

## Management Discussion and Analysis For the Third Quarter ended September 30, 2016

(This report discusses principal changes in the unaudited consolidated financial statement for the third quarter ended September 30, 2016)

### Movement of Money Market and Capital Market

In the third quarter of 2016, the domestic economy gradually improved through the expansion in public investment and the recovery in export sector, together with the continuing growth in tourism sector. Meanwhile, domestic consumption and private investment continued to go on in a slow pace. Thus, the domestic car sale in the first 8 months of 2016 was stable (YoY), totaled 492,884 units. The headline inflation for the third quarter of 2016 was reported at 0.3%, following the increase in gas 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% (QoQ), while the average minimum lending rate of Top-4 commercial banks was also stable at 6.26% (QoQ).

The capital market in the third quarter of 2016 improved from the previous quarter following the increasing foreign capital inflow, along with the increase in market trading volume. Therefore, the average daily turnover increased from 44,909.51 million baht in the second quarter of 2016 to 58,100.86 million baht. SET index closed at 1,483.21 points, increased by 38.22 points or 2.6% from the end of the second quarter of 2016.

### Operating Results

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

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations on a standalone basis totaling 81.08 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 third quarter of 2016, the net profit attributed to owners of the Company totaled 1,249.96 million baht, increased by 440.18 million baht (54.4% YoY), which mainly contributed by improved net interest income and non-interest income, as well as the lower provision expense comparing to the previous year. Net interest income increased by 5.7% (YoY) from the ability to maintain overall loan yield and the effective cost management. Non-interest income from core business<sup>1</sup> improved by 12.9% (YoY), mainly resulting from the improvement in business related to capital market. Brokerage fee income increased by 28.3% (YoY) following increasing market trading volume, while asset management fee also increased by 30.0% (YoY) mainly from the increase in performance fee from improving market condition, as well as the

increasing issuances of mutual funds corresponding to the market demand. Moreover, the Company recorded investment banking fee from underwriting service during the past quarter. Nonetheless, banking fee dropped by 1.7% (YoY) following the contraction in lending business. Meanwhile, provision expense declined by 49.1% (YoY), however remained at a cautious level, partly from the setup of countercyclical provision against business volatility, and the setup for the increase in non-performing loans (NPLs) in commercial lending business.

Basic earnings per share for the second quarter of 2016 was at 1.56 baht per share, increased from 1.01 baht per share in the third quarter of 2015. Meanwhile, the return on average equity (ROAE) was at 17.1%, increased from 12.2% (YoY).

### **Net Interest Income**

Net interest income in the third quarter of 2016 was 2,767.36 million baht, increased by 150.45 million baht (5.7% YoY). Total interest income was 3,975.44 million baht, decreased by 200.86 million baht (4.8% YoY) while interest expense declined by 351.32 million baht (22.5% YoY) to 1,208.08 million baht, owing to a further decline in cost of fund and the Company's effective cost management.

Yield on loan improved from 6.5% 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 2.5% to 2.1% (YoY) driven by a continual decline in funding cost. Consequently, loan spread increased from 4.1% to 4.6% (YoY). In addition, the net interest margin also rose from 3.6% to 4.2% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 1,666.10 million baht, increased by 1,214.76 million baht (269.1% YoY). Impairment losses on loans totaled 1,101.26 million baht, comparing with 2,165.57 million baht in the same quarter of previous year, mainly resulting from the effective credit control.

### **Non-interest Income**

Non-interest income of the Company's core businesses reported at 1,602.70 million baht, increased by 183.53 million baht (12.9% YoY), mainly due to the improvement in business related to capital market amid the recovery in capital market condition. Brokerage fee income grew by 54.21 million baht (28.3% YoY) following increasing market trading volume, while asset management fee increased by 78.17 million baht (30.0% YoY) mainly due to the increase in performance fee from the improving market condition and the increasing issuances of mutual funds corresponding to the market demand comparing to the previous year. Moreover, the Company recorded the investment banking fee amounting 48.95 million baht from underwriting service during the third quarter. However, banking fee income decreased by 15.86 million baht (1.7% YoY) in align with the contraction in lending business.

---

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

### Non-interest Expenses

Non-interest expenses were 1,651.51 million baht, increased by 723.36 million baht (77.9% 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 38.2%.

