

Management Discussion and Analysis For the year ended December 31, 2013

(This report discusses principal changes in the unaudited consolidated financial statement for the year ended December 31, 2013)

Movement of Money Market and Capital Market

In 2013, domestic economy expanded around 3.0% (YoY) which decelerated, comparing with 6.5% in 2012. The sluggish economic growth was led by a slowdown in private consumption resulting from the effect from accelerated consumption in the previous year together with high level of household debt and rising cost of living. Meanwhile, the private investment was softened, the export sectors subdued along with fragile recovery of global demand while government's investment projects delayed from target. Additionally, domestic economy was also affected by political instability.

On financial stability, the headline inflation rate was at 2.30% amidst softened economic environment. The Bank of Thailand (BOT) adjusted the policy rate 2 times from 2.75% at the end of 2012 to 2.50% in the second quarter of 2013. Subsequently, the policy rate was reduced to 2.25% in the fourth quarter of 2013 to stimulate consumption as well as support the domestic economic recovery. Furthermore, average 3-month fixed deposit rates of Top 4 commercial banks decreased from 1.84% at the end of 2012 to 1.76% at the end of 2013, while the average minimum lending rate of Top 4 commercial banks decreased from 7.00% at the end of 2012 to 6.84% at the end of 2013.

In 2013, the capital market was highly volatile due to the concern over weak economic condition and political uncertainty. Accordingly, US Federal Reserve's QE tapering has caused sell-off in risky assets in regional markets by foreign investors. As a result, the index decreased from 1,391.93 at the end of 2012 to 1,298.71 at the end of 2013. The average daily turnover improved from 31,084 million baht in 2012 to 48,267 million baht at the end of 2013.

Major Events

According to capital management plan of TISCO Group, TISCO Financial Group Plc. ("the Company") and TISCO Bank Plc. ("the Bank") carried out the capital increase in order to support future business expansion. Thus, the Company issued and allocated transferable subscription rights ("TSR") at no cost to the existing shareholders at the offering ratio of 10 existing shares (common shares and preferred shares) for 1 unit of TSRs conveys the right to purchase 1 newly issued share of the Company at the price of 24 baht per share. After the completion of exercise period, there were 72,743,397 capital increased shares allocated (100% of allocated TSRs) or accounted for new capital of 1,745.84 million baht. As the result, the paid-up capital of the company increased to 8,006,554,830 baht, comprised of 800,621,625 common shares and 33,858 preferred shares, both with par value of 10 baht per share.

The Bank, the core company of TISCO Group, 99.99% held by the Company, issued and offered the capital increase share to the existing shareholders at the offering ratio of 8 existing shares for 1 unit of

newly issued share at the price of 20.88 baht per share which accounted for new capital of 1,900.00 million baht. As a result, the paid-up capital increased to 8,191,712,820 baht comprised of 819,171,178 common shares and 104 preferred shares, both with par value of 10 baht per share

Operating Results

The Management Discussion and Analysis compares operating performance and financial position of the year 2013 with those of the year 2012

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 1,815.83 million baht, mainly contributed by service fee income and dividend 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 2013, TISCO Group had net profit after minority interest of 4,249.06 million baht, increased by 543.88 million baht (14.7% YoY) contributed by an increase in total interest income of 26.7% (YoY) following the loan portfolio expansion of 17.7% (YoY). Meanwhile, the loan spread remained stable at 3.1% (YoY). Furthermore, non-interest income from core business¹ was 5,730.49 million baht, increased by 1,023.60 million baht (21.7% YoY) contributed by the increase in banking fee of 28.0% (YoY) following the expansion of loan and bancassurance businesses. The brokerage fee also increased by 35.6% (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 25.7% (YoY), mainly contributed by the issuance of new funds that matched with market demand.

Earnings per share for the year 2013 was 5.55 baht compared with 5.09 baht in 2012. Meanwhile, the return on average equity (ROAE) in 2013 was at 20.6% compared with 21.5% in 2012.

