

Management Discussion and Analysis For the Third Quarter ended September 30, 2013

(This report discusses principal changes in the unreviewed consolidated financial statement for the third quarter ended September 30, 2013)

Movement of Money Market and Capital Market

In the third quarter of 2013, domestic economy growth tended to decelerate amidst softening private investment and consumption due partly to the relatively high level of household debt, along with the delay of government investment project. Meanwhile, the recovery of export sector remained fragile.

In capital market, the market was highly volatile in line with regional markets following concerns over the uncertainty of US Federal Reserve have planned to taper off the quantitative easing measure as well as the domestic economy slowdown. Furthermore, the SET closed at 1,383.16 points decreased from 1,451.90 points at the end of the second quarter of 2013 on backdrop of foreign investors sell-off. The average daily turnover was 42,492.64 million baht, decreased from 56,278.32 million baht (QoQ).

In the third quarter of 2013, the Bank of Thailand (BOT) maintained the policy rate at 2.50%. Meanwhile, average 3-month fixed deposit rates and the average minimum lending rate of Top 4 commercial banks stood at 1.93% and 7.00% respectively, unchanged from the second quarter of 2013.

Operating Results

The Management Discussion and Analysis compares operating performance for the third quarter of 2013 and third quarter of 2012

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 68.65 million baht, mainly contributed by 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 2013, TISCO Group had net profit after minority interest of 1,132.00 million baht, increased by 179.02 million baht (18.8% YoY) contributed by an increase in total interest income of 25.5% (YoY) following the loan portfolio expansion of 24.8% (YoY). Meanwhile, the loan spread was at 3.1%, slightly improved from 3.0% (YoY). Furthermore, non-interest income from core business¹ was 1,360.61 million baht, increased by 215.16 million baht (18.8% YoY) contributed by the increase in banking

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

fee of 29.7% (YoY) following the expansion of loan and bancassurance businesses. The brokerage fee also increased by 14.1% (YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. together with an increased in basic fee income from asset management business of 23.1% (YoY), mainly contributed by the issuance of new fund that matched with market demand.

For the first 9 months of 2013, TISCO Group had the net profit after minority interest at 3,444.64 million baht, increased by 735.26 million baht (27.1% YoY) compared to 2,709.37 million baht in the same period of previous year, resulting from an increase in net interest income of 29.9% (YoY) following the expansion in all loan businesses. Loan spread remained at 3.1% which was at the same level as the same period of previous year. Moreover, non-interest income from core business reported at 4,415.59 million baht, increased by 1,142.29 million baht (34.9% YoY) contributed by growth in fee income from banking business of 34.7% (YoY) following the loan portfolio expansion and bancassurance businesses. Furthermore, the brokerage income rose 62.5% (YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. In addition, basic fee from asset management business increased by 30.4% (YoY) contributed by expansion of asset under management and the issuance of new fund that matched with market demand.

Basic earnings per share for the third quarter and first 9 month period of 2013 were 1.40 and 4.57 baht per share respectively compared with those in the same period in 2012 of 1.31 and 3.72 baht per share respectively. The return on average equity (ROAE) for the third quarter and first 9 months of 2013 was at 21.8% and 23.2% respectively compared with 22.9% and 21.6% for the third quarter and first 9 months of 2012.

Net Interest Income

Net interest income in this quarter was 2,316.69 million baht, increased by 493.95 million baht (27.1% YoY), while total interest income was 4,943.54 million baht, increased by 1,003.76 million baht (25.5% YoY), following a continuous expansion of loan portfolio. Meanwhile, interest expense increased by 509.82 million baht (24.1% YoY) to 2,626.85 million baht, resulting from an expansion of capital base as well as higher funding cost products from client base expansion.

Yield on loan was at 6.5% declined from 6.7% (YoY) following market competition and a decrease in policy rate. Nonetheless, TISCO Group had maintained effective cost management resulting in reduction of cost of fund from 3.7% to 3.5% (YoY). As the result, loan spread was at 3.1% which was slightly increased from 3.0% (YoY). Net interest margin was at 2.8% which was at the same level as the second quarter of 2013.