### Corporate Income Tax

In the third quarter of 2016, the corporate income tax was 316.90 million baht, equivalent to the effective tax rate of 20.1%, comparing to 19.6% 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 September 30, 2016 and June 30, 2016**

### Assets

As of September 30, 2016, the Company's total assets were 265,922.35 million baht, decreased by 1.6% (QoQ) mainly due to the decline in loan portfolio from 230,832.66 million baht to 226,436.74 million baht (1.9% QoQ) and the decrease in investments from 7,131.27 million baht to 7,045.41 million baht (1.2% QoQ).

### Liabilities

As of September 30, 2016, total liabilities were 235,904.81 million baht, decreased by 2.3% (QoQ), mainly due to the decrease in interbank and money market from 11,361.29 million baht to 8,310.02 million baht (26.9% QoQ) and the decrease in debentures from 60,659.00 million baht to 58,255.00 million baht (4.0% QoQ). Meanwhile, total deposits increased from 158,388.15 million baht to 159,326.37 million baht (0.6% QoQ). The liabilities mix comprised of 67.5% total deposits including bill of exchange, 3.5% interbank and money market items, 24.7% debentures, and 4.2% other liabilities.

### Shareholders' Equity

As of September 30, 2016, shareholders' equity was 30,017.54 million baht, increased by 1,293.81 million baht (4.5% QoQ) from an increase in retained earnings of the third quarter of 2016. As a result, the book value per share (BVPS) as of September 30, 2016 was 37.49 baht per share, increased from 35.88 baht per share (QoQ).

## Business Segment Performance

### (1) Banking Business

#### Loans

Total loans and receivables as of September 30, 2016 were 226,436.74 million baht, declined by 4,395.92 million baht (1.9% QoQ), following weak domestic economy and the slow recovery in domestic auto market. The composition of loan portfolio was 72.3% of retail loans, 19.5% of corporate loans, 8.0% of commercial loans and 0.2% of other loans.

**Retail Lending** portfolio totaled 163,762.00 million baht or decreased by 2.4% (QoQ), where the portfolio consisted of 85.8% car and motorcycle hire purchase, 13.6% consumer loans and 0.6% mortgage loans. The outstanding hire purchase loans totaled 140,535.53 million baht, declined by 3.3% (QoQ), resulting from the weak domestic consumption and high level of household debt, along with the continuing effect from sluggish domestic car sales. The domestic car sale in the first 8 months of 2016 was 492,884 units, increased by 0.2% (YoY), compared to 491,963 units in the first 8 months of 2015. However, the car penetration rate of TISCO for the first 8 months declined from 8.5% to 8.4% (YoY). In addition, in this quarter, the Company acquired the hire purchase portfolio amounting 762 million baht, with purpose to expand business base and support the growth in hire purchase business during the economic slowdown. Meanwhile, consumption loans amounted 22,205.75 million baht, increased by 832.48 million baht (3.9% QoQ).

**Corporate Lending** portfolio totaled 44,196.14 million baht, decreased by 367.73 million baht (0.8% QoQ), mainly due to the loan repayment from the clients in public utilities and services sector and real estate and construction sector.

**Commercial Lending** portfolio totaled 18,083.75 million baht, slightly increased by 34.59 million baht (0.2% QoQ) from the increasing lending demand from Car Inventory Financing.

**Other Loans** portfolio totaled 394.85 million baht, increased by 7.39 million baht (1.9% QoQ).

#### Deposits and Borrowings

Total deposits and borrowings totaled 217,581.37 million baht, decreased by 0.7% (QoQ). Total deposits totaled 159,326.37 million baht, increased by 938.22 million baht (0.6% QoQ), while debentures totaled 58,255.00 million baht, decreased by 2,404.00 million baht (4.0% QoQ). As of September 30, 2016, the Bank had liquid assets totaling 33,621.25 million baht or 15.5% of total deposits and borrowings.

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

In the third quarter of 2016, the NPL ratio remained stable at 3.04% (QoQ). NPL ratio of retail loan, corporate loan, and commercial loan were 2.92%, 2.87%, and 4.64% respectively. Total NPLs reported at 6,886.30 million baht, decreased by 113.66 million baht (1.6% QoQ), which comprised of 6,256.55 million baht from the Bank and 629.76 million baht from other subsidiaries. The NPL amount declined following the improved credit quality of the core loan portfolio, which consists of hire purchase loan and corporate loan,

from the effective credit control. However, NPL of commercial loan increased as a result of the slowdown in domestic economy.

