



Management Discussion and Analysis

For the First Quarter of 2023 ended March 31, 2023

(Reviewed Consolidated Financial Statements)

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Economic Conditions and Movement of Financial Market

In the first quarter of 2023, Thai economy continued its improving direction driven by an expansion in private consumption following better consumer confidence and reducing concerns toward inflation, together with the support from tourism sector that grew evidently. The number of foreign tourist arrivals during the first 2 months was reported over 4.3 million tourists. Meanwhile, export sector remained weak caused by declining demands from trading partners amid global economic slowdown. In the first quarter of 2023, the headline inflation increased by 3.9% (YoY) but at a slower pace due to lower energy and food prices. The domestic car sale for the first 3 months of 2023 totaled 217,073 units, dropped by 6.1% comparing to the same period of last year due to the semiconductor shortage in some car models.

During the quarter, the Bank of Thailand (BOT) raised the policy rate 2 times by 0.25% each to 1.75%, corresponding with the rising interest rate trend of the US Federal Reserve (Fed). Additionally, the BOT resumed the contribution rate for Financial Institutions Development Fund (FIDF) to 0.46% per year, starting in 2023 onward. Therefore, commercial banks have increased all of their interest rates to reflect the rising interest rate cycle and the increased contribution cost accordingly. The average 3-month fixed deposit rates of Top-4 commercial increased from 0.61% to 0.75% (QoQ). The lending rates of Top-4 commercial banks also increased, comprising of the average minimum lending rate (MLR) increased from 5.83% to 6.43% (QoQ), the average minimum overdraft rate (MOR) increased from 6.34% to 6.89% (QoQ) and the average minimum retail rate (MRR) increased from 6.21% to 6.72% (QoQ).

The capital market in the first quarter of 2023 was highly volatile from the elevated global inflation and the interest rate increases in many countries, as well as the banking crisis happened across the US and Europe. As a result, SET index dropped by 59.49 points or 3.6% (QoQ), closed at 1,609.17 points mainly due to fund outflow from foreign investors. Market trading volume increased from the previous quarter but declined comparing to the first quarter of last year, with the average daily turnover of 63,240.39 million baht.

Operating Results

TISCO Financial Group Public Company Limited (“the Company”) continuously operates business in line with sustainability strategy and takes all stakeholders into account. The Company has committed to responsible business practices, prudent risk management, enhancing competitiveness to support any changes in economic, social and environmental aspects, as well as promoting well-being in society through various projects such as financial literacy, efficient use of resources, employee development and happy organization.

TISCO Financial Group Public Company Limited, as a parent company of the group, had net profit from operations for the first quarter of 2023 on a standalone basis totaling 142.58 million baht, mainly contributed by dividend income and service fee income derived 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 capital market businesses.

Operating Results for the First Quarter of 2023

The net profit of the Company for the first quarter of 2023 was reported at 1,792.58 million baht, declined by 2.91 million baht or 0.2% comparing to the first quarter of 2022, mainly caused by rising cost of fund in accordance with the market rate uptrend and the resumption of contribution rate to Financial Institutions Development Fund (FIDF) back to 0.46% per year, together with an increase in operating expenses in relation to long-term investment plan for business expansion. Total operating revenue improved by 5.8% (YoY) driven by an increase in interest income by 16.3% (YoY) following loan growth, coupled with the record of gain on financial instruments measured at fair value through profit or loss (FVTPL). Meanwhile, non-interest income from core businesses weakened particularly in capital market businesses which were affected by the volatile global market. This included a decline in brokerage fee income of 13.8% (YoY) and a decrease in asset management basic fee of 0.5% (YoY). In addition, banking fee also softened by 1.1% (YoY), partly from the loan-related fee that was impacted by the regulatory changes in fee charges. However, bancassurance business recovered moderately aligning with higher new business volume.

Comparing to the fourth quarter of 2022, net profit reduced by 14.15 million baht or 0.8% (QoQ), resulted from declining net interest income by 1.7% (QoQ) following rising cost of fund. Furthermore, non-interest income decreased by 8.9% (QoQ) mainly caused by banking fee income which comprised of a seasonal slowdown in bancassurance business and a decrease in loan-related fee. On the contrary, businesses related to capital market showed improvement including a growth in brokerage fee income by 29.3% (QoQ) owing to higher market share of TISCO Securities and recovering market trading volume, and an increase in asset management basic fee by 7.9% (QoQ) thanks to a higher number of new fund issuances.