Net Interest Income

Net interest income in 2013 was 8,968.16 million baht, increased by 1,923.70 million baht (27.3% YoY), while total interest income was 19,271.73 million baht, increased by 4,061.12 million baht (26.7% YoY), following a continuous expansion of loan portfolio. Meanwhile, interest expense increased by 2,137.43 million baht (26.2% YoY) to 10,303.57 million baht, resulting from an expansion of funding base as well as higher funding cost products from client base expansion.

Yield on loan was at 6.6% slightly decreased from 6.7% (YoY) contributed partly by higher competition and the declining of market interest rate. Meanwhile, cost fund also declined from 3.6% to

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

3.5% (YoY) following market interest rate trend, coupled with effective cost management. As the result, loan spread remained stable at 3.1% (YoY). In addition, Net interest margin was at 2.8% which was at the same level as in 2012.

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 4,826.94 million baht, decreased by 295.28 million baht (5.8% YoY). Impairment loss of loans and debt securities totaled 4,141.22 million baht, compared with 1,922.24 million baht (YoY), following loan portfolio expansion as well as rising NPL during the year mainly from used car portfolio due to pressure from price decline in the used car market.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 5,730.49 million baht, increased by 1,023.60 million baht (21.7% YoY) resulting from an increase in banking fee of 790.81 million baht (28.0% YoY) following strong growth in loan and bancassurance businesses as well as an increase in brokerage fee of 279.92 million baht (35.6% 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 172.24 million baht (25.7% YoY) mainly contributed by the expansion of asset under management as well as continually fund product development that aligns with market condition and demand.

Non-interest Expenses

Non-interest expenses were 5,340.18 million baht, increased by 315.87 million baht (6.3% YoY) mainly driven by variable expenses associated with revenue growth. In addition, the cost to income ratio was decreased to 35.8% compared with 42.7% in the 2012 following the strong revenue growth coupled with effective operating cost control.

Corporate Income Tax

In 2013, the corporate income tax was 1,064.05 million baht, equivalent to the effective tax rate of 19.6%, compared to 22.4% (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 December 31, 2013 and December 31, 2012.

Assets

As of December 31, 2013, TISCO Group's total assets were 359,262.52 million baht increased by 23.7% (YoY) due mainly to increase in loans and receivables from 248,315.68 million baht to 292,150.65 million baht (17.7% YoY). In addition, interbank and money market items increased from 31,196.28 million baht to 53,241.96 million baht (70.7% YoY).

Liabilities

As of December 31, 2013, total liabilities were 336,044.45 million baht, increased by 23.5% (YoY) mainly contributed by the increase in deposits from 233,518.69 million baht to 270,915.37 million baht (16.0% YoY). The liabilities mix comprised of 80.6% total deposit including bill of exchange, 5.0% interbank and money market items, 11.3% debentures, and 3.2% other liabilities.

Shareholders' Equity

As of December 31, 2013, shareholders' equity was 23,218.07 million baht, increased by 4,837.82 million baht (26.3% YoY) following an increase in retained earnings in 2013 as well as capital increase. Furthermore, TISCO Group reappraised the value of office building property in Yommarat Building (TISCO Tower) in which the reappraisal performed by independence appraiser. The reappraisal value of assets was recorded at fair value as well as will request for permission to include the revaluation surplus revaluation surplus of property as Tier capital 1. The reappraisal the value of office building property has applied revaluation model in accordance with the accounting standards (TAS 16 Property, Plant, and Equipment). Consequently, the increasing value of office building property from the reappraisal will be recognized to other comprehensive income and accumulated in equity under "revaluation surplus" totaling 1,176.12 million baht. As a result, book value per share (BVPS) as of December 31, 2013 was 29.00 baht per share, increased from 25.25 baht per share (YoY).

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables as of December 31, 2013 were 292,150.65 million baht, up by 43,834.98 million baht (17.7% YoY), following growth in loan portfolio in retail and corporate loans. The composition of loan portfolio was 69.9% of retail loans, 18.4% of corporate loans, 11.0% of commercial loans and 0.8% of other loans.