The Company set up provision for the quarter of 1,101.26 million baht, accounted for 1.93% of average loan, and decreased comparing with 2,165.57 million baht (YoY), mainly due to the improved asset quality of the loan portfolio and the absence of provision set up for large corporate client in the third quarter of 2015. Nonetheless, the provision still remained at a caution level, resulting from the conservative setup of provision for the increasing NPLs in commercial lending business. Moreover, the provision included the setup of excess loan loss reserve of 361 million baht, to cushion against potential business volatility. Hence, if excluded the setup of excess reserve, the provision would report at 1.30% of average loan. As of the third quarter of 2016, loan loss reserve of the Company was 7,365.19 million baht while total loan loss reserve of the Bank was 6,859.45 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,496.68 million baht or accounted 152.54% of minimum loan loss reserve requirement.

## **(2) Securities Business**

At the end of the third quarter of 2016, average daily turnover of TISCO Securities was 2,549.28 million baht, increased by 31.0% (YoY) from 1,946.15 million baht, following an increase in market trading volume. In addition, TISCO Securities reported brokerage fee income growth of 28.3% (YoY) totaled 245.85 million baht. Nonetheless, TISCO Securities' market share declined from 2.5% to 2.2% (YoY). The market share of retail investors decreased from 1.8% to 1.7% (YoY), while the market share of local institution sector (excluding proprietary trading) declined from 7.2% to 6.1% (YoY). Moreover, the market share of foreign institution sector decreased from 3.3% to 2.6% (YoY). All in all, TISCO brokerage volume comprised of 28.8% of local institutions, 32.5% of foreign institutions, and 38.7% of retail customers.

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

As of September 30, 2016, assets under management of TISCO Asset Management Co., Ltd. was reported at 189,402.10 million baht, increased by 4.5% (QoQ), mainly from the growth in all business areas. The fee income from asset management in the third quarter of 2016 totaled 339.00 million baht, improved by 30.0% (YoY) following the increase in performance fee amidst the improving capital market and the issuances of mutual funds corresponding to the market demand comparing to the previous year.

The composition of total asset under management was 68.3% provident fund, 13.0% private fund, and 18.7% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2016 was 3.0%, ranking 10<sup>th</sup> in the market. The market share of provident fund was 13.4%, ranking 3<sup>rd</sup> in the market. The market share of private fund was 3.3%, 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 September 30, 2016, TISCO Group's internal capital stood at 28,280.69 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 7.74 million baht

from the end of June 2016 to 9,909.94 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 18,370.75 million baht or 65.0% of total capital.

Comparing to the end of the second quarter, the credit risk capital stood at 7,398.06 million baht, which increased by 11.70 million baht or 0.2%, while loan portfolio contracted by 1.9% during the quarter. The non-performing loan of TISCO Group was stable at 3.0% compared to previous quarter.

