

Management Discussion and Analysis For the Second Quarter ended June 30, 2014

(This report discusses principal changes in the unaudited consolidated financial statement for the second quarter ended June 30, 2014)

Movement of Money Market and Capital Market

In second quarter of 2014, domestic economy remained weak following the slowdown in private consumption and investment, together with sluggish recovery in export sectors. The subdued private consumption was a result of the cautious spending from households on the back of high household debt level. Meanwhile, the private sectors deferred new investments, awaiting for clearer signs of economic recovery as well as political direction. Nevertheless, there were positive signs of consumer confidence amidst easing political tension as well as NCPO's economic stimulus measures.

In financial market, the Bank of Thailand maintained the policy rate (Repo-1 day) at 2.00% to accommodate economic recovery. Furthermore, average 3-month fixed deposit rates of Top 4 commercial banks increased from 1.18% at the end of the first quarter of 2014 to 1.32%, while the average minimum lending rate of Top 4 commercial banks was at 6.75%, unchanged from the previous quarter.

During the second quarter of 2014, the capital market improved from the first quarter of 2014 following the improvement in investors' sentiment on the back of easing political tension. As a result, SET index closed at 1,485.75 points, rose from 1,376.23 points in the first quarter of 2014 and from 1,451.90 points in the second quarter of 2013. The average daily turnover dropped from 56,278 million baht in the second quarter of 2013 to 38,918 million baht in this quarter.

Operating Results

The Management Discussion and Analysis compares operating performance and financial position of the second quarter of 2014 and the second quarter of 2013

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 79.67 million baht, mainly contributed by service fee income from subsidiary companies within the group. As a holding company, TISCO Financial Group Public Company Limited operates as shareholder in other company and no other major business. Therefore, the analysis was based on the Company's consolidated operating performance and financial position which comprised of 2 main businesses: commercial banking business and securities business.

In the second quarter of 2014, TISCO Group reported net profit after minority interest of 991.78 million baht, decreased by 167.35 million baht (14.4% YoY) mainly due to the setup of provision expense to cushion against economic volatilities. However, the net profit after minority interest increased by 6.1% (QoQ). Loan spread improved to 3.2% increased from 3.0% (YoY). Meanwhile, non-interest income from

core business¹ was 1,435.05 million baht, increased by 77.04 million baht (5.7% YoY) contributed by an increase in banking fee of 17.0% (YoY) following the growth in bancassurance business, together with the launch of insurance products that match with customers' needs. Furthermore, asset management fee improved by 9.2% (YoY) resulting from the asset under management expansion, as well as the issuance of new funds corresponding to market demand while brokerage fee declined by 35.8% (YoY) following lower average trading volume.

Comparing to the first quarter of 2014, TISCO Group's net profit after minority interest increased by 57.09 million baht (6.1 QoQ) due partly to an increase in net interest income of 5.1% following the lower cost of fund. Meanwhile, loan spread increased from 3.0% to 3.2% (QoQ). Furthermore, non-interest income from core business increased by 2.1% (QoQ) driven by an increase in brokerage fee and asset management fee of 18.0% and 6.5% respectively following an improvement in capital market.

Basic earnings per share for the second quarter and the first half of 2014 were 1.24 baht per share and 2.41 baht per share respectively, compared with 1.59 baht per share and 3.17 baht per share (YoY). Meanwhile, the return on average equity (ROAE) for the second quarter and the first half of 2014 were at 16.7% and 16.6% respectively, compared with 23.5% and 24.1% in the same periods of 2013.

Net Interest Income

Net interest income in the second quarter of 2014 was 2,423.23 million baht, increased by 194.22 million baht (8.7% YoY), with total interest income of 4,857.83 million baht, increased by 91.77 million baht (1.9% YoY). Meanwhile, interest expense declined by 102.45 million baht (4.0% YoY) to 2,434.60 million baht, resulting from a decrease in funding cost in line with the policy rate reduction during the early of 2014. Comparing to the first quarter of 2014, net interest income increased by 117.38 million baht (5.1% QoQ) whereby interest income decreased by 140.44 million baht (2.8% QoQ) while interest expense decreased by 257.83 million baht (9.6% QoQ).