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,538.79 million baht, increased by 247.86 million baht (19.2% YoY). Impairment loss of loans and debt securities totaled 777.89 million baht, compared with 531.81 million baht in the third quarter of 2012, following loan portfolio expansion as well as rising NPL during the quarter mainly from used car portfolio.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,360.61 million baht, increased by 215.16 million baht (18.8% YoY) resulting from an increase in banking fee increased of 206.15 million baht (29.7% YoY) following strong growth in loan and bancassurance businesses as well as an increase in brokerage fee of 28.92 million baht (14.1% YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. In addition, basic fee income from asset management business increased by 38.39 million baht (23.1% YoY) mainly contributed by the expansion of asset under management as well as continually fund product development that response with market condition.

Non-interest Expenses

Non-interest expenses for this quarter were 1,399.57 million baht, increased by 131.09 million baht (10.3% YoY) mainly driven by variable expenses associated with revenue growth. In addition, the cost to income ratio was decreased to 38.5% compared with 41.8% in the third quarter of 2012 following the strong revenue growth in coupled with effective operating cost control.

Corporate Income Tax

In the third quarter of 2013, the corporate income tax was 293.06 million baht, equivalent to the effective tax rate of 20.1%, compared to 22.0% (YoY) following the adjusted corporate tax from 23% to 20% according to the government policy.

Financial Status

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of September 30, 2013 and June 30, 2013.

Assets

As of September 30, 2013, TISCO Group's total assets were 338,390.69 million baht increased by 4.5% (QoQ) due mainly to increase in interbank and money market items from 32,376.50 million baht to 41,605.47 million baht (28.5% QoQ), together with an increase in loans and receivables from 280,558.43 million baht to 284,855.05 million baht (1.5% QoQ). In addition, loans and receivables increased by 14.7% from the end of 2012.

Liabilities

As of September 30, 2013, total liabilities were 316,756.26 million baht, increased by 4.4% (QoQ) mainly contributed by the increase in deposits from 252,370.01 million baht to 269,216.06 million baht (6.7% QoQ). The liabilities mix comprised of 85.0% total deposit including bill of exchange, 4.9% interbank and money market items, 6.8% debentures, and 3.2% other liabilities.

Shareholders' Equity

As of September 30, 2013, shareholders' equity was 21,634.43 million baht, increased by 1,187.68 million baht (5.8% QoQ) following an increase in retained earnings in the third quarter of 2013. As a result, book value per share (BVPS) as of September 30, 2013 was 27.02 baht per share, increased from 25.54 baht per share (QoQ).

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables were 284,855.05 million baht, up by 4,296.62 million baht (1.5% QoQ), following growth in loan portfolio following strong loan growth in retail and corporate loans albeit commercial loan declined. The composition of loan portfolio was 71.0% of retail loans, 17.0% of corporate loans, 10.9% of commercial loans and 1.2% of other loans.

Retail lending portfolio totaled 202,150.48 million baht increased by 2.7% (QoQ), consisted of 92.6% car, motorcycle, and other hire purchase, 6.7% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 187,260.64 million baht, rose by 4,120.41 million baht (2.2% QoQ). The domestic car sales in the first 8 months of 2013 reported at 939,340 units, increased from 867,678 units (8.3% YoY). The car penetration rate for the first 8 months was reported at 8.8%. Moreover, consumption loans amounted 13,427.41 million baht increased by 1,087.08 million baht (8.8% QoQ) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 48,315.40 million baht, increased by 690.49 million baht (1.4% QoQ) due partly to an increase in loan to real estate and construction, and loan to public utilities and services business.

Commercial lending portfolio totaled 31,063.78 million baht, decreased by 1,587.87 million baht (4.9% QoQ) following the decrease in demand for car inventory financing.

Other loan portfolio totaled 3,325.38 million baht, decreased by 34.53 million baht (1.0% QoQ).

