

Management Discussion and Analysis For the First Quarter ended March 31, 2019

(This report discusses principal changes in the reviewed consolidated financial statement for the quarter ended March 31, 2019)

Movement of Money Market and Capital Market

In the first quarter of 2019, domestic economy expanded moderately supported by the continued growth in domestic demands in both private consumption and government expenditure. The domestic car sale for the first 3 months of 2019 was at 263,549 units or increased by 11.2% (YoY). Moreover, tourism sector remained stable while the export sector continued to slow down and public investment started to weaken. Overall, the headline inflation was 0.75%, following an increase in food prices and oil prices.

The Bank of Thailand (BOT) maintained the policy rate at 1.75%. The average 3-month fixed deposit rates of Top-4 commercial banks increased from 0.93% to 0.99% (YoY) while the average minimum lending rate of Top-4 commercial banks was stable at 6.20% (YoY).

The capital market in the first quarter of 2019 improved with SET index closed at 1,638.65 points, increased by 74.77 points or 4.8% comparing to 1,563.88 points at the end of 2018 from improved investor confidence in both local and foreign investors following the general election, while the trade dispute between US and China started to ease. Nonetheless, market trading volume declined with average daily turnover dropped from 45,308.36 million baht in the fourth quarter of 2018 to 44,998.91 million baht following fund outflow from foreign institution investors.

Operating Results

The Management Discussion and Analysis compares operating performance of the first quarter of 2019 and 2018

TISCO Financial Group Public Company Limited (“the Company”) had net profit from operations on a standalone basis totaling 95.62 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 2019, the net profit attributed to owners of the Company totaled 1,729.60 million baht, decreased by 36.22 million baht (2.1% YoY), mainly driven by the absence of gain from investment during the first quarter of 2018, together with the slowdown in business operations including bancassurance business and businesses related to capital market amidst the unfavorable capital market condition. Therefore, total revenue declined by 15.5% (YoY). In addition, operating expenses increased by 0.9% (YoY) from the additional expenses for the adjustment of compensation in the case of retirement and dismissal of employees, according to the New Labor Protection Act (No. 7) B.E. 2562. Meanwhile, provision expense declined by 88.2% (YoY) following the setup of required reserve aligning with the credit quality of loan portfolio. The Bank still maintained loan loss reserve to minimum loan loss reserve requirement as high as 219.0%, and maintained the high level of return on average equity (ROAE) at 17.9%.

Composition of Operating Income

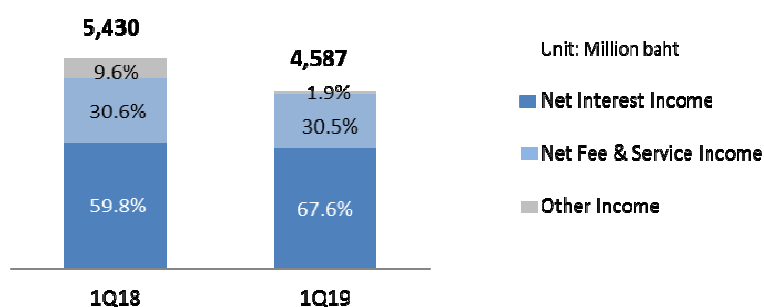


Table 1 : Consolidated Revenue Structure

Type of Revenue (Million baht)	1Q2019	1Q2018	%YoY
Interest income			
Interest on loans	1,955.46	2,092.49	(6.5)
Interest on interbank and money market items	210.15	159.48	31.8
Hire purchase and financial lease income	2,171.62	2,196.07	(1.1)
Investments	52.39	42.95	22.0
Total interest income	4,389.63	4,490.98	(2.3)
Interest expenses	(1,287.18)	(1,243.83)	3.5
Net interest income	3,102.46	3,247.15	(4.5)
Fee income			
Fee income	1,459.99	1,722.21	(15.2)
Fee expenses	(61.01)	(62.94)	(3.1)
Net fee income	1,398.99	1,659.28	(15.7)
Gain on investment and foreign exchange transaction	(23.5)	217.9	(110.8)
Share of profit from invest in subsidiaries	(37.2)	145.8	(125.5)
Other operating income	146.53	159.58	(8.2)
Total operating income	4,587.28	5,429.65	(15.5)
Other operating expenses	(2,316.70)	(2,295.69)	0.9
Bad debt and doubtful account and impairment loss of debt securities	(108.21)	(914.28)	(88.2)
Profit before income tax and minority interest	2,162.37	2,219.68	(2.6)
Corporate income tax expenses	(430.90)	(403.28)	6.8
Profit from continuing operations	1,731.47	1,816.41	(4.7)
Profit/Loss from discontinued operations	-	(37.35)	n.a.
Profit before minority interest	1,731.47	1,779.06	(2.7)
Non-controlling interests of the subsidiaries	(1.88)	(13.24)	(85.8)
Net profit	1,729.60	1,765.82	(2.1)

