

Management Discussion and Analysis For the Third Quarter ended September 30, 2019

(This report discusses principal changes in the reviewed consolidated financial statement for the quarter ended September 30, 2019)

Movement of Money Market and Capital Market

In the third quarter of 2019, domestic economy remained sluggish driven by the further drop in export following the trade war between US and China and strong Thai Baht. Private consumption growth also slowed down caused by weak domestic demand and the stringent lending practices by commercial banks. The domestic car sale for the first 9 months of 2019 was at 761,847 units or increased by 2.0% (YoY), of which growth was slower. Nonetheless, tourism sector started to improve. Overall, the headline inflation for the third quarter of 2019 was reported at 0.61% due to the drop in oil price.

During the quarter, US Federal Reserve reduced its interest rate 2 times to 1.75 – 2.00% to stimulate the economy amid the slowdown in global economy and prolonged trade war. The Bank of Thailand (BOT) also reduced the policy rate from 1.75% to 1.50% in August 2019. Comparing to the previous quarter, the average 3-month fixed deposit rates of Top-4 commercial banks remained stable at 0.99% and the average minimum lending rate of Top-4 commercial banks was also stable at 6.20%. Meanwhile, the average minimum overdraft rate (MOR) and the average minimum retail rate (MRR) decreased to 6.84% and 6.93% respectively.

In the third quarter of 2019, market trading volume increased from all investor types amid the volatile world economy, with average daily turnover increased from 53,143.09 million baht in the second quarter of 2019 to 61,385.22 million baht. However, SET index closed at 1,637.22 points, decreased by 93.12 points or 5.4% comparing to 1,730.34 points at the end of previous quarter following the fund outflow from foreign institution investors.

Major Events

On 4 September 2019, TISCO Financial Group Public Company (Limited) and TISCO Securities Company Limited, which is the subsidiary of TISCO Group, signed an agreement to terminate the joint venture agreement in "Deutsche TISCO Investment Advisory Company Limited", a joint venture between TISCO Securities and Deutsche Bank group that operated under an investment advisory license in Thailand. The agreement was effective from 9 September 2019 onward. Subsequent to the termination, TISCO Securities will continue its businesses to provide securities brokerage service and equity research as usual.

Operating Results

The Management Discussion and Analysis compares operating performance of the third quarter of 2019

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations on a standalone basis totaling 87.55 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 companies 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 third quarter of 2019

In the third quarter of 2019, the net profit attributed to owners of the Company totaled 1,877.74 million baht, increased by 62.89 million baht or 3.5% (YoY), mainly driven by lower provision expense. Net interest income remained stable (YoY) despite declining loan spread to 4.8%. Non-interest income from core business slightly increased by 0.2% (YoY) from all business sectors. Provision expense declined by 84.1% (YoY) aligning with credit quality of loan portfolios. Thus, the Company maintained the high level of return on average equity (ROAE) at 20.6%.

Operating results for the first 9 months of 2019

For the first 9 months of 2019, the net profit was reported at 5,405.49 million baht, increased by 115.39 million baht or 2.2% (YoY), due to a decline in provision expense by 83.4% (YoY). Net interest income declined by 2.3% (YoY) from the sale of personal loan portfolios in the second quarter of 2018. Non-interest income from core business decreased by 5.8% (YoY) from the decrease in loan-related fee income and capital market fee income. Operating expenses increased by 4.3% (YoY) following the adjustment of employee benefits in accordance with the new regulation.

