

Management Discussion and Analysis For the Second Quarter ended June 30, 2016

(This report discusses principal changes in the reviewed consolidated financial statement for the second quarter ended June 30, 2016)

Movement of Money Market and Capital Market

In the second quarter of 2016, the domestic economy slowly improved through gradual expansion in public investment, together with recovery in private consumption and growth in tourism sector. However, private investment was still subdued, as well as the slowdown in export sector following the weak global economy. Meanwhile, the domestic car sale in the first 5 months of 2016 contracted by 2.0% (YoY), totaled 302,581 units. The headline inflation for the second quarter of 2016 was reported at 0.3%, following the increase in product and food prices, which were affected from the drought during the past months.

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% (QoQ), while the average minimum lending rate of Top-4 commercial banks decreased from 6.51% to 6.26% (QoQ).

The capital market in the second quarter of 2016 improved from the previous quarter with the increasing foreign capital inflow. Thus, SET index closed at 1,444.99 points, increased by 37.29 points or 2.6% from the end of the first quarter of 2016. While, the average daily turnover decreased from 45,168.38 million baht in the first quarter of 2016 to 44,909.51 million baht.

Operating Results

The Management Discussion and Analysis compares operating performance of the second quarter of 2016 and 2015

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations on a standalone basis totaling 90.40 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 second quarter of 2016, the net profit attributed to owners of the Company totaled 1,207.64 million baht, increased by 203.68 million baht (20.3% YoY), which mainly contributed by improved net interest income and the lower provision expense. Net interest income increased by 9.9% (YoY) from the ability to maintain overall loan yield and the effective cost management. Provision expense declined by 25.6% (YoY) from the improved asset quality. Meanwhile, non-interest income from core business¹ declined by 4.8% (YoY), mainly resulting from the slowdown in business related to capital market. Brokerage fee income declined by 3.5% (YoY) following declining market share, while asset management basic fee dropped by 16.5% (YoY) following fewer issuances of mutual funds during the quarter. Nonetheless,

banking fee increased by 3.3% (YoY) from the improvement in bancassurance business. In addition, non-performing loans (NPLs) continued to decline owing to the effective credit control, resulting in the decreasing NPL ratio from 3.07% to 3.03% (QoQ).

In the first half of 2016, the Company reported net profit totaled 2,462.67 million baht, increased by 266.25 million baht (12.1% YoY) following the increase in net interest income of 11.0% (YoY) and the decrease in provision expense of 13.9% (YoY). Meanwhile, non-interest income from core business slightly dropped by 2.8% (YoY), mainly due to decreasing brokerage fee income of 14.4% (YoY) and decreasing asset management basic fee of 15.5% (YoY) following the subdued capital market condition. However, banking fee improved by 6.9% (YoY) from the expansion in bancassurance business.

Basic earnings per share for the second quarter of 2016 was at 1.51 baht per share, increased from 1.25 baht per share in the second quarter of 2015. Meanwhile, the return on average equity (ROAE) was at 16.7%, compared with 15.1% (YoY).

Net Interest Income

Net interest income in the second quarter of 2016 was 2,690.62 million baht, increased by 242.35 million baht (9.9% YoY). Total interest income was 3,991.01 million baht, decreased by 272.13 million baht (6.4% YoY) while interest expense dropped by 514.48 million baht (28.3% YoY) to 1,300.40 million baht, owing to the continuing decline in cost of fund and the Company's effective cost management.

Yield on loan improved from 6.4% to 6.6% (YoY) while cost of fund decreased from 2.8% to 2.2% (YoY) driven by a continual decline in funding cost. Consequently, loan spread increased from 3.7% to 4.4% (YoY). In addition, the net interest margin also rose from 3.3% to 4.0% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 1,765.08 million baht, increased by 560.73 million baht (46.6% YoY). Impairment losses on loans totaled 925.53 million baht, declined by 25.6% (YoY) from 1,243.91 million baht, mainly resulting from improved asset quality and the effective credit control.