Retail lending portfolio totaled 204,190.01 million baht increased by 16.7% (YoY), consisted of 92.2% car, motorcycle and other hire purchase, 7.0% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 188,337.32 million baht, rose by 25,473.93 million baht (15.6% YoY). The domestic car sales in the first 11 months of 2013 reported at 1,216,749 units, decreased from 1,291,634 units (5.8% YoY). The car penetration rate for the first 11 months was reported at 8.8%. Moreover, consumption loans amounted 14,424.50 million baht increased by 3,712.79 million baht (34.7% YoY) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 53,679.77 million baht, increased by 10,686.02 million baht (24.9% YoY) due partly to an increase in loan to public utilities and services business.

Commercial lending portfolio totaled 32,034.44 million baht, increased by 6,253.84 million baht (24.3% YoY) following the increase in demand for car inventory financing.

Other loan portfolio totaled 2,246.43 million baht, decreased by 2,264.20 million baht (50.2% YoY).

Deposits¹

Total deposits totaled 270,915.37 million baht, increased by 37,396.68 million baht (16.0% YoY) following the rebalancing of liabilities mix to match with the interest rate trend. As of December 31, 2013, TISCO Group had excess liquidity amounting to approximately 45,140 million baht, combining with the BoT required liquidity of 16,600 million baht (including bill of exchange), resulting in liquidity ratio of 22.3% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of December 31, 2013, NPL ratio increased to 1.70% from 1.25% (YoY). NPL ratio of retail loan, corporate loan, and commercial loan were 2.19%, 0.56%, and 0.47% respectively. Total NPLs reported at 4,966.39 million baht, increased by 1,867.63 million baht (60.3% YoY), comprising of 4,258.36 million baht of the Bank NPLs and 708.03 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 substantial decline

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

in market price of used cars during the period. In addition, the NPL of retail portfolio has been affected from domestic economic slowdown as well as political instability.

TISCO Group set up provision for impairment loss of loans and debt securities totaling 4,141.22 million baht, compared to 1,922.24 million baht (YoY), which accounted for 1.53% of average loan portfolio. As of December 31, 2013, loan loss reserve of TISCO Group was 6,354.34 million baht. Total loan loss reserve of the Bank was 5,774.79 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,432.69 million baht accounted 168.23% of minimum loan loss reserve requirement, reflecting the prudent provisioning policy to mitigate potential risk. To counter the effect of economic cyclical, TISCO Group set up additional excess reserve of 328.8 million baht in 2013.

(2) Securities Business

At the end of 2013, average daily turnover through TISCO Securities was 2,561.87 million baht, increased by 53.7% (YoY) from 1,666.69 million baht in 2012 following the higher market average trading volume as well as improving market share of TISCO Securities. TISCO Securities market share improved from 2.6% to 2.9% (YoY). The higher market share was following an increase in market share of foreign institution sector from 3.5% to 4.1% (YoY) and local institution sector from 6.9% to 7.2% (YoY), respectively. The increase in market share was contributed by the professional investment advisory service and securities research for institutional investor of Deutsche TISCO Investment Advisory Co., Ltd. Moreover, TISCO brokerage volume in 2013 comprised of 24.5% of local institutions, 34.7% of foreign institutions, and 40.8% of retail customers. In addition, the investment banking fee in 2013 was at 73.1 million baht mainly contributed by financial advisory and underwriting fee for Namyong Terminal Plc.

(3) Asset Management Business

As of November 30, 2013, overall asset under management of industry increased from December 31, 2012 by 387,059.57 million baht (11.2% YoY). The assets under management of TISCO Asset Management Co., Ltd. as of December 31, 2013 were 158,262.34 million baht, increased by 5,537.99 million baht (3.6% YoY). The composition of total asset under management was 64.9% provident fund, 20.1% private fund, and 15.0% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2013 was 4.1%, ranking 9th in the market. The market share of provident fund was 13.7%, ranking 3rd in the market. The market share of private fund was 8.0%, ranking 6th in the market. For mutual fund, the market share was 0.9%, ranking 13th in the market.

