

Management Discussion and Analysis For the Second Quarter ended June 30, 2019

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

Movement of Money Market and Capital Market

In the second quarter of 2019, domestic economy has weakened driven by the slowdown in export sector and tourism sector which resulted from disrupting global economies following prolonged trade war between US and China, together with an appreciation of Thai Baht. Furthermore, government expenditure continued to be subdued. Nonetheless, private consumption continued to show moderate growth with the domestic car sale for the first 6 months of 2019 at 523,770 units or increased by 7.1% (YoY). Overall, the headline inflation was 1.08%.

The Bank of Thailand (BOT) maintained the policy rate at 1.75%. 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%.

In the second quarter of 2019, the capital market improved from increasing market trading volume with average daily turnover increased from 44,998.91 million baht in the first quarter of 2019 to 53,143.09 million baht following fund inflow from foreign institution investors after the MSCI Thailand portfolio rebalancing. Hence, SET index closed at 1,730.34 points, increased by 91.69 points or 5.6% comparing to 1,638.65 points at the end of last quarter.

Operating Results

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

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 83.29 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.

Operating results for the second quarter of 2019

In the second quarter of 2019, the net profit attributed to owners of the Company totaled 1,798.15 million baht, increased by 88.72 million baht or 5.2% (YoY), mainly driven by lower provision expense. Net interest income declined by 2.2% (YoY) with loan spread decreased from 5.0% to 4.8% (YoY) partly from the sale of personal loan portfolio at the end of the second quarter of 2018. Non-interest income from core business contracted by 1.7% (YoY) from loan-related fee and fee from capital market business. Operating expenses increased by 6.7% (YoY) from employee benefit expenses and donation. Provision expense declined by 74.3% (YoY) aligning with credit quality of loan portfolios, along with a partial reduction of excess loan loss reserve. Thus, the Company maintained the high level of return on average equity (ROAE) at 19.2%.

Operating results for the first half of 2019

For the first half of 2019, the net profit was reported at 3,527.75 million baht, increased by 52.51 million baht or 1.5% (YoY), due to a decline in provision expense by 83.0% (YoY). Net interest income dropped by 3.4% (YoY) from the sale of personal loan portfolios at the end of the second quarter of 2018. Non-interest income from core business decreased by 8.6% (YoY) amidst unfavorable capital market. Operating expenses increase by 3.7% (YoY) following the adjustment of employee benefits in accordance with the new regulation.