Non-interest Income

Non-interest income of the Company's core businesses reported at 1,375.61 million baht, decreased by 68.79 million baht (4.8% YoY), mainly due to the decrease in brokerage fee income by 6.89 million baht (3.5% YoY) following the weak market share, as well as the decline in asset management basic fee by 51.28 million baht (16.5% YoY) following fewer issuances of mutual funds comparing to the previous year. However, banking fee income increased by 28.44 million baht (3.3% YoY) contributed by strong bancassurance fee.

Non-interest Expenses

Non-interest expenses were 1,605.07 million baht, increased by 171.55 million baht (12.0% YoY), mainly from the increase in variable expenses associated with revenue growth. The Company still

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

maintained effective operating cost control, resulting in low cost to income ratio at 39.8%, compared with 36.5% in the second quarter of 2015.

Corporate Income Tax

In the second quarter of 2016, the corporate income tax was 289.04 million baht, equivalent to the effective tax rate of 19.3%, comparing to 19.4% in the same quarter of 2015.

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of June 30, 2016 and March 31, 2016

Assets

As of June 30, 2016, the Company's total assets were 270,223.19 million baht, decreased by 3.2% (QoQ) mainly due to the decline in loan portfolio from 233,165.91 million baht to 230,832.66 million baht (1.0% QoQ). Interbank and money market also decreased from 36,656.64 million baht to 28,869.59 million baht (21.2% QoQ).

Liabilities

As of June 30, 2016, total liabilities were 241,499.46 million baht, decreased by 3.2% (QoQ), mainly due to the decrease in debentures from 70,030.00 million baht to 60,659.00 million baht (13.4% QoQ). Meanwhile, total deposits slightly increased from 157,859.55 million baht to 158,388.15 million baht (0.3% QoQ). The liabilities mix comprised of 65.6% total deposits including bill of exchange, 4.7% interbank and money market items, 25.1% debentures, and 4.6% other liabilities.

Shareholders' Equity

As of June 30, 2016, shareholders' equity was 28,723.73 million baht, decreased by 770.97 million baht (2.6% QoQ) as the Company paid annual dividend from operation result for the year 2015 at 2.40 baht per common and preferred share in May 2016. The total dividend payment was 1,921 million baht with dividend payout ratio of 45.2%. As a result, the book value per share (BVPS) as of June 30, 2016 was 35.88 baht per share, decreased from 36.84 baht per share (QoQ).

Business Segment Performance**(1) Banking Business****Loans**

Total loans and receivables as of June 30, 2016 were 230,832.66 million baht, declined by 2,333.26 million baht (1.0% QoQ), following subdued domestic economy and the slow recovery of domestic auto market. The composition of loan portfolio was 70.6% of retail loans, 19.3% of corporate loans, 7.8% of commercial loans and 2.3% of other loans.

Retail Lending portfolio totaled 162,981.36 million baht or decreased by 2.4% (QoQ), where the portfolio consisted of 89.2% car, motorcycle and other hire purchase, 10.1% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 145,380.10 million baht, declined by 2.9% (QoQ), stemming from the weak domestic consumption and high level of household debt, along with the continuing effect from sluggish auto market. As a result, the domestic car sale in the first 5 months of 2016 was 302,581 units, decreased by 2.0% (YoY), compared to 308,787 units in the first 5 months of 2015. However, the car penetration rate of TISCO for the first 5 months improved from 8.4% to 8.7% (YoY). In addition, consumption loans amounted 16,522.46 million baht, increased by 230.96 million baht (1.4% QoQ).

Corporate Lending portfolio totaled 44,563.87 million baht, increased by 2,460.83 million baht (5.8% QoQ), mainly due to the loan drawdown from the clients in public utilities and services sector.

Commercial Lending portfolio totaled 18,049.16 million baht, declined by 1,094.00 million baht (5.7% QoQ) from the weak lending demand from Car Inventory Financing during economic slowdown, and the impact from weak industry car sale.