Composition of Operating Income

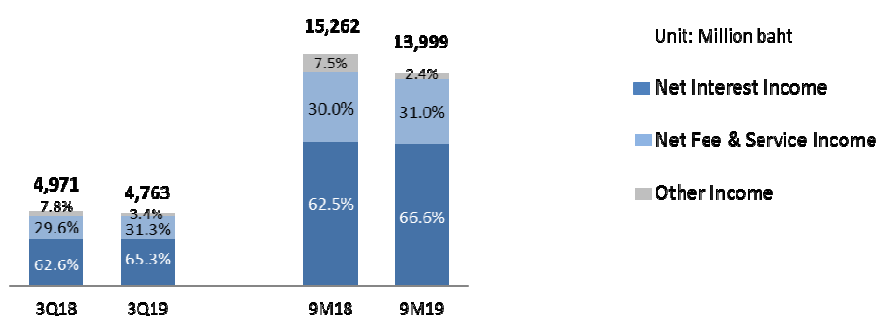


Table 1 : Consolidated Revenue Structure

Type of Revenue (Million baht)	3Q2019	3Q2018	%YoY	9M2019	9M2018	%YoY
Interest income						
Interest on loans	2,022.88	1,991.93	1.6	5,977.72	6,096.96	(2.0)
Interest on interbank and money market items	107.29	192.88	(44.4)	472.31	515.31	(8.3)
Hire purchase and financial lease income	2,180.01	2,167.59	0.6	6,514.51	6,554.78	(0.6)
Investments	66.49	55.97	18.8	181.83	143.59	26.6
Total interest income	4,376.67	4,408.37	(0.7)	13,146.38	13,310.63	(1.2)
Interest expenses	(1,266.14)	(1,298.29)	(2.5)	(3,825.91)	(3,774.72)	1.4
Net interest income	3,110.53	3,110.08	0.0	9,320.47	9,535.91	(2.3)
Fee income						
Fee income	1,560.56	1,531.65	1.9	4,545.84	4,756.51	(4.4)
Fee expenses	(69.57)	(57.98)	20.0	(207.44)	(182.40)	13.7
Net fee income	1,490.99	1,473.67	1.2	4,338.40	4,574.10	(5.2)
Gain on investment and foreign exchange transaction	8.2	212.7	(96.2)	(28.46)	495.75	(105.7)
Share of profit from invest in subsidiaries	26.2	22.2	18.0	(5.69)	191.53	(103.0)
Other operating income	127.29	152.65	(16.6)	374.67	464.33	(19.3)
Total operating income	4,763.19	4,971.32	(4.2)	13,999.39	15,261.62	(8.3)
Other operating expenses	(2,302.62)	(2,179.42)	5.7	(6,891.97)	(6,605.83)	4.3
Bad debt and doubtful account and impairment loss of debt securities	(125.13)	(788.36)	(84.1)	(370.87)	(2,236.94)	(83.4)
Profit before income tax and minority interest	2,335.44	2,003.54	16.6	6,736.55	6,418.85	4.9
Corporate income tax expenses	(459.32)	(392.23)	17.1	(1,328.20)	(1,229.66)	8.0
Profit from continuing operations	1,876.12	1,611.31	16.4	5,408.35	5,189.20	4.2
Profit/Loss from discontinued operations	-	210.73	n.a.	-	128.31	n.a.
Profit before minority interest	1,876.12	1,822.04	3.0	5,408.35	5,317.50	1.7
Non-controlling interests of the subsidiaries	1.62	(7.18)	(122.5)	(2.85)	(27.40)	(89.6)
Net profit	1,877.74	1,814.86	3.5	5,405.49	5,290.10	2.2

Basic earnings per share for the third quarter of 2019 was 2.35 baht per share, increased from 2.27 baht per share in the third quarter of 2018, with the return on average equity (ROAE) remained strong at 20.6%.

Net Interest Income

Net interest income for the third quarter of 2019 was stable at 3,110.53 million baht (YoY). Total interest income was 4,376.67 million baht, decreased by 31.70 million baht (0.7% YoY), while interest expense increased by 32.15 million baht to 1,266.14 million baht (2.5% YoY).