Yield on loan remained stable at 6.5% while cost of fund decreased from 3.5% to 3.3% (YoY) supported by declining funding cost and expansion in saving account. As the result, loan spread significantly improved from 3.0% to 3.2% (YoY). In addition, net interest margin also rose from 2.8% to 2.9% (YoY).

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,198.25 million baht, decreased by 220.62 million baht (15.5% YoY). Impairment loss of loans and debt securities totaled 1,224.98 million baht, compared with 810.13 million baht (YoY). The rising provision expense was mainly attributed to the loss from the sale of repossessed cars in the used car market.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,435.05 million baht, increased by 77.04 million baht (5.7% YoY) resulting from an increase in banking fee of 136.03 million baht (17.0% YoY) driven by bancassurance businesses expansion in which TISCO Group launched new insurance products corresponding to customers' needs. Meanwhile, basic fee income from asset management business increased by 19.03 million baht (9.2% YoY) driven by asset under management expansion as well as the

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

issuance of mutual funds corresponding with market demand. In addition, brokerage fee decreased by 109.22 million baht (35.8% YoY), due to a significant decrease in average market trading volume.

Non-interest Expenses

Non-interest expenses were 1,363.08 million baht, decreased by 22.02 million baht (1.6% YoY) mainly from a decrease of variable expenses associated with revenue growth. In addition, the cost to income ratio further decreased from 37.6% to 35.5% (YoY) following the effective operating cost control.

Corporate Income Tax

In the second quarter of 2014, the corporate income tax was 245.88 million baht, equivalent to the effective tax rate of 19.7%, compared to 20.4% (YoY).

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of June 30, 2014 and March 31, 2014

Assets

As of June 30, 2014, TISCO Group's total assets were 329,482.58 million baht, decreased by 1.0% (QoQ) mainly due to decreasing loan portfolio from 284,655.45 million baht to 280,276.39 million baht (1.5% QoQ).

Liabilities

As of June 30, 2014, total liabilities were 305,776.08 million baht, decreased by 0.9% (QoQ), mainly from the decrease in debentures from 47,925.00 million baht to 41,531.90 million baht (13.3% QoQ) whereby TISCO Bank has redeemed 2 issues of subordinated debentures prior to their maturity dates totaling 4,000 million baht. The liabilities mix comprised of 69.8% total deposit including bill of exchange, 5.8% interbank and money market items, 12.4% debentures, and 3.0% other liabilities.

Shareholders' Equity

As of June 30, 2014, shareholders' equity was 23,706.51 million baht, decreased by 494.06 million baht (2.0% QoQ) as TISCO Group paid annual dividend from operation result for the year 2013 at 2.00 baht per common and preferred share in May 2014. The total dividend payment was 1,601.24 million baht with dividend payout ratio of 37.7%. As a result, book value per share (BVPS) as of June 30, 2014 was 29.61 baht per share, dropped from 30.23 baht per share (QoQ). Furthermore, TISCO Bank, the core subsidiary of TISCO Group, has issued capital increased share to existing shareholders, comprised of 102,396,410 common shares at par value of 10 baht per share with offering price of 23.89 baht per share. As the result, the new fund from capital increase was approximately 2,446 million baht.

Business Segment Performance**(1) Banking Business****Loans**

Total consolidated loans and receivables as of June 30, 2014 were 280,276.39 million baht, dropped by 4,379.05 million baht (1.5% QoQ) amidst weak domestic economy and impact of political uncertainty during the beginning of the second quarter. The composition of loan portfolio was 69.9% of retail loans, 19.5% of corporate loans, 9.7% of commercial loans and 0.9% of other loans.

Retail lending portfolio totaled 195,954.56 million baht, decreased by 1.8% (QoQ), consisted of 91.8% car, motorcycle and other hire purchase, 7.5% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 179,947.21 million baht, decreased by 3,905.45 million baht (2.1% QoQ), following the sluggish automobile market. The domestic car sales in the first 5 months of 2014 was reported at 367,112 units, decreased by 42.2% (YoY) from 634,775 units due mainly to the weakened economy and consumption. Meanwhile, TISCO car penetration rate for the first 5 months was reported at 7.6%. Moreover, consumption loans amounted 14,609.52 million baht increased by 374.57 million baht (2.6% QoQ).