Expected credit loss (ECL) remained low totaling 155.39 million baht or at 0.3% of average loans. This was a result of effective asset quality control despite a slight increase in NPLs to 2.13% of loans from

the end of 2022, which went according to the growth strategy into high-yield loans. ECL of the Company remained strong and sufficient to cushion against potential risks from all aspects.

Basic earnings per share for the first quarter of 2023 were 2.24 baht per share, remained unchanged (YoY) but decreased from 2.26 baht per share (QoQ). The return on average equity (ROAE) was reported at 16.4%.

Table 1 : Statement of Comprehensive Income

Statement of Comprehensive Income					
Unit: Million baht	1Q2023	4Q2022	%QoQ	1Q2022	%YoY
Interest income					
Interest on loans	2,254.05	2,094.59	7.6	1,695.54	32.9
Interbank and money market items	140.27	95.42	47.0	35.03	300.4
Hire purchase and financial lease income	1,717.01	1,764.60	(2.7)	1,803.33	(4.8)
Investments	23.10	22.39	3.2	22.29	3.6
Total interest income	4,134.44	3,977.00	4.0	3,556.19	16.3
Interest expenses	(847.48)	(632.70)	33.9	(494.92)	71.2
Net interest income	3,286.96	3,344.30	(1.7)	3,061.28	7.4
Fee income	1,378.45	1,464.33	(5.9)	1,403.64	(1.8)
Fee expenses	(111.96)	(112.63)	(0.6)	(129.36)	(13.5)
Net fee income	1,266.49	1,351.70	(6.3)	1,274.28	(0.6)
Gain (Loss) on the financial instruments measured at fair value through PL	17.79	53.08	(66.5)	(32.18)	n.a.
Gain (Loss) on Investments	1.91	1.27	50.6	(1.61)	n.a.
Share of profit from investment under equity method	10.12	14.47	(30.0)	13.39	(24.4)
Other operating income	87.22	97.62	(10.7)	100.36	(13.1)
Total operating income	4,670.50	4,862.42	(3.9)	4,415.51	5.8
Operating expenses	(2,281.67)	(2,232.90)	2.2	(2,095.38)	8.9
Expected credit loss	(155.39)	(378.84)	(59.0)	(85.33)	82.1
Profit before tax and minority interest	2,233.44	2,250.69	(0.8)	2,234.79	(0.1)
Corporate income tax expenses	(440.74)	(443.84)	(0.7)	(439.20)	0.4
Profit before minority interest	1,792.70	1,806.85	(0.8)	1,795.60	(0.2)
Non-controlling interests of subsidiaries	(0.12)	(0.12)	(5.6)	(0.11)	8.3
Net profit	1,792.58	1,806.73	(0.8)	1,795.49	(0.2)

Details of Financial Performance for the First Quarter of 2023 comparing to the First Quarter of 2022

Net Interest Income

In the first quarter of 2023, the net interest income totaled 3,286.96 million baht, increased by 225.69 million baht (7.4% YoY). Total interest income was 4,134.44 million baht, increased by 578.25 million baht (16.3% YoY) following loan growth and the expansion of high-yield loans. Whilst, interest expense was at 847.48 million baht, increased by 352.56 million baht (71.2% YoY) from rising funding cost along with the policy rate increase.

Yield on loans increased from 6.99% to 7.36% (YoY) following the growing proportion of high-yield loans and increased floating interest rates. The cost of fund rose from 1.06% to 1.63% (YoY) owing to an increase in funding cost amid rising interest rate environment, coupled with the resumption of contribution rate to Financial Institutions Development Fund (FIDF) back to 0.46% per year. Thereby, loan spread declined from 5.93% to 5.74% (YoY) and net interest margin decreased from 5.09% to 4.98% (YoY).

Table 2 : Loan Spread

Unit: %	2022	1Q2022	4Q2022	1Q2023
Yield on Loans	7.03	6.99	7.08	7.36
Cost of Fund	1.11	1.06	1.22	1.63
Loan Spread	5.92	5.93	5.86	5.74
Net Interest Margin (NIM)	5.09	5.09	5.09	4.98

Non-Interest Income

Non-interest income totaled 1,383.54 million baht, increased by 29.31 million baht or 2.2% (YoY) contributed by a gain on financial instruments measured at fair value through profit or loss (FVTPL) amounting 17.79 million baht comparing to a loss of 32.18 million baht in the first quarter of 2022.