Yield on loan was stable 6.9% while the cost of fund increased from 2.0% to 2.1% (YoY) following an increase in new deposits with higher cost to replace the matured debentures. Consequently, loan spread dropped from 4.9% to 4.8% (YoY). Whereas, the net interest margin increased from 4.1% to 4.3% (YoY) due to lower liquidity level.

Table 2 : Loan Spread

%	2018	3Q2018	2Q2019	3Q2019
Yield on Loans	6.9	6.9	6.9	6.9
Cost of fund	2.0	2.0	2.1	2.1
Loan spread	4.9	4.9	4.8	4.8

The Company reported the net interest income after impairment loss of loans and debt securities totaled 2,985.40 million baht, increased by 663.68 million baht (28.6% YoY). Impairment losses on loans totaled 125.13 million baht, reduced comparing with 788.36 million baht in the third quarter of 2018 aligning with credit quality of loan portfolios.

Non-interest Income

In the third quarter of 2019, non-interest income was at 1,652.66 million baht, declined by 11.2% (YoY) mainly due to the absence of gain on investment recorded in the third quarter of 2018. While, non-interest income from core business totaled 1,687.85 million baht, increased by 0.2% (YoY) from all business sectors. Banking fee income improved by 56.89 million baht (5.5% YoY) to 1,097.39 million baht following the improvement in bancassurance business. Brokerage fee income increased by 6.55 million baht (3.4% YoY) to 201.42 million baht following the increasing trading volume from local institution investors and retail investors. Asset management basic fee also grew by 17.09 million baht (5.1% YoY) to 355.29 million baht from the growth in assets under management.

In this quarter, the Company did not report "Profit from discontinued operations" which derived from the sale of credit card business in the third quarter of the previous year.

Non-interest Expenses

Non-interest expenses were 2,302.62 million baht, increased by 123.19 million baht (5.7% YoY) partly from the increase in variable expenses associated with revenue growth. The Company still maintained effective operating cost control with cost to income after provision ratio at 49.6%.

Corporate Income Tax

In the third quarter of 2019, the corporate income tax was 459.32 million baht, equivalent to the effective tax rate of 19.7%, increased from 19.6% in the third quarter of last year.

Financial Positions

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of September 30, 2019 and June 30, 2019

Assets

As of September 30, 2019, the Company's total assets were 283,866.23 million baht, decreased by 2.9% (QoQ). Total loan portfolios contracted from 241,215.12 million baht to 240,741.72 million baht (0.2% QoQ), interbank and money market declined from 39,528.53 million baht to 36,358.48 million baht (8.0% QoQ), and investment decreased from 11,954.45 million baht to 7,943.25 million baht (33.6% QoQ).

Table 3 : Assets Breakdown

Assets	September 30, 2019		June 30, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,096.45	0.4	1,136.02	0.4	(3.5)
Interbank and Money Market Items	36,358.48	12.8	39,528.53	13.5	(8.0)
Derivatives	0.00	0.0	29.35	0.0	(100.0)
Investment – Net	7,943.25	2.8	11,954.45	4.1	(33.6)
Investments in subsidiaries, associate and JV	795.89	0.3	769.09	0.3	3.5
Corporate Loans	35,093.73	12.4	33,654.18	11.5	4.3
Retail Loans	11,892.33	4.2	12,568.52	4.3	(5.4)
Commercial Loans	191,580.67	67.5	193,156.93	66.1	(0.8)
Other Loans	2,174.99	0.8	1,835.49	0.6	18.5
Allowance for doubtful accounts and for loss on debt restructuring	(11,248.96)	(4.0)	(11,308.99)	(3.9)	(0.5)
Other Assets	8,179.40	2.9	9,055.48	3.1	(9.7)
Total Assets	283,866.23	100.0	292,379.05	100.0	(2.9)

Liabilities

As of September 30, 2019, total liabilities were 246,471.34 million baht, decreased by 4.0% (QoQ) due mainly to the decrease in interbank and money market from 10,692.90 million baht to 6,385.69 million baht (40.3% QoQ) and the decrease in debentures from 32,815.00 million baht to 24,200.00 million baht (26.3% QoQ). Whereas, total deposits increased from 199,265.29 million baht to 202,820.13 million baht (1.8% QoQ)

