<b>(15.7)</b>
Hire purchase	137,285.30	61.0	133,887.68	60.7	(2.5)
Mortgage	978.81	0.4	948.76	0.4	(3.1)
Consumer	23,228.20	10.3	23,648.61	10.7	1.8
<b>Retail Loans</b>	<b>161,492.31</b>	<b>71.8</b>	<b>158,485.05</b>	<b>71.9</b>	<b>(1.9)</b>
Others	477.68	0.2	690.83	0.3	44.6
<b>Total – The Company</b>	<b>224,934.00</b>	<b>100.0</b>	<b>220,522.70</b>	<b>100.0</b>	<b>(2.0)</b>

\*Remarks: If excluded the reclassification of some clients from Commercial Loans to Corporate Loans, Commercial Loans and Corporate Loans would decline by 3.4% and 2.3% (YTD) respectively.

**Table 5: NPL Breakdown by Area**

Type of Business	December 31, 2016			March 31, 2017			% Change
	% NPL	Amount	%	% NPL	Amount	%	
		(Bt. million)			(Bt. million)		
Manufacturing and commerce	1.78	187.21	3.3	1.77	162.40	3.1	(13.3)
Real estate and construction	0.70	81.57	1.4	0.57	78.75	1.5	(3.5)
Public utilities and services	0.52	123.39	2.2	0.52	124.65	2.4	1.0
Agriculture and mining	4.85	19.83	0.3	4.24	16.91	0.3	(14.7)
<b>Total NPL - Corporate Loans</b>	<b>0.89</b>	<b>412.01</b>	<b>7.2</b>	<b>0.81</b>	<b>382.71</b>	<b>7.3</b>	<b>(7.1)</b>
<b>NPL-Commercial Loans</b>	<b>3.62</b>	<b>595.16</b>	<b>10.4</b>	<b>3.99</b>	<b>553.86</b>	<b>10.6</b>	<b>(6.9)</b>
Hire purchase	2.94	4,042.75	70.8	2.72	3,636.95	69.7	(10.0)
Mortgage	9.32	91.24	1.6	8.77	83.16	1.6	(8.9)
Consumer	2.44	567.17	9.9	2.38	562.50	10.8	(0.8)
<b>Total NPL - Retail Loans</b>	<b>2.91</b>	<b>4,701.16</b>	<b>82.3</b>	<b>2.70</b>	<b>4,282.62</b>	<b>82.0</b>	<b>(8.9)</b>
Others	0.38	1.81	0.0	0.23	1.61	0.0	(10.9)
<b>Total NPL – The Company</b>	<b>2.54</b>	<b>5,710.14</b>	<b>100.0</b>	<b>2.37</b>	<b>5,220.80</b>	<b>100.0</b>	<b>(8.6)</b>

**Table 6: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2016		March 31, 2017		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	161,034.44	67.1	160,955.96	68.8	(0.0)
Interbank and money market items	5,196.60	2.2	5,242.05	2.2	0.9
Debentures	64,362.00	26.8	57,400.00	24.5	(10.8)
Others	9,353.81	3.9	10,349.71	4.4	10.6
<b>Total – The Company and Subsidiaries</b>	<b>239,946.86</b>	<b>100.0</b>	<b>233,947.72</b>	<b>100.0</b>	<b>(2.5)</b>

**Table 7: Deposits Structure**

Type of Deposits	December 31, 2016		March 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,690.70	2.3	3,018.77	1.9	(18.2)
Saving accounts	51,928.03	32.2	51,625.30	32.1	(0.6)
Fixed accounts	14,839.89	9.2	18,728.38	11.6	26.2
Negotiate certificate deposit	84,608.90	52.5	82,626.59	51.3	(2.3)
Short-term borrowings	5,966.92	3.7	4,956.92	3.1	(16.9)
<b>Total deposits</b>	<b>161,034.44</b>	<b>100.0</b>	<b>160,955.96</b>	<b>100.0</b>	<b>(0.0)</b>

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

Type of Fund	December 31, 2016		March 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	131,073.24	67.9	135,573.40	64.0	3.4
Private Fund	26,732.95	13.8	37,411.98	17.7	39.9
Mutual Fund	35,356.24	18.3	38,924.78	18.4	10.1
<b>Total</b>	<b>193,162.42</b>	<b>100.0</b>	<b>211,910.16</b>	<b>100.0</b>	<b>9.7</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, 2016	March 31, 2017	December 31, 2016	March 31, 2017
Assets	1.48	1.48	1,075.50	1,052.36
Liabilities*	0.70	0.67	(1,065.21)	(1,043.40)
<b>Net Gap</b>	<b>0.78</b>	<b>0.81</b>	<b>10.29</b>	<b>8.96</b>

Note: \* Exclude saving and current account