The market risk capital decreased from 215.56 million baht to 211.60 million baht, resulting from a decrease in risk capital of investment. Meanwhile, the overall duration gap decreased to 0.78 year, which was in a manageable level. The assets duration decreased from 1.52 year to 1.49 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.70 year to 0.71 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 2016, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 19.87%, remaining higher than the 9.125% required by the Bank of Thailand. Tier-I and Tier-II capital adequacy ratio stood at 15.22% and 4.65%, 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 56.57%, which was higher than the minimum required ratio by the SEC of 7.0%.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	3Q15		3Q16		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,420.85	34.7	1,407.65	32.5	(0.9)
Interest on interbank and money market items	141.00	3.4	108.13	2.5	(23.3)
Hire purchase and financial lease income	2,565.17	62.6	2,409.40	55.7	(6.1)
Investments	49.28	1.2	50.26	1.2	2.0
<b>Total interest income</b>	<b>4,176.30</b>	<b>102.0</b>	<b>3,975.44</b>	<b>91.8</b>	<b>(4.8)</b>
Interest expenses	(1,559.40)	(38.1)	(1,208.08)	(27.9)	(22.5)
<b>Net interest income</b>	<b>2,616.90</b>	<b>63.9</b>	<b>2,767.36</b>	<b>63.9</b>	<b>5.7</b>
Fee income					
Fee income	1,244.87	30.4	1,462.92	33.8	17.5
Fee expenses	(46.15)	(1.1)	(56.28)	(1.3)	21.9
<b>Net fee income</b>	<b>1,198.72</b>	<b>29.3</b>	<b>1,406.64</b>	<b>32.5</b>	<b>17.3</b>
Gain on investment and foreign exchange transaction	83.14	2.0	(6.73)	(0.2)	(108.1)
Share of profit from invest in subsidiaries	23.32	0.6	21.81	0.5	(6.5)
Other operating income	256.05	6.3	205.15	4.7	(19.9)
<b>Total operating income</b>	<b>4,178.14</b>	<b>102.0</b>	<b>4,394.21</b>	<b>101.5</b>	<b>5.2</b>
Expenses to business promotion relating to the business	(81.74)	(2.0)	(65.36)	(1.5)	
<b>Total net operating income</b>	<b>4,096.40</b>	<b>100.0</b>	<b>4,328.85</b>	<b>100.0</b>	<b>5.7</b>
Other operating expenses	(928.15)		(1,651.51)		
Bad debt and doubtful account and impairment loss of debt securities	(2,165.57)		(1,101.26)		
<b>Profit before income tax and minority interest</b>	<b>1,002.68</b>		<b>1,576.08</b>		<b>57.2</b>
Corporate income tax expenses	(196.82)		(316.90)		
<b>Profit before minority interest</b>	<b>805.86</b>		<b>1,259.18</b>		<b>56.3</b>
Non-controlling interests of the subsidiaries	3.92		(9.22)		
<b>Net profit</b>	<b>809.78</b>		<b>1,249.96</b>		<b>54.4</b>

**Table2: Interest Spread**

%	2015	3Q15	2Q16	3Q16
Yield on Loans	6.5	6.5	6.6	6.7
Cost of fund	2.6	2.5	2.2	2.1
<b>Loan spread</b>	<b>3.9</b>	<b>4.1</b>	<b>4.4</b>	<b>4.6</b>

**Table 3: Assets Breakdown**

Assets	June 30, 2016		September 30, 2016		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	974.37	0.4	1,015.55	0.4	4.2
Interbank and Money Market Items	28,869.59	10.7	30,272.15	11.4	4.9
Derivative Asset	0.00	0.0	0.00	0.0	n.a.
Investment in Fixed income	5,756.07	2.1	5,645.30	2.1	(1.9)
Investment in Equity	1,375.21	0.5	1,400.11	0.5	1.8
Investments in subsidiaries, associate and joint venture	346.44	0.1	369.45	0.1	6.6
Corporate Loans	44,563.87	16.5	44,196.14	16.6	(0.8)
Retail Loans	167,832.17	62.1	163,762.00	61.6	(2.4)
Commercial Loans	18,049.16	6.7	18,083.75	6.8	0.2
Other Loans	387.46	0.1	394.85	0.1	1.9
Allowance for doubtful accounts and for loss on debt restructuring	(6,792.37)	(2.5)	(7,365.19)	(2.8)	8.4
Other Assets	8,861.23	3.3	8,148.24	3.1	(8.0)
<b>Total – The Company</b>	<b>270,223.19</b>	<b>100.0</b>	<b>265,922.35</b>	<b>100.0</b>	<b>(1.6)</b>

Table 4: Loans and Receivables Breakdown

Type of Business	June 30, 2016		September 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	9,182.92	4.0	9,367.14	4.1	2.0
Real estate and construction	11,858.08	5.1	11,474.53	5.1	(3.2)
Public utilities and services	23,159.14	10.0	22,974.81	10.1	(0.8)
Agriculture and mining	363.73	0.2	379.66	0.2	4.4
<b>Corporate Loans</b>	<b>44,563.87</b>	<b>19.3</b>	<b>44,196.14</b>	<b>19.5</b>	<b>(0.8)</b>
<b>Commercial Loans</b>	<b>18,049.16</b>	<b>7.8</b>	<b>18,083.75</b>	<b>8.0</b>	<b>0.2</b>
Hire purchase	145,380.10	63.0	140,535.53	62.1	(3.3)
Mortgage	1,078.80	0.5	1,020.72	0.5	(5.4)
Consumer	21,373.27	9.3	22,205.75	9.8	3.9
<b>Retail Loans</b>	<b>167,832.17</b>	<b>72.7</b>	<b>163,762.00</b>	<b>72.3</b>	<b>(2.4)</b>
Others	387.46	0.2	394.85	0.2	1.9
<b>Total – The Company</b>	<b>230,832.66</b>	<b>100.0</b>	<b>226,436.74</b>	<b>100.0</b>	<b>(1.9)</b>