In the 2013, basic fee income from asset management totaled 843.09 million baht, increased by 172.24 million baht (25.7% YoY) due partly to the launch of 19 new equity trigger funds (there were 12 funds reached the target) and foreign funds including TISCO US Equity fund, TISCO US REIT fund, TISCO Japan Equity fund and etc.

Risk Management

As of December 31, 2013, TISCO Group's internal capital stood at 20,882.20 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 1,435.33 million baht from the end of 2012 to 12,012.06 million baht, resulting from an increase in credit, market, and operational risk capital. In addition, the capital surplus remained strong at 8,810.15 million baht or 42.3% of total internal capital.

Comparing to the end of 2012, the credit risk capital was 9,879 million baht, increasing by 1,113.15 million baht or 12.7% following the portfolio expansion in overall lending segment by 17.7% during the period as well as rising in credit risk situation in used car market and slowdown economy. The non-performing loan of TISCO Group rose from 1.25% at the end of 2012 to 1.70% at the end of 2013 resulting from an increase in non-performing loan of hire purchase portfolio.

The market risk capital increased from 226.79 million baht to 334.05 million baht, resulting from an increase in risk capital of investment portfolio as gain in market value decreased along with SET index as well as increasing in market volatility. Meanwhile, the overall duration gap rose to 1.16 year, which was still in a manageable level. The assets duration slightly increased from 1.48 year to 1.53 year resulting from increasing in lending portfolio with longer duration, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased to 0.37 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 December 2013, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) stood at 13.27%, 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 9.08% and 4.19%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6.00%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 58.70%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2012		2013		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	4,477.68	38.1	5,895.65	39.6	31.7
Interest on interbank and money market items	730.84	6.2	996.51	6.7	36.4
Hire purchase and financial lease income	9,827.13	83.6	12,162.83	81.6	23.8
Investments	174.96	1.5	216.75	1.5	23.9
Total interest income	15,210.61	129.3	19,271.73	129.3	26.7
Interest expenses	(8,166.15)	(69.4)	(10,303.57)	(69.1)	26.2
Net interest income	7,044.47	59.9	8,968.16	60.2	27.3
Fee income					
Fee income	4,407.55	37.5	5,415.72	36.3	22.9
Fee expenses	(278.92)	(2.4)	(225.86)	(1.5)	(19.0)
Net fee income	4,128.63	35.1	5,189.86	34.8	25.7
Gain on investment and foreign exchange transaction	287.79	2.4	428.42	2.9	48.9
Other operating income	1,722.00	14.6	1,215.14	8.2	(29.4)
Total operating income	13,182.89	112.1	15,801.58	106.0	19.9
Expenses to business promotion relating to the business	(1,422.67)	(12.1)	(900.37)	(6.0)	
Total net operating income	11,760.22	100.0	14,901.21	100.0	26.7
Other operating expenses	(5,024.31)		(5,340.18)		
Bad debt and doubtful account and impairment loss of debt securities	(1,922.24)		(4,141.22)		
Profit before income tax and minority interest	4,813.67		5,419.81		12.6
Corporate income tax	(1,080.66)		(1,064.05)		
Profit before minority interest	3,733.01		4,355.75		16.7
Minority interest in net earnings in subsidiary company	(27.83)		(106.70)		
Net profit	3,705.18		4,249.06		14.7

Table2: Interest Spread

%	2012	2013
Yield on Loans	6.7	6.6
Cost of fund	3.6	3.5
Loan spread	3.1	3.1

Table 3: Assets Breakdown

Assets	December 31, 2012		December 31, 2013		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,046.33	0.4	1,131.00	0.3	8.1
Interbank and Money Market Items	31,196.28	10.7	53,241.96	14.8	70.7
Derivative Asset	41.86	0.0	32.86	0.0	0.0
Fixed income	4,775.53	1.6	9,840.22	2.7	106.1
Equity	2,239.99	0.8	1,649.38	0.5	(26.4)
Corporate Loans	42,993.75	14.8	53,679.77	14.9	24.9
Retail Loans	175,030.69	60.3	204,190.01	56.8	16.7
Commercial Loans	25,780.61	8.9	32,034.44	8.9	24.3
Other Loans	4,510.63	1.6	2,246.43	0.6	(50.2)
Allowance for doubtful accounts and for loss on debt restructuring	(5,121.52)	(1.8)	(6,354.34)	(1.8)	24.1
Other Assets	8,002.79	2.8	7,570.78	2.1	(5.4)
Total – TISCO Group	290,496.94	100.0	359,262.52	100.0	23.7