Basic earnings per share for the first quarter of 2019 was 2.16 baht per share, decreased from 2.21 baht per share in the first quarter of 2018, with the return on average equity (ROAE) reported at 17.9%.

Net Interest Income

Net interest income for the first quarter of 2019 was 3,102.46 million baht, declined by 144.69 million baht (4.5% YoY). Total interest income was 4,389.63 million baht, decreased by 101.35 million baht (2.3% YoY), while interest expense increased by 43.34 million baht to 1,287.18 million baht (3.5% YoY).

Yield on loan declined from 7.0% to 6.9% (YoY) from the sale of personal loan portfolio in the second quarter of 2018. While, the cost of fund increased from 2.0% to 2.1% (YoY) following an increase in new deposits with higher cost. Consequently, loan spread dropped from 5.0% to 4.8% (YoY). The net interest margin declined from 4.4% to 4.1% (YoY).

Table 2 : Loan Spread

%	2018	1Q2018	4Q2018	1Q2019
Yield on Loans	6.9	7.0	6.8	6.9
Cost of fund	2.0	2.0	2.1	2.1
Loan spread	4.9	5.0	4.8	4.8

The Company reported the net interest income after impairment loss of loans and debt securities totaled 2,994.25 million baht, increased by 661.38 million baht (28.4% YoY). Impairment losses on loans totaled 108.21 million baht, reduced comparing with 914.28 million baht in the first quarter of 2018.

Non-interest Income

In the first quarter of 2019, non-interest income totaled 1,484.82 million baht, declined by 32.0% (YoY) mainly resulting from the absence of extraordinary gain on selling investment recorded in the same quarter of last year, together with the slowdown in business operations. Banking fee income dropped by 72.33 million baht (6.4% YoY) to 1,058.83 million baht following the weakened bancassurance business aligning with the declining new business volume comparing to the same period of last year. Brokerage fee income decreased by 88.47 million baht (33.9% YoY) to 172.38 million baht contributed by lower market trading volume. Asset management basic fee also dropped by 46.69 million baht (12.1% YoY) to 338.35 million baht, from fewer fund issuances amid the unfavorable capital market condition. Furthermore, investment banking fee income declined from the absence of underwriting fee comparing with the first quarter of 2018.

Non-interest Expenses

Non-interest expenses were 2,316.70 million baht, increased by 21.01 million baht (0.9% YoY). During this quarter, the Company set up additional expenses for the adjustment of compensation in the case of retirement and dismissal of employees, according to the Labor Protection Act (no. 7) B.E. 2562, amounting 213 million baht, thus the Company has adjusted the level of loan loss reserve in accordance with countercyclical provisioning policy to cushion against the effect from the additional expenses. Meanwhile, the Company still maintained effective operating cost control with cost to income after provision ratio at 51.7%.

Corporate Income Tax

In the first quarter of 2019, the corporate income tax was 430.90 million baht, equivalent to the effective tax rate of 19.9% increased from 18.2% in the first 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 March 31, 2019 and December 31, 2018

Assets

As of March 31, 2019, the Company's total assets were 297,899.70 million baht, decreased by 1.5% (YTD), due to the decline in interbank and money market from 54,071.39 million baht to 48,726.00 million baht (9.9% YTD), and the decrease in investment from 9,012.34 million baht to 7,410.83 million baht (17.8% YTD). Meanwhile, loan portfolio grew from 240,654.34 million baht to 241,699.98 million baht (0.4% YTD).