Corporate lending portfolio totaled 54,601.79 million baht, grew by 1,795.16 million baht (3.4% QoQ) primarily due to the increase in loan from real estate sector and public utilities and services sector despite the sluggish private investment.

Commercial lending portfolio totaled 27,224.18 million baht, declined by 2,562.04 million baht (8.6% QoQ) following the declining demand of car dealers as the market has more balance between demand and supply, together with softened consumer purchasing power during the recent period.

Other loan portfolio totaled 2,495.86 million baht, decreased by 67.77 million baht (2.6% QoQ).

Deposits¹

Total deposits totaled 234,656.68 million baht, increased by 344.24 million baht (0.1% QoQ) following the rebalancing of liabilities mix to match with business plan. As of June 30, 2014, TISCO Group had excess liquidity amounting to approximately 29,874 million baht, combining with the BoT required liquidity of 14,313 million baht (including bill of exchange), resulting in liquidity ratio of 17.0% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of June 30, 2014, NPL ratio increased to 2.27% from 1.89% (YoY). The uptick NPL ratio was stemmed from rising NPLs in retail segments combined with contraction in loan portfolio on backdrop of weak economic condition. NPL ratio of retail loan, corporate loan, and commercial loan were 2.89%, 0.66%, and 1.00% respectively. Total NPLs reported at 6,365.88 million baht, increased by 999.89 million baht

(18.6% QoQ), comprised of 5,507.60 million baht of the Bank NPLs and 858.28 million baht of other subsidiaries NPLs.

TISCO Group set up provision for the quarter of 1,224.98 million baht, compared to 810.13 million baht (YoY), accounted for 1.73% of average loan portfolio whereby the rising provision expense was mainly attributed to the loss from the sale of repossessed cars in the used car market. As of June 30, 2014, loan loss reserve of TISCO Group was 6,702.41 million baht while total loan loss reserve of the Bank was 6,120.20 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,460.20 million baht accounted 176.87% of minimum loan loss reserve requirement, reflecting the prudent provisioning policy.

(2) Securities Business

In second quarter of 2014, average daily turnover through TISCO Securities was 2,032.56 million baht, decreased by 34.4% (YoY) from 3,098.28 million baht following the lower market share as well as market average trading volume. TISCO Securities market share (excluding proprietary trading) dropped from 3.2% to 2.9% (YoY) due to the decline in market share of foreign and local institution sectors whereby some of institutional investors were waiting for economic and political clarity. Furthermore, TISCO brokerage volume in the second quarter of 2014 comprised of 27.7% of local institutions, 27.3% of foreign institutions, and 45.0% of retail customers. In addition, TISCO Securities have launched "TISCO Global Trade", an offshore trading service providing international access to 7 major stock exchanges.

(3) Asset Management Business

As of June 30, 2014, asset under management of TISCO Asset Management Co., Ltd. was 164,844.45 million baht, increased by 7,017.53 million baht (4.4% QoQ). In the second quarter of 2014, basic fee income from asset management totaled 224.75 million baht, improved by 19.03 million baht (9.2% YoY) driven by asset under management expansion together with the issuance of various funds corresponding to market demands. During the quarter, 4 equity trigger funds hit the targets which were "TISCO Equity Trigger 8%", "TISCO Korea Equity Trigger 8%", "TISCO China Trigger 8%", and "TISCO Japan Equity Trigger 8%". In addition, the performance fee increased in line with the improvement in equity market.

The composition of total asset under management was 63.8% provident fund, 19.4% private fund, and 16.8% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2014 was 3.5%, ranking 9th in the market. The market share of provident fund was 13.1%, ranking 3rd in the market. The market share of private fund was 7.3%, ranking 7th in the market. For mutual fund, the market share was 0.8%, ranking 13th in the market.