Table 4 : Liabilities Breakdown

Liabilities	September 30, 2019		June 30, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	202,820.13	82.3	199,265.29	77.6	1.8
Interbank and money market items	6,385.69	2.6	10,692.90	4.2	(40.3)
Debentures	24,200.00	9.8	32,815.00	12.8	(26.3)
Others	13,065.52	5.3	13,957.06	5.4	(6.4)
Total Liabilities	246,471.34	100.0	256,730.25	100.0	(4.0)

Shareholders' Equity

As of September 30, 2019, shareholders' equity was 37,394.89 million baht, increased by 1,746.09 million baht (4.9% QoQ) from an increase in retained earnings of the third quarter of 2019. As a result, the book value per share (BVPS) as of September 30, 2019 was 46.71 baht per share, increased from 44.52 baht per share (QoQ).

Business Segment Operations

(1) Banking Business

Loans

Total loans and receivables as of September 30, 2019 were 240,741.72 million baht, dropped by 473.40 million baht (0.2% QoQ), mainly driven by the slowdown in retail lending business and loan repayment from commercial lending business. The composition of loan portfolio was 79.6% of retail loans, 14.6% of corporate loans, 4.9% of commercial loans and 0.9% of other loans.

Retail Lending portfolio totaled 191,580.67 million baht, dropped by 0.8% (QoQ). The total retail portfolio as of September 30, 2019 consisted of 72.8% car and motorcycle hire purchase loans, 17.9% loans against auto license and 9.3% housing loans. The outstanding hire purchase loans totaled 139,384.83 million baht, decreased by 1.2% (QoQ) following the sluggish domestic demand. The domestic car sale for the first 9 months of 2019 was 761,847 units, increased by 2.0% (YoY), compared to 746,584 units in the first 9 months of 2018. The car penetration rate of TISCO for the first 9 months of 2019 dropped from 6.7% to 6.5% (YoY).

Loans against auto license ("Auto Cash") amounted 34,292.37 million baht, grew by 959.51 million baht (2.9% QoQ), from the increased new business through all channels – bank branches and loan offices – aligning with network expansion strategy, especially from the expansion through "Somwang" channels which resulted in loan growth of 1,076.72 million baht (6.6% QoQ) to total of 17,278.52 million baht, which accounted for 50.4% of total loans against auto license. All in all, at the end of the quarter, "Somwang" loan offices totaled 279 branches nationwide.

Housing loans consist of mortgage loans which totaled 15,543.02 million baht, dropped by 4.3% (QoQ) and home-equity loans which totaled 2,360.45 million baht, declined by 5.3% (QoQ) amidst the highly competitive market condition and the stringent mortgage lending measures.

Corporate Lending portfolio totaled 35,093.73 million baht, grew by 1,439.55 million baht (4.3% QoQ), due to the loan drawdown from the clients in real estate and construction sector.

Commercial Lending portfolio totaled 11,892.33 million baht, dropped by 676.19 million baht (5.4% QoQ) mainly resulted from the loan repayment in car inventory financing.

Other Loans portfolio totaled 2,174.99 million baht, increased by 18.5% from the end of the previous quarter.