Other Loans portfolio totaled 5,238.26 million baht, increased by 392.78 million baht (8.1% QoQ).

Deposits and Borrowings

Total deposits and borrowings totaled 219,047.15 million baht, decreased by 3.9% (QoQ). Total deposits totaled 158,388.15 million baht, increased by 528.59 million baht (0.3% QoQ), while debentures totaled 60,659.00 million baht, decreased by 9,371.00 million baht (13.4% QoQ). As of June 30, 2016, the Bank had liquid assets totaling 33,313.60 million baht or 15.2% of total deposits and borrowings.

Non-Performing Loans (NPLs) and Loan Loss Provision

In the second quarter of 2016, the NPL ratio decreased from 3.07% to 3.03% (QoQ). NPL ratio of retail loan, corporate loan, and commercial loan were 3.15%, 2.78%, and 2.70% respectively. The NPL amount continued to decline following the improved credit quality of the loan portfolio, which consists of hire purchase loan and corporate loan, from the effective credit control. Total NPLs reported at 6,999.96 million baht, decreased by 158.13 million baht (2.2% QoQ), which comprised of 6,316.34 million baht from the Bank and 683.62 million baht from other subsidiaries.

The Company set up provision for the quarter of 925.53 million baht, accounted for 1.60% of average loan, and decreased comparing with 1,243.91 million baht (YoY), mainly due to the improved asset quality of the loan portfolio. The provision included the setup of excess loan loss reserve of 250 million baht, to cushion against potential business volatility. Hence, if excluded the setup of excess reserve, the provision would report at 1.16% of average loan. As of the second quarter of 2016, loan loss reserve of the Company was 6,792.37 million baht while total loan loss reserve of the Bank was 6,254.85 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,353.31 million baht or accounted 143.68% of minimum loan loss reserve requirement.

(2) Securities Business

At the end of the second quarter of 2016, average daily turnover of TISCO Securities was 2,182.74 million baht, increased by 1.0% (YoY) from 2,160.41 million baht, following an increase in market trading volume. Nonetheless, TISCO Securities' market share declined from 2.9% to 2.4% (YoY). The market share of retail investors decreased from 1.8% to 1.6% (YoY), while the market share of local institution sector (excluding proprietary trading) declined from 8.1% to 6.5% (YoY). Moreover, the market share of foreign institution sector decreased from 3.8% to 3.3% (YoY). All in all, TISCO brokerage volume comprised of 28.7% of local institutions, 35.6% of foreign institutions, and 35.7% of retail customers.

(3) Asset Management Business

As of June 30, 2016, assets under management of TISCO Asset Management Co., Ltd. was reported at 181,240.58 million baht, increased by 1.7% (QoQ), mainly from the growth in provident fund and mutual fund businesses. The basic fee income from asset management in the second quarter of 2016 totaled 260.12 million baht, dropped by 51.28 million baht (16.5% YoY) following fewer issuances of mutual funds.

The composition of total asset under management was 69.0% provident fund, 12.7% private fund, and 18.3% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2016 was 3.1%, ranking 10th in the market. The market share of provident fund was 13.4%, ranking 3rd in the market. The market share of private fund was 3.3%, ranking 8th in the market. For mutual fund, the market share was 0.8%, ranking 15th in the market.

Risk Management

As of June 30, 2016, TISCO Group's internal capital stood at 27,105.49 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 441.89 million baht from the end of March 2016 to 9,939.29 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 17,166.20 million baht or 63.3% of total capital.

Comparing to the end of the first quarter, the credit risk capital stood at 7,386.36 million baht, increased by 452.98 million baht or 6.5% following some conservative adjustment in risk capital calculation, while loan portfolio contracted by 1.0% during the quarter. The non-performing loan of TISCO Group decreased from 3.1% to 3.0% mainly resulting from improved credit profile particularly HP business.