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

Risk Management

As of June 30, 2014, TISCO Group's internal capital stood at 22,613.14 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 294.98 million baht from the end of the first quarter of 2014 to 10,058.73 million baht, resulting from a decrease in credit and market risk capital. In addition, the capital surplus remained strong at 12,554.42 million baht or 55.5% of total internal capital.

Comparing to the end of March 2014, the credit risk capital stood at 7,942.64 million baht, decreasing by 279.01 million baht or 3.4% following loan portfolio contraction by 1.4% during the period. The non-performing loan of TISCO Group rose from 1.9% at the end of the first quarter to 2.3% at the end of the second quarter, mainly from an increase in non-performing loan of hire purchase portfolio.

The market risk capital decreased from 328.31 million baht to 203.85 million baht, resulting from a decline in risk capital of investment and non-listed portfolios as gain in market value increased along with SET index as well as decreasing in market volatility. Meanwhile, the overall duration gap rose to 1.10 year, which was still in a manageable level. The assets duration fell from 1.53 year to 1.50 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased from 0.44 year to 0.40 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 June 2014, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 15.39%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 11.51% and 3.88%, 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 68.32%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q 2013		2Q 2014		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,447.09	39.3	1,543.94	40.2	6.7
Interest on interbank and money market items	245.87	6.7	162.75	4.2	(33.8)
Hire purchase and financial lease income	3,026.98	82.1	3,036.59	79.1	0.3
Investments	46.12	1.3	114.55	3.0	148.4
Total interest income	4,766.06	129.3	4,857.83	126.6	1.9
Interest expenses	(2,537.05)	(68.8)	(2,434.60)	(63.4)	(4.0)
Net interest income	2,229.01	60.5	2,423.23	63.2	8.7
Fee income					
Fee income	1,268.15	34.4	1,294.08	33.7	2.0
Fee expenses	(58.60)	(1.6)	(47.78)	(1.2)	(18.5)
Net fee income	1,209.56	32.8	1,246.30	32.5	3.0
Gain on investment and foreign exchange transaction	156.49	4.2	26.61	0.7	(83.0)
Other operating income	307.43	8.3	221.56	5.8	(27.9)
Total operating income	3,902.48	105.9	3,917.70	102.1	0.4
Expenses to business promotion relating to the business	(217.57)	(5.9)	(80.59)	(2.1)	
Total net operating income	3,684.91	100.0	3,837.11	100.0	4.1
Other operating expenses	(1,385.10)		(1,363.08)		
Bad debt and doubtful account and impairment loss of debt securities	(810.13)		(1,224.98)		
Profit before income tax and minority interest	1,489.67		1,249.05		(16.2)
Corporate income tax	(303.19)		(245.88)		
Profit before minority interest	1,186.49		1,003.17		(15.5)
Minority interest in net earnings in subsidiary company	(27.35)		(11.38)		
Net profit	1,159.14		991.78		(14.4)

Table2: Interest Spread

%	2013	6M13	6M14	2Q13	2Q14
Yield on Loans	6.6	6.6	6.5	6.5	6.5
Cost of fund	3.5	3.6	3.4	3.5	3.3
Loan spread	3.1	3.0	3.1	3.0	3.2

Table 3: Assets Breakdown

Assets	March 31, 2014		June 30, 2014		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,087.40	0.3	1,094.28	0.3	0.6
Interbank and Money Market Items	29,553.75	8.9	29,444.70	8.9	(0.4)
Derivative Asset	12.51	0.0	23.71	0.0	89.6
Fixed income	14,708.92	4.4	15,880.66	4.8	8.0
Equity	1,645.48	0.5	1,724.70	0.5	4.8
Corporate Loans	52,806.63	15.9	54,601.79	16.6	3.4
Retail Loans	199,498.98	59.9	195,954.56	59.5	(1.8)
Commercial Loans	29,786.21	9.0	27,224.18	8.3	(8.6)
Other Loans	2,563.63	0.8	2,495.86	0.8	(2.6)
Allowance for doubtful accounts and for loss on debt restructuring	(6,482.38)	(1.9)	(6,702.41)	(2.0)	3.4
Other Assets	7,618.45	2.3	7,740.55	2.3	1.6
Total – TISCO Group	332,799.58	100.0	329,482.58	100.0	(1.0)