Table 5: NPL Breakdown by Area

Type of Business	June 30, 2016			September 30, 2016			% Change
	% NPL	Amount	%	% NPL	Amount	%	
		(Bt. million)			(Bt. million)		
Manufacturing and commerce	11.00	1,010.49	14.4	10.96	1,026.38	14.9	1.6
Real estate and construction	0.70	82.76	1.2	0.67	76.64	1.1	(7.4)
Public utilities and services	0.57	132.61	1.9	0.65	149.77	2.2	12.9
Agriculture and mining	3.69	13.43	0.2	3.92	14.88	0.2	10.7
<b>Total NPL - Corporate Loans</b>	<b>2.78</b>	<b>1,239.29</b>	<b>17.7</b>	<b>2.87</b>	<b>1,267.67</b>	<b>18.4</b>	<b>2.3</b>
<b>NPL-Commercial Loans</b>	<b>2.70</b>	<b>488.06</b>	<b>7.0</b>	<b>4.64</b>	<b>838.24</b>	<b>12.2</b>	<b>71.7</b>
Hire purchase	3.18	4,618.03	66.0	2.96	4,153.06	60.3	(10.1)
Mortgage	7.18	77.49	1.1	7.31	74.59	1.1	(3.7)
Consumer	2.69	574.40	8.2	2.48	550.64	8.0	(4.1)
<b>Total NPL - Retail Loans</b>	<b>3.14</b>	<b>5,269.92</b>	<b>75.3</b>	<b>2.92</b>	<b>4,778.30</b>	<b>69.4</b>	<b>(9.3)</b>
Others	0.69	2.68	0.0	0.53	2.10	0.0	(21.8)
<b>Total NPL – The Company</b>	<b>3.03</b>	<b>6,999.96</b>	<b>100.0</b>	<b>3.04</b>	<b>6,886.30</b>	<b>100.0</b>	<b>(1.6)</b>

Table 6: Liabilities Breakdown by Area

Type of Borrowings	June 30, 2016		September 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	158,388.15	65.6	159,326.37	67.5	0.6
Interbank and money market items	11,361.29	4.7	8,310.02	3.5	(26.9)
Debentures	60,659.00	25.1	58,255.00	24.7	(4.0)
Others	11,091.02	4.6	10,013.41	4.2	(9.7)
<b>Total – The Company and Subsidiaries</b>	<b>241,499.46</b>	<b>100.0</b>	<b>235,904.81</b>	<b>100.0</b>	<b>(2.3)</b>

Table 7: Deposits Structure

Type of Deposits	June 30, 2016		September 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,121.38	2.0	2,945.57	1.8	(5.6)
Saving accounts	48,330.18	30.5	53,129.71	33.3	9.9
Fixed accounts	16,270.34	10.3	14,171.29	8.9	(12.9)
Negotiate certificate deposit	84,279.33	53.2	83,242.89	52.2	(1.2)
Short-term borrowings	6,386.92	4.0	5,836.92	3.7	(8.6)
<b>Total deposits</b>	<b>158,388.15</b>	<b>100.0</b>	<b>159,326.37</b>	<b>100.0</b>	<b>0.6</b>



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

Type of Fund	June 30, 2016		September 30, 2016		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	125,088.58	69.0	129,346.83	68.3	3.4
Private Fund	23,066.18	12.7	24,656.90	13.0	6.9
Mutual Fund	33,085.82	18.3	35,398.37	18.7	7.0
<b>Total</b>	<b>181,240.58</b>	<b>100.0</b>	<b>189,402.10</b>	<b>100.0</b>	<b>4.5</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)	
	June 30, 2016	September 30, 2016	June 30, 2016	September 30, 2016
	Assets	1.52	1.49	981.87
Liabilities*	0.70	0.71	(1,085.71)	(1,050.55)
<b>Net Gap</b>	<b>0.82</b>	<b>0.78</b>	<b>(103.84)</b>	<b>(67.73)</b>

Note: \* Exclude saving and current account