Table 5 : Loans Breakdown

Type of Loans	September 30, 2019		June 30, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and Commerce	2,388.69	1.0	2,353.73	1.0	1.5
Real Estate and Construction	13,443.16	5.6	12,100.22	5.0	11.1
Public Utilities and Services	19,261.88	8.0	19,200.23	8.0	0.3
Corporate Loans	35,093.73	14.6	33,654.18	14.0	4.3
Commercial Loans	11,892.33	4.9	12,568.52	5.2	(5.4)
Hire Purchase	139,384.83	57.9	141,085.69	58.5	(1.2)
Loans against auto license	34,292.37	14.2	33,332.86	13.8	2.9
Mortgage Loans	15,543.02	6.5	16,246.20	6.7	(4.3)
Home-Equity Loans	2,360.45	1.0	2,492.17	1.0	(5.3)
Retail Loans	191,580.67	79.6	193,156.93	80.1	(0.8)
Others	2,174.99	0.9	1,835.49	0.8	18.5
Total Loans	240,741.72	100.0	241,215.12	100.0	(0.2)

Deposits and Borrowings

Total deposits and borrowings amounted 227,020.13 million baht, decreased by 2.2% (QoQ). Total deposits reported at 202,820.13 million baht, increased by 3,554.85 million baht (1.8% QoQ) while debentures totaled 24,200.00 million baht, decreased by 8,615.00 million baht (26.3% QoQ). As of September 30, 2019, the Bank had liquid assets totaling 42,180.76 million baht, decreased by 5,955.07 million baht (12.4% QoQ). Thus, the liquid assets were accounted for 18.6% of total deposits and borrowings.

Table 6 : Deposits Structure

Type of Deposits	September 30, 2019		June 30, 2019		Change (% YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,848.45	1.4	2,424.24	1.2	17.5
Saving accounts	37,662.45	18.6	40,282.07	20.2	(6.5)
Fixed accounts	54,355.55	26.8	53,509.96	26.9	1.6
Negotiate certificate deposit	107,916.77	53.2	103,012.09	51.7	4.8
Short-term borrowings	36.92	0.0	36.92	0.0	0.0
Total Deposits	202,820.13	100.0	199,265.29	100.0	1.8

Non-Performing Loans (NPLs) and Loan Loss Provision

In the third quarter of 2019, the Company reported NPLs amounting 6,658.43 million baht, decreased by 1,032.51 million baht (13.4% QoQ), which resulted from the partial completion of the payment hierarchy system revision aligning payment hierarchy and loan classification. Consequently, NPLs of related clients have reverted back to normal. The NPLs comprised of 6,010.86 million baht from the Bank and 647.56 million baht from other subsidiaries. NPL ratio reduced from 3.19% to 2.77% (QoQ). NPL ratio of retail loans, corporate loans, and commercial loans were 3.25%, 0.74%, and 1.42% respectively.

The Company set up provision expense at 125.13 million baht, accounted for 0.21% of average loan, and decreased comparing with 788.36 million baht (YoY), where the setup of loan loss reserve for this quarter was aligning with the credit profile of the loan portfolios. Therefore, loan loss reserve of the Company totaled 11,248.96 million baht while total loan loss reserve of the Bank was 10,579.03 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,509.80 million baht or accounted 228.5% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of the third quarter improved to 168.9%.

Table 7 : NPLs Breakdown

NPLs	September 30, 2019			June 30, 2019			Change (%YoY)
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and Commerce	10.94	261.29	3.9	11.34	266.80	3.5	(2.1)
Real Estate and Construction	-	-	0.0	-	-	0.0	n.a.
Public Utilities and Services	-	-	0.0	-	-	0.0	n.a.
NPLs - Corporate Loans	0.74	261.29	3.9	0.79	266.80	3.5	(2.1)
NPLs - Commercial Loans	1.42	168.35	2.5	1.03	129.62	1.7	29.9
Hire Purchase	2.79	3,894.54	58.5	2.84	4,009.98	52.1	(2.9)
Loans against auto license	2.73	935.63	14.1	5.59	1,862.66	24.2	(49.8)
Mortgage Loans	6.62	1,028.34	15.4	5.97	969.64	12.6	6.1
Home-Equity Loans	15.47	365.06	5.5	17.83	444.41	5.8	(17.9)
NPLs - Retail Loans	3.25	6,223.57	93.5	3.77	7,286.69	94.7	(14.6)
Others	0.24	5.22	0.1	0.43	7.83	0.1	(33.4)
Total NPLs	2.77	6,658.43	100.0	3.19	7,690.94	100.0	(13.4)