Composition of Operating Income

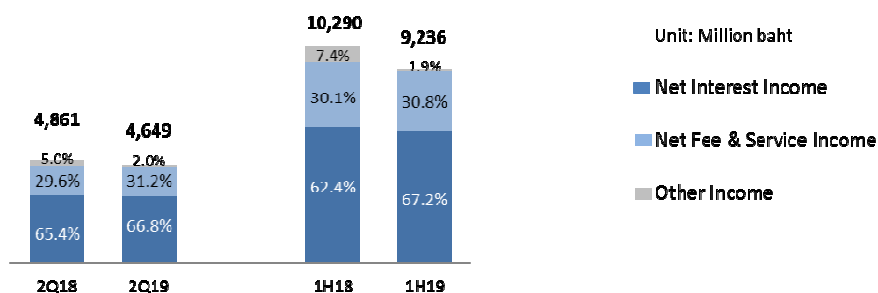


Table 1 : Consolidated Revenue Structure

Type of Revenue (Million baht)	2Q2019	2Q2018	%YoY	1H2019	1H2018	%YoY
Interest income						
Interest on loans	1,999.38	2,012.54	(0.7)	3,954.84	4,105.03	(3.7)
Interest on interbank and money market items	154.86	162.95	(5.0)	365.02	322.43	13.2
Hire purchase and financial lease income	2,162.88	2,191.11	(1.3)	4,334.50	4,387.18	(1.2)
Investments	62.95	44.67	40.9	115.34	87.62	31.6
Total interest income	4,380.07	4,411.28	(0.7)	8,769.70	8,902.26	(1.5)
Interest expenses	(1,272.59)	(1,232.59)	3.2	(2,559.77)	(2,476.43)	3.4
Net interest income	3,107.48	3,178.68	(2.2)	6,209.94	6,425.83	(3.4)
Fee income						
Fee income	1,525.29	1,502.64	1.5	2,985.28	3,224.86	(7.4)
Fee expenses	(76.86)	(61.49)	25.0	(137.87)	(124.43)	10.8
Net fee income	1,448.42	1,441.15	0.5	2,847.41	3,100.43	(8.2)
Gain on investment and foreign exchange transaction	(13.1)	65.2	(120.1)	(36.62)	283.06	(112.9)
Share of profit from invest in subsidiaries	5.3	23.5	(77.5)	(31.91)	169.31	(118.8)
Other operating income	100.86	152.10	(33.7)	247.38	311.68	(20.6)
Total operating income	4,648.93	4,860.65	(4.4)	9,236.20	10,290.30	(10.2)
Other operating expenses	(2,272.66)	(2,130.71)	6.7	(4,589.35)	(4,426.40)	3.7
Bad debt and doubtful account and impairment loss of debt securities	(137.54)	(534.31)	(74.3)	(245.75)	(1,448.59)	(83.0)
Profit before income tax and minority interest	2,238.73	2,195.63	2.0	4,401.10	4,415.32	(0.3)
Corporate income tax expenses	(437.98)	(434.15)	0.9	(868.88)	(837.43)	3.8
Profit from continuing operations	1,800.75	1,761.48	2.2	3,532.22	3,577.89	(1.3)
Profit/Loss from discontinued operations	-	(45.07)	n.a.	-	(82.42)	n.a.
Profit before minority interest	1,800.75	1,716.41	4.9	3,532.22	3,495.47	1.1
Non-controlling interests of the subsidiaries	(2.60)	(6.98)	(62.8)	(4.47)	(20.22)	(77.9)
Net profit	1,798.15	1,709.43	5.2	3,527.75	3,475.24	1.5

Basic earnings per share for the second quarter of 2019 was 2.25 baht per share, increased from 2.14 baht per share in the second quarter of 2018, with the return on average equity (ROAE) reported at 19.2%.

Net Interest Income

Net interest income for the second quarter of 2019 was 3,107.48 million baht, declined by 71.20 million baht (2.2% YoY). Total interest income was 4,380.07 million baht, decreased by 31.21 million baht (0.7% YoY), while interest expense increased by 40.00 million baht to 1,272.59 million baht (3.2% YoY).

Yield on loan declined from 7.0% to 6.9% (YoY) from the sale of personal loan portfolios at the end of 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 4.3% to 4.2% (YoY).

Table 2 : Loan Spread

%	2018	2Q2018	1Q2019	2Q2019
Yield on Loans	6.9	7.0	6.9	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 2,969.94 million baht, increased by 351.62 million baht (12.3% YoY). Impairment losses on loans totaled 137.54 million baht, reduced comparing with 534.31 million baht in the second quarter of 2018 aligning with credit quality of loan portfolios, along with a partial reduction of excess loan loss reserve.

Non-interest Income

In the second quarter of 2019, non-interest income from core business totaled 1,626.14 million baht, declined by 1.7% (YoY). Banking fee income dropped by 18.25 million baht (1.7% YoY) to 1,059.71 million baht following the contraction of loan-related fee. While, bancassurance business continued to grow in line with the increasing new business volume during the quarter. For businesses related to capital market, fee income dropped amidst unfavorable capital market condition. As a result, brokerage fee income decreased by 17.10 million baht (8.1% YoY) to 192.85 million baht and asset management basic fee dropped by 4.16 million baht (1.2% YoY) to 347.44 million baht.

Non-interest Expenses

Non-interest expenses were 2,272.66 million baht, increased by 141.94 million baht (6.7% YoY). During this quarter, there was the annual raise of employees' salary, and the Company has revised the assumptions of long-term employee benefits, resulting in the record of additional employee expenses amounting 21 million baht. Additionally, the company made the donation for Friends for Life project to celebrate TISCO's 50th Anniversary. Thus, the Company still maintained effective operating cost control with cost to income after provision ratio at 50.4%.