Deposits¹

Total deposits totaled 269,216.06 million baht, increased by 16,846.05 million baht (6.7% QoQ) following the rebalancing of liabilities mix to match with the interest rate trend. As of September 30, 2013, TISCO Group had excess liquidity amounting to approximately 33,415 million baht, combining with the BoT

¹ Total Deposits includes deposits and short-term bill of exchanges

required liquidity of 16,521 million baht (including bill of exchange), resulting in liquidity ratio of 18.1% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of September 30, 2013, NPL ratio increased slightly to 1.47% from 1.45% from the previous quarter. NPL ratio of retail loan, corporate loan, and commercial loan were 1.89%, 0.46%, and 0.36% respectively. Total NPLs reported at 4,197.44 million baht, increased by 128.66 million baht (3.2% QoQ), comprising of 3,578.04 million baht of the Bank NPLs and 619.40 million baht of other subsidiaries NPLs. NPLs increased along with loan portfolio growth as well as rising NPL from used car hire purchase business as a result of slow liquidation of repossessed-car inventory following substantial decline in market price of used cars during the period. In addition, TISCO Group wrote off bad debts from corporate loans resulting in lower NPL ratio of corporate loans from 0.89% to 0.46% (QoQ).

TISCO Group set up provision for impairment loss of loans and debt securities totaling 777.89 million baht, compared to 531.81 million baht (YoY), which accounted for 1.10% of average loan portfolio. As of September 30, 2013, loan loss reserve of TISCO Group was 5,714.81 million baht or 136.1% of NPLs. Total loan loss reserve of the Bank was 5,179.30 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,078.90 million baht, reflecting the prudent provisioning policy to mitigate potential risk. Total reserve comprised of minimum required reserve of 3,083.65 million baht and excess reserve of 2,116.65 million baht. At present, TISCO Group already has sufficient excess reserve in compliance with guidelines of the Bank of Thailand.

(2) Securities Business

At the end of the third quarter of 2013, average daily turnover through TISCO Securities was 2,219.78 million baht, increased by 39.9% (YoY) from 1,586.16 million baht in the same period of 2012 following the higher market average trading volume. TISCO Securities market share improved from 2.4% to 2.6% (YoY). The higher market share was due mainly to an increase in market share of foreign institution sectors from 3.7% to 4.3% (YoY), and the professional investment advisory service and securities research of Deutsche TISCO Investment Advisory Co., Ltd. TISCO brokerage volume in the third quarter of 2013 comprised of 23.3% of local institutions, 41.1% of foreign institutions, and 35.6% of retail customers. Moreover, Brokerage fee was 234.33 million baht, up by 14.1% (YoY) from 205.41 million baht in same period of 2012.

(3) Asset Management Business

As of August 31, 2013, overall asset under management of industry increased from June 30, 2013 by 5,782.73 million baht (0.2% QoQ). The assets under management of TISCO Asset Management Co., Ltd. as of September 30, 2013 were 156,912.38 million baht, increased by 2,881.74 million baht (1.9% QoQ). The composition of total asset under management was 63.6% provident fund, 21.0% private fund, and 15.5% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2013 was 4.2%, ranking 9th in the market. The market share of provident fund was 13.4%, ranking 3rd in the market. The

market share of private fund was 9.5%, ranking 4th in the market. For mutual fund, the market share was 0.9%, ranking 13th in the market.

In the third quarter of 2013, basic fee income from asset management totaled 204.31 million baht, increased by 38.39 million baht (23.1% YoY) due partly to the launch of 4 new equity trigger funds in which 2 funds achieved the target during the quarter.

Risk Management

As of September 30, 2013, TISCO Group's internal capital stood at 20,675.97 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 93.53 million baht from the end of the second quarter of 2013 to 11,388.30 million baht, resulting from a decrease in credit and market risk capital. In addition, the capital surplus remained strong at 9,287.68 million baht or 44.9% of total internal capital.