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2012		December 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,226.31	6.9	19,375.50	6.6	12.5
Real estate and construction	10,203.97	4.1	11,598.82	4.0	13.7
Public utilities and services	14,888.26	6.0	21,921.31	7.5	47.2
Agriculture and mining	675.20	0.3	784.14	0.3	16.1
Corporate Loans	42,993.75	17.3	53,679.77	18.4	24.9
Commercial Loans	25,780.61	10.4	32,034.44	11.0	24.3
Hire purchase	162,863.39	65.6	188,337.32	64.5	15.6
Mortgage	1,455.60	0.6	1,428.19	0.5	(1.9)
Consumer	10,711.71	4.3	14,424.50	4.9	34.7
Retail Loans	175,030.69	70.5	204,190.01	69.9	16.7
Others	4,510.63	1.8	2,246.43	0.8	(50.2)
Total – TISCO Group	248,315.68	100.0	292,150.65	100.0	17.7

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2012			December 31, 2013			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.45	77.85	2.5	0.81	157.05	3.2	101.7
Real estate and construction	2.69	274.27	8.9	0.42	48.29	1.0	(82.4)
Public utilities and services	0.21	30.87	1.0	0.34	75.31	1.5	144.0
Agriculture and mining	0.88	5.95	0.2	2.22	17.41	0.4	192.6
Total NPL - Corporate Loans	0.90	388.94	12.6	0.56	298.07	6.0	(23.4)
NPL-Commercial Loans	0.19	48.56	1.6	0.47	151.64	3.1	212.3
Hire purchase	1.47	2,401.24	77.5	2.21	4,156.42	83.7	73.1
Mortgage	7.26	105.65	3.4	4.85	69.23	1.4	(34.5)
Consumer	0.91	97.81	3.2	1.69	244.44	4.9	149.9
Total NPL - Retail Loans	1.49	2,604.71	84.1	2.19	4,470.09	90.0	71.6
Others	1.20	56.55	1.8	2.05	46.59	0.9	(17.6)
Total NPL – TISCO Group	1.25	3,098.76	100.0	1.70	4,966.39	100.0	60.3

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2012		December 31, 2013		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	233,518.69	85.8	270,915.37	80.6	16.0
Interbank and money market items	13,970.61	5.1	16,702.69	5.0	19.6
Debentures	14,071.20	5.2	37,809.00	11.3	168.7
Long-term borrowings	110.70	0.0	0.00	-	(100.0)
Others	10,445.49	3.8	10,617.39	3.2	1.6
Total – The Company and Subsidiaries	272,116.69	100.0	336,044.45	100.0	23.5

Table 7: Deposits Structure

Type of Deposits	December 31, 2012		December 31, 2013		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,762.37	1.2	2,480.90	0.9	(10.2)
Saving accounts	28,140.15	12.1	40,751.44	15.0	44.8
Fixed accounts	15,385.04	6.6	34,056.54	12.6	121.4
Negotiate certificate deposit	173,535.78	74.3	187,351.86	69.2	8.0
Short-term borrowings	13,695.35	5.9	6,274.62	2.3	(54.2)
Total deposits	233,518.69	100.0	270,915.37	100.0	16.0

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2012		December 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	95,316.27	62.4	102,694.50	64.9	7.7
Private Fund	33,155.36	21.7	31,813.60	20.1	(4.0)
Mutual Fund	24,252.71	15.9	23,754.24	15.0	(2.1)
Total	152,724.34	100.0	158,262.34	100.0	3.6

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)	
	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
	Assets	1.48	1.53	987.76
Liabilities*	0.54	0.37	(1,706.15)	(2,139.51)
Net Gap	0.94	1.16	(718.38)	(670.55)

Note: * Exclude saving and current account