Corporate Income Tax

In the second quarter of 2019, the corporate income tax was 437.98 million baht, equivalent to the effective tax rate of 19.6% decreased from 19.8% in the second 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 June 30, 2019 and March 31, 2019

Assets

As of June 30, 2019, the Company's total assets were 292,379.05 million baht, decreased by 1.9% (QoQ), due to the contraction in loan portfolio from 241,699.98 million baht to 241,215.12 million baht (0.2% QoQ) and the decline in interbank and money market from 48,726.00 million baht to 39,528.53 million baht (18.9% QoQ).

Table 3 : Assets Breakdown

Assets	June 30, 2019		March 31, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,136.02	0.4	1,359.79	0.5	(16.5)
Interbank and Money Market Items	39,528.53	13.5	48,726.00	16.4	(18.9)
Derivatives	29.35	0.0	0.00	0.0	n.a.
Investment – Net	11,961.66	4.1	7,410.83	2.5	61.4
Investments in subsidiaries, associate and JV	769.09	0.3	763.70	0.3	0.7
Corporate Loans	33,654.18	11.5	32,948.20	11.1	2.1
Retail Loans	193,156.93	66.1	192,269.89	64.5	0.5
Commercial Loans	12,568.52	4.3	14,370.07	4.8	(12.5)
Other Loans	1,835.49	0.6	2,111.82	0.7	(13.1)
Allowance for doubtful accounts and for loss on debt restructuring	(11,308.99)	(3.9)	(11,517.53)	(3.9)	(1.8)
Other Assets	9,055.48	3.1	9,456.92	3.2	(4.2)
Total Assets	292,379.05	100.0	297,899.70	100.0	(1.9)

Liabilities

As of June 30, 2019, total liabilities were 256,730.25 million baht, decreased by 0.6% (QoQ) due to the decrease in total deposits from 200,020.71 million baht to 199,265.29 million baht (0.4% QoQ) and the decrease in debentures from 40,265.00 million baht to 32,815.00 million baht (18.5% QoQ). Whereas, interbank and money market increased from 4,277.05 million baht to 10,692.90 million baht (150.0% QoQ).

Table 4 : Liabilities Breakdown

Liabilities	June 30, 2019		March 31, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	199,265.29	77.7	200,020.71	77.4	(0.4)
Interbank and money market items	10,692.90	4.2	4,277.05	1.7	150.0
Debentures	32,815.00	12.8	40,265.00	15.6	(18.5)
Others	13,957.06	5.4	13,707.14	5.3	1.8
Total Liabilities	256,730.25	100.0	258,269.90	100.0	(0.6)

Shareholders' Equity

As of June 30, 2019, shareholders' equity was 35,648.80 million baht, decreased by 3,981.00 million baht (10.0% QoQ) as the Company paid annual dividend from operation result for the year 2018 at 7.00 baht per common and preferred share in May 2019. The total dividend payment was 5,605 million baht with dividend payout ratio of 79.9%. As a result, the book value per share (BVPS) as of June 30, 2019 was 44.52 baht per share, reduced from 49.50 baht per share (QoQ).

Business Segment Operations

(1) Banking Business

Loans

Total loans and receivables as of June 30, 2019 were 241,215.12 million baht, dropped by 484.86 million baht (0.2% QoQ), mainly driven by loan repayment from commercial lending business. The composition of loan portfolio was 80.1% of retail loans, 14.0% of corporate loans, 5.2% of commercial loans and 0.8% of other loans.

Retail Lending portfolio totaled 193,156.93 million baht, increased by 0.5% (QoQ). The total retail portfolio as of June 30, 2019 consisted of 73.0% car and motorcycle hire purchase loans, 17.3% loans against auto license and 9.7% housing loans. The outstanding hire purchase loans totaled 141,085.69 million baht, increased by 0.7% (QoQ) following the improvement in domestic consumption. The domestic car sale for the first 6 months of 2019 was 523,770 units, increased by 7.1% (YoY), compared to 489,118 units in the first 6 months of 2018. The car penetration rate of TISCO for the first 6 months of 2019 dropped from 7.1% to 6.7% (YoY).