(2) Securities Business

In the third quarter of 2019, average daily turnover of TISCO Securities declined from 2,271.83 million baht to 1,832.12 million baht (YoY), mainly resulted by Deutsche Bank exited the equities trading and the termination of the joint venture agreement in "Deutsche TISCO Investment Advisory Company Limited". Consequently, TISCO Securities' market share dropped from 2.5% to 1.7% (YoY) mainly from the market share of foreign institution sector that declined from 2.2% to 0.2% (YoY). Nevertheless, the market share of local institution sector (excluding proprietary trading) and the market share of retail investors improved to 6.6% and 1.9% respectively. At the end of the third quarter of 2019, TISCO brokerage volume comprised of 51.7% of local institutions, 4.7% of foreign institutions, and 43.5% of retail customers.

Even though the trading volume of TISCO Securities has weakened, brokerage fee income improved by 3.4% (YoY), totaling 201.42 million baht, deriving from the increase in the trading volume of local institution investors and retail investors.

(3) Asset Management Business

As of September 30, 2019, assets under management of TISCO Asset Management Co., Ltd. reported at 281,181.22 million baht, increased by 7.3% (QoQ), from the growth in provident fund business and private fund business. Comparing to the third quarter of 2018, the basic fee income from asset management increased by 5.1% (YoY) totaled 355.29 million baht. Nonetheless, total asset management fee income softened caused by the adoption of IFRS 15 'Revenue from Contracts with Customers', where incentive fee is to be recognized at the end of the year in place of accrual treatment throughout the year

The composition of total asset under management was 63.2% provident fund, 20.2% private fund, and 16.6% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of September 30, 2019 was 3.7%, ranking 8th in the market. The market share of provident fund was 14.6%, ranking 1st in the market. The market share of private fund was 5.4%, ranking 4th in the market and the market share of mutual fund was 0.9%, ranking 14th in the market.

Table 8 : Assets under Management Breakdown

Type of Funds	September 30, 2019		June 30, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	177,748.72	63.2	170,182.85	64.9	4.4
Private Fund	56,732.91	20.2	45,146.95	17.2	25.7
Mutual Fund	46,699.59	16.6	46,721.46	17.8	(0.0)
Total AUMs	281,181.22	100.0	262,051.27	100.0	7.3

Risk Management

As of September 30, 2019, TISCO Group's internal capital stood at 34,674.07 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 110.92 million baht from the end of June 2019 to 15,074.44 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 19,599.63 million baht or 56.5% of total capital.

Comparing to the end of the second quarter, the credit risk capital stood at 12,182.27 million baht, which increased by 91.51 million baht or 0.8%, while loan portfolio contracted by 0.2% during the period. The non-performing loan of TISCO Group decreased from 3.2% to 2.8% compared to the end of June 2019 mainly resulting from partial completion of the revision of payment hierarchy system as mentioned earlier.

The market risk capital rose from 197.84 million baht to 217.25 million baht, resulting from higher risk capital of investment portfolio. Meanwhile, the overall duration gap slightly decreased from 0.84 year to 0.83 year, which was in a manageable level. The assets duration declined 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, remained at 0.56 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 September 2019, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 23.22%, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 18.27% and 4.95%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 8.5%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 76.49%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 9 : Average Duration Mismatch of Assets and Liabilities and Its Impact

	Duration (years)		1-Y Net interest income change to 1% interest rate increase (MB)	
	June 30, 2019	March 31, 2019	June 30, 2019	March 31, 2019
Assets	1.40	1.39	1,316.97	1,367.06
Liabilities*	0.56	0.58	(1,232.80)	(1,264.96)
Net Gap	0.84	0.81	84.17	102.11

*Note: * Exclude saving and current account*