Table 3 : Assets Breakdown

Assets	March 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,359.79	0.5	1,191.80	0.4	14.1
Interbank and Money Market Items	48,726.00	16.4	54,071.39	17.9	(9.9)
Derivatives	0.00	0.0	5.68	0.0	n.a.
Investment – Net	7,410.83	2.5	9,012.34	3.0	(17.8)
Investments in subsidiaries, associate and JV	799.03	0.3	800.15	0.3	(0.1)
Corporate Loans	32,948.20	11.1	31,804.90	10.5	3.6
Retail Loans	192,269.89	64.5	192,232.74	63.5	0.0
Commercial Loans	14,370.07	4.8	14,865.66	4.9	(3.3)
Other Loans	2,111.82	0.7	1,751.05	0.6	20.6
Allowance for doubtful accounts and for loss on debt restructuring	(11,517.53)	(3.9)	(11,673.64)	(3.9)	(1.3)
Other Assets	9,456.92	3.2	8,482.56	2.8	11.5
Total Assets	297,899.70	100.0	302,544.63	100.0	(1.5)

Liabilities

As of March 31, 2019, total liabilities were 258,269.90 million baht, decreased by 2.4% (YTD) due to the decrease in interbank and money market from 4,374.67 million baht to 4,277.05 million baht (2.2% YTD) and debentures from 49,680.00 million baht to 40,265.00 million baht (19.0% YTD). Whereas, total deposits increased from 198,985.23 million baht to 200,020.71 million baht (0.5% YTD). The liabilities mix comprised of total deposits including bill of exchange at 77.4%, interbank and money market items at 1.7%, debentures at 15.6% and other liabilities at 5.3%.

Table 4 : Liabilities Breakdown

Liabilities	March 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	200,020.71	77.4	198,985.23	75.2	0.5
Interbank and money market items	4,277.05	1.7	4,374.67	1.7	(2.2)
Debentures	40,265.00	15.6	49,680.00	18.8	(19.0)
Others	13,707.14	5.3	11,675.28	4.4	17.4
Total Liabilities	258,269.90	100.0	264,715.18	100.0	(2.4)

Shareholders' Equity

As of March 31, 2019, shareholders' equity was 39,629.81 million baht, increased by 1,800.35 million baht (4.8% YTD) from an increase in retained earnings of the first quarter of 2019. As a result, the book value per share (BVPS) as of March 31, 2019 was 49.50 baht per share, rose from 47.25 baht per share (YTD).

Business Segment Operations

(1) Banking Business

Loans¹

Total loans and receivables as of March 31, 2019 were 241,699.98 million baht, grew by 1,045.64 million baht (0.4% YTD), mainly driven by the growth in corporate lending. The composition of loan portfolio was 79.5% of retail loans, 13.6% of corporate loans, 5.9% of commercial loans and 0.9% of other loans.

Retail Lending portfolio totaled 192,269.89 million baht, increased by 0.02% (YTD). The total retail portfolio as of March 31, 2019 consisted of 72.9% car and motorcycle hire purchase loans, 16.9% loans against auto license and 10.2% mortgage loans. The outstanding hire purchase loans totaled 140,115.78 million baht, increased by 0.2% (YTD) following the improvement in domestic consumption. The domestic car sale for the first 3 months of 2019 was 263,549 units, increased by 11.2% (YoY), compared to 237,093 units in the first 3 months of 2018. The car penetration rate of TISCO for the first 3 months of 2019 dropped from 7.6% to 6.5% (YoY).

Loans against auto license ("Auto Cash") amounted 32,448.14 million baht, grew by 418.56 million baht (1.3% YTD), 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 741.44 million baht (5.2% YTD) to total of 15,064.46 million baht, which accounted for 46.4% of total loans against auto license. All in all, at the end of the quarter, "Somwang" loan offices totaled 252 branches nationwide.

Mortgage loans totaled 17,033.88 million baht, dropped by 3.1% (YTD) and home-equity loans totaled 2,672.10 million baht, declined by 5.8% (YTD) amidst the highly competitive market condition.

Corporate Lending portfolio totaled 32,948.20 million baht, grew by 1,143.30 million baht (3.6% YTD), due to the loan drawdown from the clients in real estate and construction sector.