Loans against auto license ("Auto Cash") amounted 33,332.86 million baht, grew by 884.73 million baht (2.7% 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 732.70 million baht (4.9% QoQ) to total of 15,797.17 million baht, which accounted for 47.4% of total loans against auto license. All in all, at the end of the quarter, "Somwang" loan offices totaled 263 branches nationwide.

Housing loans consist of mortgage loans which totaled 16,246.20 million baht, dropped by 4.6% (QoQ) and home-equity loans which totaled 2,492.17 million baht, declined by 6.7% (QoQ) amidst the highly competitive market condition.

Corporate Lending portfolio totaled 33,654.18 million baht, grew by 705.99 million baht (2.1% QoQ), due to the loan drawdown from the clients in real estate and construction sector.

Commercial Lending portfolio totaled 12,568.52 million baht, dropped by 1,801.55 million baht (12.5% QoQ) mainly resulted from the loan repayment in car inventory financing.

Other Loans portfolio totaled 1,835.49 million baht, decreased by 13.1 from the end of the previous quarter.

Table 5 : Loans Breakdown

Type of Loans	June 30, 2019		March 31, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and Commerce	2,353.73	1.0	2,460.91	1.0	(4.4)
Real Estate and Construction	12,100.22	5.0	11,100.03	4.6	9.0
Public Utilities and Services	19,200.23	8.0	19,387.26	8.0	(1.0)
Corporate Loans	33,654.18	14.0	32,948.20	13.6	2.1
Commercial Loans	12,568.52	5.2	14,370.07	5.9	(12.5)
Hire Purchase	141,085.69	58.5	140,115.78	58.0	0.7
Mortgage Loans	16,246.20	6.7	17,033.88	7.0	(4.6)
Loans against auto license	33,332.86	13.8	32,448.14	13.4	2.7
Home-Equity Loans	2,492.17	1.0	2,672.10	1.1	(6.7)
Retail Loans	193,156.93	80.1	192,269.89	79.5	0.5
Others	1,835.49	0.8	2,111.82	0.9	(13.1)
Total Loans	241,215.12	100.0	241,699.98	100.0	(0.2)

Deposits and Borrowings

Total deposits and borrowings amounted 232,080.29 million baht, decreased by 3.4% (QoQ). Total deposits reported at 199,265.29 million baht, decreased by 755.42 million baht (0.4% QoQ) while debentures totaled 32,815.00 million baht, decreased by 7,450.00 million baht (18.5% QoQ). As of June 30, 2019, the Bank had liquid assets totaling 48,135.83 million baht, decreased by 6,273.90 million baht (11.5% QoQ). Thus, the liquid assets were accounted for 20.7% of total deposits and borrowings.

Table 6 : Deposits Structure

Type of Deposits	June 30, 2019		March 31, 2019		Change (% YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,424.24	1.2	2,394.20	1.2	1.3
Saving accounts	40,282.07	20.2	47,371.15	23.7	(15.0)
Fixed accounts	53,509.96	26.9	49,529.70	24.8	8.0
Negotiate certificate deposit	103,012.09	51.7	100,688.75	50.3	2.3
Short-term borrowings	36.92	0.0	36.92	0.0	(0.0)
Total Deposits	199,265.29	100.0	200,020.71	100.0	(0.4)

Non-Performing Loans (NPLs) and Loan Loss Provision

In the second quarter of 2019, the Company reported NPLs amounting 7,690.94 million baht, increased by 401.62 million baht (5.5% QoQ) mainly due to the continued effect from the loan reclassification from the end of 2018, together with hire purchase portfolio was affected by seasonal late repayment behavior which occurs in the second quarter of every year. The NPLs comprised of 7,072.83 million baht from the Bank and 618.10 million baht from other subsidiaries. Consequently, NPL ratio rose from 3.02% to 3.19% (QoQ). NPL ratio of retail loans, corporate loans, and commercial loans were 3.77%, 0.79%, and 1.03% respectively.

The Company set up provision expense at 137.54 million baht, accounted for 0.23% of average loan, and decreased comparing with 534.31 million baht (YoY). The setup of loan loss reserve for this quarter was aligning with the credit profile of the loan portfolios, along with a partial reduction of excess loan loss reserve awaiting for the clarification of regulatory policy about excess loan loss reserve in accordance with the new accounting standard TFRS9 which will be effective in 2020. Therefore, loan loss reserve of the Company totaled 11,308.99 million baht while total loan loss reserve of the Bank was 10,680.50 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,947.31 million baht or accounted 209.8% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of the second quarter reported at 147.0%.