Non-interest income from core businesses totaled 1,431.66 million baht, declined by 2.6% (YoY) caused by a slowdown in businesses related to capital market. Brokerage fee income totaled 186.80 million baht, decreased by 29.83 million baht (13.8% YoY) following lower market trading volume amid volatile capital market, whereas asset management basic fee was reported at 416.33 million baht, dropped by 1.97 million baht (0.5% YoY) due to a contraction in mutual fund's assets under management. Moreover, banking fee also softened by 9.05 million baht to 800.88 million baht (1.1% YoY) partly from declining loan-related fee which was resulted from the regulatory changes in fee charges. Nevertheless, bancassurance business improved moderately following an increase in new business volume. Investment banking fee totaled 27.65 million baht, increased by 2.37 million baht (9.4% YoY).

Table 3 : Non-Interest Income Breakdown

Type of Incomes Unit: Million baht	1Q2023	4Q2022	%QoQ	1Q2022	%YoY
Banking Fee	800.88	958.60	(16.5)	809.93	(1.1)
<i>Bancassurance Fee</i>	<i>615.29</i>	<i>744.93</i>	<i>(17.4)</i>	<i>604.16</i>	<i>1.8</i>
<i>Other Banking Fee</i>	<i>185.59</i>	<i>213.68</i>	<i>(13.1)</i>	<i>205.77</i>	<i>(9.8)</i>
Asset Management Basic Fee	416.33	385.90	7.9	418.30	(0.5)
Brokerage Fee	186.80	144.47	29.3	216.63	(13.8)
Investment Banking Fee	27.65	69.66	(60.3)	25.28	9.4
Non-Interest Income from Core Businesses	1,431.66	1,558.64	(8.1)	1,470.15	(2.6)
Gain (Loss) on Financial Instruments measured at fair value through PL	17.79	53.08	(66.5)	(32.18)	n.a.
Gain (Loss) on Investments	1.91	1.27	50.6	(1.61)	n.a.
Share Profit from subsidiaries	10.12	14.47	(30.0)	13.39	(24.4)
Dividend Income	33.04	-	n.a.	33.25	(0.6)
Asset Management Performance Fee	0.97	3.30	(70.6)	0.60	62.7
Fee Expenses	(111.96)	(112.63)	(0.6)	(129.36)	(13.5)
Total Non-Interest Income	1,383.54	1,518.13	(8.9)	1,354.23	2.2

Operating Expenses

Operating expenses totaled 2,281.67 million baht, increased by 186.29 million baht (8.9% YoY), resulting from expenses related to the long-term investment plan for business expansion, coupled with an increase in variable expenses associated with revenue and profit growth. The Company still maintained effective operating cost control with cost to income ratio at 48.9%.

Expected Credit Loss

Expected credit loss (ECL) was reported at 155.39 million baht, increased comparing with 85.33 million baht in the first quarter of 2022, and accounted for 0.3% of average loans. The Company still maintained an effective credit quality control despite a slight increase in NPLs to 2.13% of loans from the end of 2022, but this went according to the growth strategy into high-yield loans. ECL of the Company remained strong and sufficient to cushion against potential risks from all aspects with loan loss coverage ratio at 248.1%.

Corporate Income Tax

The corporate income tax for the first quarter of 2023 was 440.74 million baht, equivalent to the effective tax rate of 19.7%.

Financial Positions

Assets

As of March 31, 2023, the Company's total assets were 273,226.66 million baht, increased by 2.9% (YTD). Loans totaled 220,099.17 million baht, increased by 0.5% (YTD). Interbank and money market totaled 45,790.98 million baht, increased by 13.7% (YTD). Financial assets measured at fair value through Profit or Loss amounted 2,329.87 million baht, increased by 7.2% (YTD), and investments amounted 4,383.07 million baht, increased by 9.9% (YTD).