The market risk capital decreased from 276.42 million baht to 215.56 million baht, resulting from a decrease in risk capital of investment portfolio along with improved SET Index. Meanwhile, the overall duration gap

decreased to 0.82 year, which was in a manageable level. The assets duration decreased from 1.53 year to 1.52 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.61 year to 0.70 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 June 2016, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 18.66%, remaining higher than the 9.125% required by the Bank of Thailand. Tier-I and Tier-II capital adequacy ratio stood at 14.65% and 4.01%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6.625%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 39.88%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q15		2Q16		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,416.01	36.0	1,347.44	33.4	(4.8)
Interest on interbank and money market items	142.58	3.6	133.45	3.3	(6.4)
Hire purchase and financial lease income	2,627.61	66.9	2,466.19	61.2	(6.1)
Investments	76.95	2.0	43.93	1.1	(42.9)
Total interest income	4,263.15	108.5	3,991.01	99.1	(6.4)
Interest expenses	(1,814.88)	(46.2)	(1,300.40)	(32.3)	(28.3)
Net interest income	2,448.27	62.3	2,690.62	66.8	9.9
Fee income					
Fee income	1,347.73	34.3	1,237.43	30.7	(8.2)
Fee expenses	(45.90)	(1.2)	(52.80)	(1.3)	15.0
Net fee income	1,301.83	33.1	1,184.64	29.4	(9.0)
Gain on investment and foreign exchange transaction	47.78	1.2	(4.59)	(0.1)	(109.6)
Share of profit from invest in subsidiaries	35.20	0.9	19.95	0.5	(43.3)
Other operating income	231.43	5.9	208.62	5.2	(9.9)
Total operating income	4,064.52	103.4	4,099.24	101.7	0.9
Expenses to business promotion relating to the business	(134.76)	(3.4)	(70.44)	(1.7)	
Total net operating income	3,929.77	100.0	4,028.80	100.0	2.5
Other operating expenses	(1,433.52)		(1,605.07)		
Bad debt and doubtful account and impairment loss of debt securities	(1,243.91)		(925.53)		
Profit before income tax and minority interest	1,252.34		1,498.20		19.6
Corporate income tax expenses	(243.26)		(289.04)		
Profit before minority interest	1,009.08		1,209.16		19.8
Non-controlling interests of the subsidiaries	(5.12)		(1.52)		
Net profit	1,003.96		1,207.64		20.3

Table2: Interest Spread

%	2015	2Q15	1Q16	2Q16
Yield on Loans	6.5	6.4	6.6	6.6
Cost of fund	2.6	2.8	2.3	2.2
Loan spread	3.9	3.7	4.3	4.4

Table 3: Assets Breakdown

Assets	March 31, 2016		June 30, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,093.98	0.4	974.37	0.4	(10.9)
Interbank and Money Market Items	36,656.64	13.1	28,869.59	10.7	(21.2)
Derivative Asset	0.00	0.0	0.00	0.0	n.a.
Investment in Fixed income	5,520.83	2.0	5,756.07	2.1	4.3
Investment in Equity	1,350.12	0.5	1,375.21	0.5	1.9
Investments in subsidiaries, associate and joint venture	324.44	0.1	346.44	0.1	6.8
Corporate Loans	42,103.04	15.1	44,563.87	16.5	5.8
Retail Loans	167,074.23	59.9	162,981.36	60.3	(2.4)
Commercial Loans	19,143.16	6.9	18,049.16	6.7	(5.7)
Other Loans	4,845.48	1.7	5,238.26	1.9	8.1
Allowance for doubtful accounts and for loss on debt restructuring	(6,389.06)	(2.3)	(6,792.37)	(2.5)	6.3
Other Assets	7,336.91	2.6	8,861.23	3.3	20.8
Total – The Company	279,059.75	100.0	270,223.19	100.0	(3.2)