Commercial Lending portfolio totaled 14,370.07 million baht, dropped by 495.59 million baht (3.3% YTD) mainly contributed by the loan repayment in car inventory financing.

Other Loans portfolio totaled 2,111.82 million baht, increased by 20.6 from the end of previous year.

¹ In the first quarter of 2019, the Company has revised loan classification in accordance with types of loan products.

Table 5 : Loans Breakdown

Type of Loans	March 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and Commerce	2,460.91	1.0	3,031.19	1.3	(18.8)
Real Estate and Construction	11,100.03	4.6	9,218.71	3.8	20.4
Public Utilities and Services	19,387.26	8.0	19,554.99	8.1	(0.9)
Corporate Loans	32,948.20	13.6	31,804.90	13.2	3.6
Commercial Loans	14,370.07	5.9	14,865.66	6.2	(3.3)
Hire Purchase	140,115.78	58.0	139,785.06	58.1	0.2
Mortgage Loans	17,033.88	7.0	17,581.10	7.3	(3.1)
Loans against auto license	32,448.14	13.4	32,029.58	13.3	1.3
Home-Equity Loans	2,672.10	1.1	2,836.99	1.2	(5.8)
Retail Loans	192,269.89	79.5	192,232.74	79.9	0.02
Others	2,111.82	0.9	1,751.05	0.7	20.6
Total Loans	241,699.98	100.0	240,654.34	100.0	0.4

Deposits and Borrowings

Total deposits and borrowings amounted 240,285.71 million baht, decreased by 3.4% (YTD). Total deposits reported at 200,020.71 million baht, increased by 1,035.48 million baht (0.5% YTD) while debentures totaled 40,265.00 million baht, decreased by 9,415.00 million baht (19.0% YTD). As of March 31, 2019, the Bank had liquid assets totaling 54,409.73 million baht, decreased by 6,007.63 million baht (9.9% YTD). Thus, the liquid assets were accounted for 22.6% of total deposits and borrowings.

Table 6 : Deposits Structure

Type of Deposits	March 31, 2019		December 31, 2018		Change (% YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,394.20	1.2	2,483.56	1.2	(3.6)
Saving accounts	47,371.15	23.7	54,683.84	27.5	(13.4)
Fixed accounts	49,529.70	24.8	40,074.74	20.1	23.6
Negotiate certificate deposit	100,688.75	50.3	95,866.17	48.2	5.0
Short-term borrowings	36.92	0.0	5,876.92	3.0	(99.4)
Total Deposits	200,020.71	100.0	198,985.23	100.0	0.5

Non-Performing Loans (NPLs) and Loan Loss Provision¹

In the first quarter of 2019, the Company reported NPLs amounting 7,289.32 million baht, increased by 413.12 million baht (6.0% YTD) mainly due to one of corporate loan clients in manufacturing and commerce sector that encountered payment difficulty of which loan loss reserve was sufficiently prepared, as well as the effect from the loan reclassification that partly increased. The NPLs comprised of 6,704.61 million baht from the Bank and 584.72 million baht from other subsidiaries. Consequently, NPL ratio rose

¹ In the first quarter of 2019, the Company has revised loan classification in accordance with types of loan products.

from 2.86% to 3.02% from the end of 2018. NPL ratio of retail loans, corporate loans, and commercial loans were 3.59%, 0.84%, and 0.75% respectively.

The Company set up provision at 108.21 million baht, accounted for 0.18% of average loan, and decreased comparing with 914.28 million baht (YoY). The setup of loan loss reserve for this quarter was normalized in accordance with the credit profile of the loan portfolios, additionally the Company held sufficient general reserve to cushion against the increasing operating expenses (Countercyclical Provisioning). Loan loss reserve of the Company was 11,517.53 million baht while total loan loss reserve of the Bank was 10,960.33 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,991.78 million baht or accounted 219.0% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of the first quarter reported at 158.0%.