Table 4 : Assets Breakdown

Assets Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Cash	1,046.95	1,005.07	4.2
Interbank and money market items	45,790.98	40,272.42	13.7
Derivatives	-	147.49	n.a.
Financial assets measured at fair value through Profit or Loss	2,329.87	2,172.39	7.2
Investments - net	4,383.07	3,989.88	9.9
Investments in subsidiaries and JV	872.45	872.81	(0.0)
Loans	220,099.17	219,003.80	0.5
Accrued interest receivables	1,728.19	1,722.32	0.3
Allowance for expected credit loss	(11,643.89)	(11,844.73)	(1.7)
Loans and accrued interest receivables – net	210,183.46	208,881.38	0.6
Other assets	8,619.88	8,073.00	6.8
Total assets	273,226.66	265,414.44	2.9

Liabilities

As of March 31, 2023, total liabilities were 228,627.49 million baht, increased by 2.7% (YTD) from an increase in total deposits by 4.5% (YTD) to 196,718.79 million baht, and an increase in interbank and money market by 15.5% (YTD) to 7,156.08 million baht.

Table 5 : Liabilities Breakdown

Liabilities Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Deposits	196,718.79	188,302.73	4.5
Interbank and money market items	7,156.08	6,195.46	15.5
Debentures	10,930.00	15,720.00	(30.5)
Others	13,822.62	12,405.63	11.4
Total liabilities	228,627.49	222,623.81	2.7

Shareholders' Equity

As of March 31, 2023, shareholders' equity was 44,599.16 million baht, increased by 1,808.54 million baht (4.2% YTD) from an increase in retained earnings of the first quarter of 2023. As a result, the book value per share (BVPS) as of March 31, 2023 was 55.70 baht per share.

Business Segment Operations

(1) Banking Business

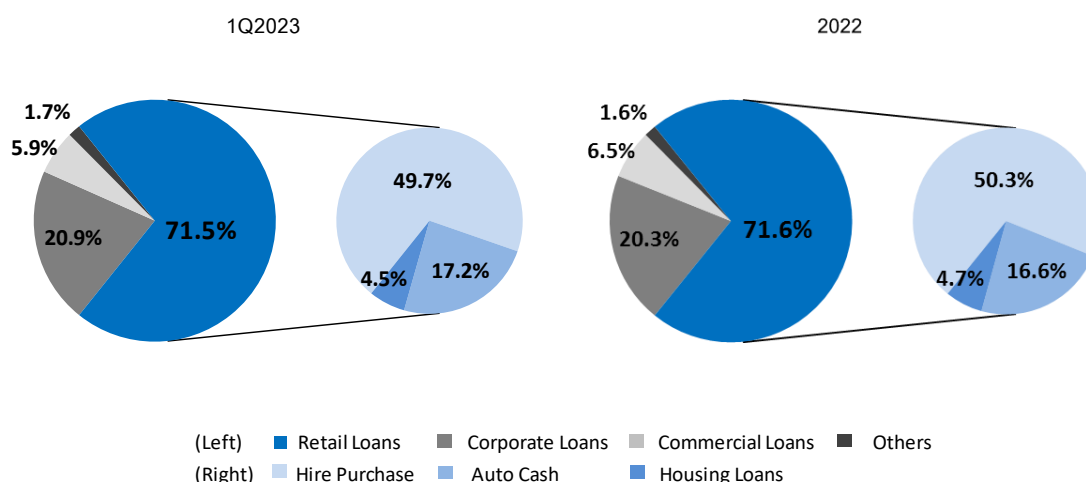
1.1 Loans

Total loans and receivables as of March 31, 2023 were 220,099.17 million baht, grew by 0.5% (YTD), driven by corporate loans, auto title loans and used car hire purchase loans.

Table 6 : Loans

Loans Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Hire purchase	109,490.15	110,264.21	(0.7)
Loans against auto licenses	37,904.30	36,348.09	4.3
Housing loans	9,966.82	10,230.17	(2.6)
Retail loans	157,361.27	156,842.47	0.3
Corporate loans	46,020.74	44,369.14	3.7
Commercial loans	13,013.33	14,303.41	(9.0)
Others	3,703.83	3,488.78	6.2
Total loans	220,099.17	219,003.80	0.5

Loan Breakdown



Retail Lending portfolio totaled 157,361.27 million baht, increased by 0.3% (YTD). The total retail portfolio as of March 31, 2023 consisted of 69.6% car and motorcycle hire purchase loans, 24.1% loans against auto licenses and 6.3% housing loans. The outstanding hire purchase loans totaled 109,490.15 million baht, dropped by 0.7% (YTD) mainly from a decline in new car hire purchase of 1.3% (YTD) amid cautious underwriting policy. The domestic car sale for the first 3 months of 2023 was 217,073 units, decreased by 6.1%, compared to 231,189 units in the first 3 months of 2022. The car penetration rate of TISCO for the first 3 months of 2023 was at 4.2%, declined from 4.7% at the same period of last year. Nonetheless, used car hire purchase grew by 3.7% (YTD), and motorcycle hire purchase increased by 0.2% (YTD) following the high-yield loan expansion strategy.