Table 7 : NPLs Breakdown

NPLs	June 30, 2019			March 31, 2019			Change (%YoY)
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and Commerce	11.34	266.80	3.5	11.29	277.82	3.8	(4.0)
Real Estate and Construction	-	-	0.0	-	-	0.0	n.a.
Public Utilities and Services	-	-	0.0	-	-	0.0	n.a.
NPLs - Corporate Loans	0.79	266.80	3.5	0.84	277.82	3.8	(4.0)
NPLs - Commercial Loans	1.03	129.62	1.7	0.75	107.08	1.5	21.1
Hire Purchase	2.84	4,009.98	52.1	2.66	3,731.55	51.2	7.5
Mortgage Loans	5.97	969.64	12.6	6.12	1,043.05	14.3	(7.0)
Loans against auto license	5.59	1,862.66	24.2	5.34	1,734.28	23.8	7.4
Home-Equity Loans	17.83	444.41	5.8	14.50	387.50	5.3	14.7
NPLs - Retail Loans	3.77	7,286.69	94.7	3.59	6,896.38	94.6	5.7
Others	0.43	7.83	0.1	0.38	8.04	0.1	(2.7)
Total NPLs	3.19	7,690.94	100.0	3.02	7,289.32	100.0	5.5

(2) Securities Business

In the second quarter of 2019, average daily turnover of TISCO Securities was 2,627.30 million baht, stable comparing to the second quarter of 2018. Brokerage fee income weakened by 8.1% (YoY), totaling 192.85 million baht, following the increase in the trading volume portion of foreign institution sector, from which trading volume came through electronic channel and generated low level of fee margin. At the end of the second quarter of 2019, TISCO brokerage volume comprised of 26.0% of local institutions, 46.0% of foreign institutions, and 28.0% of retail customers. Nevertheless, TISCO Securities' market share improved from 2.6% to 2.8% (YoY) from the market share of foreign institution sector that improved to 2.6% and the market share of retail investors that increased to 2.2% while the market share of local institution sector (excluding proprietary trading) was 5.9%.

(3) Asset Management Business

As of June 30, 2019, assets under management of TISCO Asset Management Co., Ltd. reported at 262,051.27 million baht, increased by 2.7% (QoQ), from the growth in provident fund business and private fund business. However, the basic fee income from asset management totaled 347.44 million baht, declined by 1.2% (YoY) owing to lower issuances of new funds.

The composition of total asset under management was 64.9% provident fund, 17.2% private fund, and 17.8% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of June 30, 2019 was 3.5%, ranking 8th in the market. The market share of provident fund was 14.1%, ranking 2nd in the market. The market share of private fund was 4.8%, 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	June 30, 2019		March 31, 2019		Change (%YoY)
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	170,182.85	64.9	163,121.58	63.9	4.3
Private Fund	45,146.95	17.2	44,786.45	17.6	0.8
Mutual Fund	46,721.46	17.8	47,177.11	18.5	(1.0)
Total AUMs	262,051.27	100.0	255,085.14	100.0	2.7

Risk Management

As of June 30, 2019, TISCO Group's internal capital stood at 34,891.23 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 320.46 million baht from the end of March 2019 to 14,933.69 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 19,957.55 million baht or 57.2% of total capital.

Comparing to the end of the first quarter, the credit risk capital stood at 12,090.76 million baht, which increased by 279.38 million baht or 2.4%, while loan portfolio contracted by 0.2% during the period. The non-performing loan of TISCO Group increased from 3.0% to 3.2% compared to the end of March 2019.

The market risk capital decreased from 169.29 million baht to 168.01 million baht, resulting from lower risk capital of investment portfolio. Meanwhile, the overall duration gap slightly increased to 0.84 year, which was in a manageable level. The assets duration rose from 1.39 year to 1.40 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 0.56 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 June 2019, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 23.46%, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 18.47% 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 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*