Comparing to the end of June, 2013, the credit risk capital was 9,338.01 million baht, decreasing by 53.37 million baht or 0.6% following a decline in risk factor of corporate lending. However, the portfolio expansion in overall lending segment stood at 1.5% during the period. The non-performing loan of TISCO Group remained unchanged at 1.5% at the end of September, 2013.

The market risk capital decreased from 400.78 million baht to 360.62 million baht, resulting from a decline in risk capital of investment portfolio as gain in market value increased along with SET index.. Meanwhile, the overall duration gap remained unchanged from the second quarter at 1.13 year, which was still in a manageable level. The assets duration slightly decreased from 1.56 year to 1.55 year resulting from increasing in lending portfolio with shorter duration, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, stood at 0.43 year.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of September, 2013, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) stood at 13.87%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 9.51% and 4.36%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 113.26%, which was higher than the minimum required ratio by the SEC of 7%.

Table 1: Consolidated Revenue Structure

Type of Revenue	3Q12		3Q13		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,201.28	39.6	1,527.93	42.0	27.2
Interest on interbank and money market items	177.58	5.9	250.21	6.9	40.9
Hire purchase and financial lease income	2,512.89	82.9	3,115.39	85.7	24.0
Investments	48.02	1.6	50.01	1.4	4.1
Total interest income	3,939.77	129.9	4,943.54	136.0	25.5
Interest expenses	(2,117.03)	(69.8)	(2,626.85)	(72.3)	24.1
Net interest income	1,822.74	60.1	2,316.69	63.7	27.1
Fee income					
Fee income	1,117.53	36.9	1,275.47	35.1	14.1
Fee expenses	(57.80)	(1.9)	(53.88)	(1.5)	(6.8)
Net fee income	1,059.72	35.0	1,221.59	33.6	15.3
Gain on investment and foreign exchange transaction	121.49	4.0	11.33	0.3	(90.7)
Other operating income	523.03	17.3	247.38	6.8	(52.7)
Total operating income	3,526.99	116.3	3,796.98	104.5	7.7
Expenses to business promotion relating to the business	(495.10)	(16.3)	(162.24)	(4.5)	
Total net operating income	3,031.89	100.0	3,634.75	100.0	19.9
Other operating expenses	(1,268.48)		(1,399.57)		
Bad debt and doubtful account and impairment loss of debt securities	(531.81)		(777.89)		
Profit before income tax and minority interest	1,231.60		1,457.29		18.3
Corporate income tax	(271.00)		(293.06)		
Profit before minority interest	960.59		1,164.23		21.2
Minority interest in net earnings in subsidiary company	(7.61)		(32.23)		
Net profit	952.98		1,132.00		18.8

Table2: Interest Spread

%	2012	9M12	9M13	3Q12	3Q13
Yield on Loans	6.6	6.7	6.7	6.8	6.6
Cost of fund	3.6	3.5	3.6	3.7	3.5
Loan spread	3.0	3.1	3.1	3.0	3.1

Table 3: Assets Breakdown

Assets	June 30, 2013		September 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Cash	983.01	0.3	1,153.09	0.3	17.3
Interbank and Money Market Items	32,376.50	10.0	41,605.47	12.3	28.5
Derivative Asset	28.80	0.0	19.72	0.0	0.0
Fixed income	6,016.16	1.9	8,317.15	2.5	38.2
Equity	1,624.32	0.5	1,674.04	0.5	3.1
Corporate Loans	47,624.90	14.7	48,315.40	14.3	1.4
Retail Loans	196,921.96	60.8	202,150.48	59.7	2.7
Commercial Loans	32,651.66	10.1	31,063.78	9.2	(4.9)
Other Loans	3,359.91	1.0	3,325.38	1.0	(1.0)
Allowance for doubtful accounts and for loss on debt restructuring	(5,913.15)	(1.8)	(5,714.81)	(1.7)	(3.4)
Other Assets	8,295.19	2.6	6,480.98	1.9	(21.9)
Total – TISCO Group	323,969.26	100.0	338,390.69	100.0	4.5