Table 4: Loans and Receivables Breakdown

Type of Business	March 31, 2016		June 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	10,739.25	4.6	9,182.92	4.0	(14.5)
Real estate and construction	12,064.75	5.2	11,858.08	5.1	(1.7)
Public utilities and services	18,927.35	8.1	23,159.14	10.0	22.4
Agriculture and mining	371.70	0.2	363.73	0.2	(2.1)
Corporate Loans	42,103.04	18.1	44,563.87	19.3	5.8
Commercial Loans	19,143.16	8.2	18,049.16	7.8	(5.7)
Hire purchase	149,664.59	64.2	145,380.10	63.0	(2.9)
Mortgage	1,118.14	0.5	1,078.80	0.5	(3.5)
Consumer	16,291.50	7.0	16,522.46	7.2	1.4
Retail Loans	167,074.23	71.7	162,981.36	70.6	(2.4)
Others	4,845.48	2.1	5,238.26	2.3	8.1
Total – The Company	233,165.91	100.0	230,832.66	100.0	(1.0)

Table 5: NPL Breakdown by Area

Type of Business	March 31, 2016			June 30, 2016			% Change
	% NPL	Amount	%	% NPL	Amount	%	
		(Bt. million)			(Bt. million)		
Manufacturing and commerce	9.33	1,001.83	14.0	11.00	1,010.49	14.4	0.9
Real estate and construction	0.68	81.51	1.1	0.70	82.76	1.2	1.5
Public utilities and services	0.62	117.93	1.6	0.57	132.61	1.9	12.4
Agriculture and mining	2.36	8.76	0.1	3.69	13.43	0.2	53.3
Total NPL - Corporate Loans	2.87	1,210.03	16.9	2.78	1,239.29	17.7	2.4
NPL-Commercial Loans	2.58	493.17	6.9	2.70	488.06	7.0	(1.0)
Hire purchase	3.23	4,830.39	67.5	3.19	4,635.34	66.2	(4.0)
Mortgage	5.90	65.99	0.9	7.18	77.49	1.1	17.4
Consumer	2.53	411.45	5.7	2.52	416.57	6.0	1.2
Total NPL - Retail Loans	3.18	5,307.83	74.2	3.15	5,129.40	73.3	(3.4)
Others	3.04	147.07	2.1	2.73	143.21	2.0	(2.6)
Total NPL – The Company	3.07	7,158.09	100.0	3.03	6,999.96	100.0	(2.2)

Table 6: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2016		June 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	157,859.55	63.3	158,388.15	65.6	0.3
Interbank and money market items	12,304.45	4.9	11,361.29	4.7	(7.7)
Debentures	70,030.00	28.1	60,659.00	25.1	(13.4)
Others	9,371.04	3.8	11,091.02	4.6	18.4
Total – The Company and Subsidiaries	249,565.05	100.0	241,499.46	100.0	(3.2)

Table 7: Deposits Structure

Type of Deposits	March 31, 2016		June 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,970.97	2.5	3,121.38	2.0	(21.4)
Saving accounts	45,941.09	29.1	48,330.18	30.5	5.2
Fixed accounts	17,169.44	10.9	16,270.34	10.3	(5.2)
Negotiate certificate deposit	85,791.13	54.3	84,279.33	53.2	(1.8)
Short-term borrowings	4,986.92	3.2	6,386.92	4.0	28.1
Total deposits	157,859.55	100.0	158,388.15	100.0	0.3

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2016		June 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	121,793.37	68.3	125,088.58	69.0	2.7
Private Fund	23,766.29	13.3	23,066.18	12.7	(2.9)
Mutual Fund	32,650.41	18.3	33,085.82	18.3	1.3
Total	178,210.07	100.0	181,240.58	100.0	1.7

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)	
	March 31, 2016	June 30, 2016	March 31, 2016	June 30, 2016
	Assets	1.53	1.52	1,041.01
Liabilities*	0.61	0.70	(1,242.31)	(1,085.71)
Net Gap	0.92	0.82	(201.30)	(103.84)

Note: * Exclude saving and current account