Loans against auto licenses (“Auto Cash”) totaled 37,904.30 million baht, increased by 4.3% (YTD) following a growth strategy into high-yield businesses and branch network expansion strategy, particularly loans through “Somwang” channels which strongly grew by 6.4% (YTD) totaling 24,032.23 million baht and accounted for 63.4% of total loans against auto licenses. During the quarter, the number of “Somwang” loan offices were expanded by 34 new branches, totaling 484 branches nationwide.

Housing loans totaled 9,966.82 million baht, dropped by 2.6% (YTD) following highly competitive market condition and rising risk.

Corporate Lending portfolio totaled 46,020.74 million baht, increased by 3.7% (YTD), deriving from loan drawdown from public utilities and service sector and real estate and construction sector.

Commercial Lending portfolio totaled 13,013.33 million baht, declined by 9.0% (YTD) from the repayment in car inventory financing business.

Other Loans portfolio totaled 3,703.83 million baht, increased by 6.2% (YTD).

1.2 Asset Quality and Expected Credit Loss

In the first quarter of 2023, the Company reported NPLs amounting 4,693.52 million baht, increased by 2.6% (YTD), and accounted for NPL ratio of 2.13% of total loans, slightly increased from 2.09% at the end of 2022 following the growth strategy more into high-yield loan businesses.

Table 7 : Loan Classification

Loan Classification* Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Stage 1 loans (Performing)	194,019.90	192,339.28	0.9
Stage 2 loans (Under-performing)	21,385.75	22,088.00	(3.2)
Non-performing loans (NPLs)	4,693.52	4,576.52	2.6
Total loans	220,099.17	219,003.80	0.5

*Excluding accrued interest in accordance with BOT’s guideline

Table 8 : NPLs Breakdown

NPLs* Unit: Million baht, %	As of Mar 31, 2023		As of Dec 31, 2022	
	Million baht	%	Million baht	%
Hire purchase	2,571.70	2.35	2,605.71	2.36
Loans against auto licenses	1,198.75	3.16	1,039.76	2.86
Housing loans	836.09	8.39	840.23	8.21
NPLs - Retail loans	4,606.54	2.93	4,485.70	2.86
NPLs - Corporate loans	-	-	-	-
NPLs - Commercial loans	82.83	0.64	87.45	0.61
Others	4.16	0.11	3.37	0.10
Total NPLs	4,693.52	2.13	4,576.52	2.09

*Excluding accrued interest in accordance with BOT’s guideline

Total allowance for expected credit loss of the Company reported at 11,643.89 million baht, and loan loss coverage ratio stood at 248.1%.

1.3 Deposits and Borrowings

Total deposits and borrowings amounted 207,648.79 million baht, increased by 1.8% (YTD). Total deposits reported at 196,718.79 million baht, increased by 8,416.07 million baht (4.5% YTD) in tandem with loan expansion. Whereas, debentures totaled 10,930.00 million baht, decreased by 4,790.00 million baht (30.5% YTD) due to the maturity of senior debentures. As of March 2023, the Bank had high-quality liquid assets according to the Liquidity Coverage Ratio (LCR) of 48,904 million baht, increased by 12.8% (YTD). Thus, the high-quality liquid assets were accounted for 23.6% of total deposits and borrowings, and LCR ratio was at 174.7%.

Table 9 : Deposit Structure

Deposits Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Current accounts	1,639.16	1,820.83	(10.0)
Saving accounts	38,178.43	42,929.52	(11.1)
Fixed accounts	54,636.09	42,925.39	27.3
Negotiate certificate deposits	102,228.99	100,590.08	1.6
Short-term borrowings	36.12	36.92	(2.2)
Total deposits	196,718.79	188,302.73	4.5

(2) Securities Business

In the first quarter of 2023, market trading volume significantly declined comparing to the first quarter of 2022 in the midst of highly volatile global capital market condition, resulting in average daily turnover of TISCO Securities to decrease accordingly to 1,785.85 million baht. Therefore, brokerage fee income of TISCO Securities declined by 13.8% (YoY) to 186.80 million baht. On the other hand, if comparing to the fourth quarter of 2022, average daily turnover of TISCO Securities improved thanks to the improvement in market share, which led to brokerage fee income growth by 29.3% (QoQ).