Table 4: Loans and Receivables Breakdown

Type of Business	June 30, 2013		September 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	18,722.54	6.7	18,168.11	6.4	(3.0)
Real estate and construction	9,793.53	3.5	10,454.64	3.7	6.8
Public utilities and services	18,334.57	6.5	18,898.70	6.6	3.1
Agriculture and mining	774.26	0.3	793.95	0.3	2.5
Corporate Loans	47,624.90	17.0	48,315.40	17.0	1.4
Commercial Loans	32,651.66	11.6	31,063.78	10.9	(4.9)
Hire purchase	183,140.23	65.3	187,260.64	65.7	2.2
Mortgage	1,441.41	0.5	1,462.43	0.5	1.5
Consumer	12,340.32	4.4	13,427.41	4.7	8.8
Retail Loans	196,921.96	70.2	202,150.48	71.0	2.7
Others	3,359.91	1.2	3,325.38	1.2	(1.0)
Total – TISCO Group	280,558.43	100.0	284,855.05	100.0	1.5

Table 5: NPL Breakdown by Area

Type of Business	June 30, 2013			September 30, 2013			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.54	100.69	2.5	0.61	110.60	
Real estate and construction	2.79	273.72	6.7	0.47	49.66	1.2	(81.9)
Public utilities and services	0.24	43.24	1.1	0.27	51.44	1.2	19.0
Agriculture and mining	1.11	8.59	0.2	1.30	10.28	0.2	19.7
Total NPL - Corporate Loans	0.89	426.24	10.5	0.46	221.99	5.3	(47.9)
NPL-Commercial Loans	0.27	89.56	2.2	0.36	111.88	2.7	24.9
Hire purchase	1.78	3,253.76	80.0	1.91	3,583.48	85.4	10.1
Mortgage	6.40	92.23	2.3	5.48	80.14	1.9	(13.1)
Consumer	1.26	155.16	3.8	1.11	149.47	3.6	(3.7)
Total NPL - Retail Loans	1.78	3,501.15	86.0	1.89	3,813.08	90.8	8.9
Others	1.50	51.83	1.3	1.49	50.49	1.2	(2.6)
Total NPL – TISCO Group	1.45	4,068.79	100.0	1.47	4,197.44	100.0	3.2

Table 6: Liabilities Breakdown by Area

Type of Borrowings	June 30, 2013		September 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	252,370.01	83.1	269,216.06	85.0	6.7
Interbank and money market items	18,910.84	6.2	15,558.53	4.9	(17.7)
Debentures	20,343.00	6.7	21,643.00	6.8	6.4
Long-term borrowings	107.50	0.0	91.00	0.0	(15.3)
Others	11,791.16	3.9	10,247.67	3.2	(13.1)
Total – The Company and Subsidiaries	303,522.51	100.0	316,756.26	100.0	4.4

Table 7: Deposits Structure

Type of Deposits	June 30, 2013		September 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,429.02	1.4	2,989.46	1.1	(12.8)
Saving accounts	23,091.79	9.1	31,027.51	11.5	34.4
Fixed accounts	28,615.02	11.3	28,548.06	10.6	(0.2)
Negotiate certificate deposit	182,957.12	72.5	194,651.50	72.3	6.4
Short-term borrowings	14,277.06	5.7	11,999.53	4.5	(16.0)
Total deposits	252,370.01	100.0	269,216.06	100.0	6.7

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	June 30, 2013		September 30, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	97,819.65	63.5	99,727.91	63.6	2.0
Private Fund	33,194.38	21.6	32,878.23	21.0	(1.0)
Mutual Fund	23,016.61	14.9	24,306.24	15.5	5.6
Total	154,030.64	100.0	156,912.38	100.0	1.9

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, 2013	September 30, 2013	June 30, 2013	September 30, 2013
	Assets	1.56	1.55	1,269.90
Liabilities*	0.42	0.43	(2,045.58)	(2,013.31)
Net Gap	1.14	1.13	(775.68)	(731.81)

Note: * Exclude saving and current account