Table 4: Loans and Receivables Breakdown

Type of Business	March 31, 2014		June 30, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	18,227.90	6.4	18,230.66	6.5	0.0
Real estate and construction	11,834.73	4.2	13,330.89	4.8	12.6
Public utilities and services	21,997.07	7.7	22,317.04	8.0	1.5
Agriculture and mining	746.93	0.3	723.21	0.3	(3.2)
Corporate Loans	52,806.63	18.6	54,601.79	19.5	3.4
Commercial Loans	29,786.21	10.5	27,224.18	9.7	(8.6)
Hire purchase	183,852.66	64.6	179,947.21	64.2	(2.1)
Mortgage	1,411.36	0.5	1,397.83	0.5	(1.0)
Consumer	14,234.96	5.0	14,609.52	5.2	2.6
Retail Loans	199,498.98	70.1	195,954.56	69.9	(1.8)
Others	2,563.63	0.9	2,495.86	0.9	(2.6)
Total – TISCO Group	284,655.45	100.0	280,276.39	100.0	(1.5)

Table 5: NPL Breakdown by Area

Type of Business	March 31, 2014			June 30, 2014			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.98	178.14	3.3	1.10	200.36	
Real estate and construction	0.52	61.62	1.1	0.51	68.55	1.1	11.2
Public utilities and services	0.28	60.94	1.1	0.32	70.52	1.1	15.7
Agriculture and mining	2.50	18.69	0.3	2.80	20.25	0.3	8.4
Total NPL - Corporate Loans	0.60	319.39	6.0	0.66	359.67	5.7	12.6
NPL-Commercial Loans	0.83	248.67	4.6	1.00	271.49	4.3	9.2
Hire purchase	2.39	4,389.57	81.8	2.91	5,228.29	82.1	19.1
Mortgage	5.56	78.44	1.5	5.38	75.17	1.2	(4.2)
Consumer	1.89	269.49	5.0	2.43	355.68	5.6	32.0
Total NPL - Retail Loans	2.37	4,737.50	88.3	2.89	5,659.14	88.9	19.5
Others	2.36	60.43	1.1	3.03	75.58	1.2	25.1
Total NPL – TISCO Group	1.89	5,365.99	100.0	2.27	6,365.88	100.0	18.6

Table 6: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2014		June 30, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	234,312.43	75.9	234,656.68	76.7	0.1
Interbank and money market items	16,418.87	5.3	19,367.22	6.3	18.0
Debentures	47,925.00	15.5	41,531.90	13.6	(13.3)
Others	9,942.70	3.2	10,220.28	3.3	2.7
Total – The Company and Subsidiaries	308,599.00	100.0	305,776.08	100.0	(0.9)

Table 7: Deposits Structure

Type of Deposits	March 31, 2014		June 30, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,118.34	1.3	3,286.29	1.4	5.4
Saving accounts	42,714.58	18.2	46,035.96	19.6	7.8
Fixed accounts	33,242.46	14.2	30,697.01	13.1	(7.7)
Negotiate certificate deposit	148,535.84	63.4	146,717.11	62.5	(1.2)
Short-term borrowings	6,701.22	2.9	7,920.32	3.4	18.2
Total deposits	234,312.43	100.0	234,656.68	100.0	0.1

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2014		June 30, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	100,585.72	63.7	105,124.33	63.8	4.5
Private Fund	32,323.94	20.5	32,058.35	19.4	(0.8)
Mutual Fund	24,917.26	15.8	27,661.77	16.8	11.0
Total	157,826.92	100.0	164,844.45	100.0	4.4

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)	
	March 31, 2014	June 30, 2014	March 31, 2014	June 30, 2014
	Assets	1.53	1.50	1,225.96
Liabilities*	0.44	0.40	(1,895.37)	(1,785.43)
Net Gap	1.09	1.10	(669.42)	(509.74)

Note: * Exclude saving and current account