TISCO Securities' overall market share improved to 1.5% driven by an increased volume in local institutions. TISCO brokerage volume comprised of 52.9% of local institutions, 9.4% of foreign institutions, and 37.7% of retail investors.

(3) Asset Management Business

As of March 31, 2023, assets under management of TISCO Asset Management totaled 370,587.39 million baht, decreased by 0.9% (YTD) amid volatile global capital market. Basic fee income reported at 416.33 million baht, slightly decreased by 0.5% (YoY) due to a decrease in mutual fund's assets under management. However, basic fee income grew by 7.9% (QoQ) contributed by a higher number of new fund issuances during the quarter.

The composition of total asset under management was 66.0% provident fund, 19.0% private fund, and 15.0% mutual fund. Total market share of TISCO Asset Management as of March 31, 2023 was 4.4%,

ranking 9th in the market. The market share of provident fund was 17.8%, ranking 1st in the market. The market share of private fund was 3.1%, ranking 6th in the market and the market share of mutual fund was 1.1%, ranking 12th in the market.

Table 10 : Assets under Management Breakdown

Funds Unit: Million baht	As of Mar 31, 2023	As of Dec 31, 2022	%YTD
Provident fund	244,671.64	247,652.36	(1.2)
Private fund	70,251.08	72,717.00	(3.4)
Mutual fund	55,664.67	53,694.41	3.7
Total AUMs	370,587.39	374,063.77	(0.9)

Risk Management

As of March 31, 2023, TISCO Group's internal capital (ICAAP) stood at 37,461.31 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital rose by 112.56 million baht from the end of 2022 to 12,394.19 million baht mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 25,067.13 million baht or 66.9% of total capital.

Comparing to the end of 2022, the credit risk capital increased by 140.53 million baht, or 1.5%, to 9,554.20 million baht mostly resulting from loan expansion in corporate and auto cash portfolios. Total loan portfolio of TISCO Group expanded by 0.5%, while non-performing loans remained stable at 2.1% during the quarter. Moreover, TISCO Group maintains an effective asset quality control including long-term debt restructuring and debt relief programs.

The market risk capital decreased from 314.01 million baht to 286.04 million baht, which resulted from a rebound in the stock markets during the period. Meanwhile, the overall duration gap decreased from 0.73 year to 0.69 year, which was in a manageable level. The assets duration declined from 1.19 year to 1.17 year, while the liabilities duration increased from 0.46 year to 0.48 year.

Table 11 : Average Duration Mismatch of Assets and Liabilities and Its Impact

	Duration Unit: Years		1-Y Net interest income change to 1% interest rate increase Unit: Million baht	
	Mar 31, 2023	Dec 31, 2022	Mar 31, 2023	Dec 31, 2022
Assets	1.17	1.19	1,324.75	1,250.92
Liabilities	0.48	0.46	(1,414.27)	(1,457.60)
Net gap	0.69	0.73	(89.52)	(206.68)

In terms of regulatory capital requirement of the Bank, TISCO Group, 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 2023, the regulatory capital based on IRB approach of the Bank was 39,512.92 million baht, while the capital adequacy ratio (BIS ratio) stood at 23.5%, remaining higher than 11.0% required by the Bank of Thailand. The Tier-I and Tier-II ratios of the Bank stood at 19.7% and 3.8%, respectively, in which Tier-I ratio also remained higher than the minimum requirement at 8.5%. For TISCO Group, the regulatory capital based on IRB approach was 38,905.37 million baht, with BIS ratio, Tier-I and Tier-II ratios at 20.6%, 17.2% and 3.5%, respectively, which also remained higher than the minimum capital requirement. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 42.4%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 12 : Regulatory Capital Requirement

Capital Adequacy Unit: %	As of Mar 31, 2023	As of Dec 31, 2022
TISCO Financial Group		
Tier-I	17.2	17.1
Tier-II	3.5	3.5
BIS Ratio	20.6	20.6
TISCO Bank		
Tier-I	19.7	19.6
Tier-II	3.8	3.7
BIS Ratio	23.5	23.4