Table 7 : NPLs Breakdown

NPLs	March 31, 2019			December 31, 2018			Change (%YoY)
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and Commerce	11.29	277.82	3.8	-	-	0.0	100.0
Real Estate and Construction	-	-	0.0	-	-	0.0	n.a.
Public Utilities and Services	-	-	0.0	-	-	0.0	n.a.
NPLs - Corporate Loans	0.84	277.82	3.8	-	-	0.0	n.a.
NPLs - Commercial Loans	0.75	107.08	1.5	0.75	111.60	1.6	(4.0)
Hire Purchase	2.66	3,731.55	51.2	2.75	3,845.32	55.9	(3.0)
Mortgage Loans	6.12	1,043.05	14.3	6.06	1,066.00	15.5	(2.2)
Loans against auto license	5.34	1,734.28	23.8	4.88	1,563.50	22.7	10.9
Home-Equity Loans	14.50	387.50	5.3	9.82	278.52	4.1	39.1
NPLs - Retail Loans	3.59	6,896.38	94.6	3.51	6,753.33	98.2	2.1
Others	0.38	8.04	0.1	0.64	11.28	0.2	(28.7)
Total NPLs	3.02	7,289.32	100.0	2.86	6,876.21	100.0	6.0

(2) Securities Business

In the first quarter of 2019, average daily turnover of TISCO Securities was 1,968.94 million baht, decreased by 34.3% (YoY) from 2,996.03 million baht, following lower market trading volume amid the capital market volatility. Therefore, brokerage fee income dropped by 33.9% (YoY), totaling 172.38 million baht. However, TISCO Securities' market share remained stable at 2.5% (YoY). The market share of local institution sector (excluding proprietary trading) was 6.1%, the market share of foreign institution sector was 2.1% and the market share of retail investors was 1.8%. Thus, TISCO brokerage volume comprised of 31.7% of local institutions, 39.2% of foreign institutions, and 29.1% of retail customers.

(3) Asset Management Business

As of March 31, 2019, assets under management of TISCO Asset Management Co., Ltd. reported at 255,085.14 million baht, increased by 2.4% (YTD), from all business areas. Nevertheless, the basic fee income from asset management totaled 338.35 million baht, declined by 12.1% (YoY) owing to fewer issuances of funds amidst the unfavorable capital market. Additionally, to be in accordance with IFRS 15 'Revenue from Contracts with Customers', the Company has revised the recognition of asset management

incentive fee to be recognized at the end of the year in place of accrual treatment throughout the year. If recognizing the revenue with the old standard, the Company would record the incentive fee income amounting 24 million baht in this quarter.

The composition of total asset under management was 63.9% provident fund, 17.6% private fund, and 18.5% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of March 31, 2019 was 3.5%, ranking 8th in the market. The market share of provident fund was 14.1%, ranking 3rd in the market. The market share of private fund was 4.4%, ranking 5th 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	March 31, 2019		December 31, 2018		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	163,121.58	63.9	162,127.22	65.1	0.6
Private Fund	44,786.45	17.6	42,064.87	16.9	6.5
Mutual Fund	47,177.11	18.5	44,869.71	18.0	5.1
Total AUMs	255,085.14	100.0	249,061.80	100.0	2.4

Risk Management

As of March 31, 2019, TISCO Group's internal capital stood at 34,259.48 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 222.26 million baht from the end of 2018 to 14,609.22 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 19,650.27 million baht or 57.4% of total capital.

Comparing to the end of year 2018, the credit risk capital stood at 12,412.76 million baht, which increased by 510.80 million baht or 4.3%, while loan portfolio expanded by 0.4% during the quarter. The non-performing loan of TISCO Group increased from 2.8% to 3.0% compared to the end of 2018.

The market risk capital decreased from 265.14 million baht to 169.29 million baht, resulting from lower risk capital of investment portfolio along with an increase in SET index. Meanwhile, the overall duration gap slightly decreased to 0.84 year, which was in a manageable level. The assets duration decreased from 1.43 year to 1.39 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased from 0.58 year to 0.55 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 2019, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 22.51%, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 17.52% and 4.99%, 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 60.17%, 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)	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Assets	1.39	1.43	1,367.06	1,398.00
Liabilities*	0.55	0.58	(1,264.96)	(1,198.29)
Net Gap	0.84	0.85	102.11	199.72

*Note: * Exclude saving and current account*