

Management Discussion and Analysis For the year ended December 31, 2014

(This report discusses principal changes in the unaudited consolidated financial statement for year ended December 31, 2014)

Movement of Money Market and Capital Market

In 2014, domestic economy growth is expected around 0.7% (YoY), decelerated from economic growth of 2.9% (YoY) in 2013. The economy slowdown was led by continually subdued private consumption and investment for the previous year which was pressured by high level of household debt combined with the adverse impact of political instability at the beginning of the year. Additionally, the delay in government expenditure disbursement also limited fiscal stimulus impact during the year. Meanwhile, the export sector remained weak following the fragile recovery of global economy.

On financial market, the Bank of Thailand revised down the policy rate (Repo-1 day) 1 time from 2.25% to 2.00% in March to accommodate economic recovery. Furthermore, average 3-month fixed deposit rates of Top 4 commercial banks decreased from 1.76% to 1.32% at the end of 2013, while the average minimum lending rate of Top 4 commercial banks decreased from 6.84% to 6.75% at the end of 2013.

After easing political climate, the capital market has improved, driven by improving market sentiment in spite of the internal and external headwinds have put some pressure throughout the year. As the result, the SET index closed at 1,497.67 points, rose from 1,298.71 points at the end of 2013. The average daily market trading volume decreased from 48,267 million baht in 2013 to 41,605 million baht.

Major Events

TISCO Financial Group Company Plc. ("The Company"), has early adopted International Financial Reporting Standard 10 (IFRS10) - the Consolidated Financial Statement (prior to the effective date on January 1, 2015). Accordingly to the IFRS10, the criteria for financial statement consolidation are revised whereby the financial statement of Joint Venture Company, which is not considered as subsidiary, is excluded from consolidated financial statement report for the year ended December 31, 2014. As a result, the financial statement of TISCO Tokyo Leasing Co., Ltd. is reported as an investment in associated company in accordance with equity method for faithfully represent of financial information in the future. In effective, the consolidated statement of financial position and consolidated statement of comprehensive income on this period as of December 31, 2014 has adopted the new reporting standard. Meanwhile the financial statements as of December 31, 2013 are restated in accordance with new accounting standard for comparable propose.

According to capital management plan of TISCO Group, The Bank, the core company of TISCO Group, 99.99% held by the TISCO Financial Group Company Plc. ("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 23.89 baht per share which accounted for new capital of 1,023.96 million baht. As a result, the paid-up capital increased to 9,215,676,920 baht comprised of 921,567,692 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 2014 and the year 2013

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 2,000.73 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 two main businesses comprise of commercial banking business and securities business. In addition, the MD&A is provided in accordance with new accounting standard (IFRS10 - the Consolidated Financial Statement)

In 2014, TISCO Group reported net profit after minority interest of 4,249.51 million baht, increased by 0.47 million baht (0.01% YoY). Net interest income increased by 8.2% (YoY) driven by a continual decrease in funding cost since the beginning of this year. Meanwhile, the non-interest income from core business¹ slightly declined by 0.2% (YoY) mainly from subdued lending business and decreasing in banking fee by the same level. In addition, brokerage fee dropped by 14.5% (YoY) contributed by decreasing market trading volume, while asset management fee improved by 10.7% (YoY) from improvement in capital market and issuance of funds corresponding to market demand. Basic earnings per share for the year 2014 were 5.31 baht per share, compared with 5.55 baht per share (YoY). Meanwhile, the return on average equity (ROAE) was at 17.4%, compared with 20.6% in previous year.

In the fourth quarter of 2014, TISCO Group reported net profit after minority interest of 1,234.07 million baht, increased by 145.11 million baht (13.3% QoQ), mainly due to the decrease in provision expense by 21.5% (QoQ). Moreover, the non-interest income from core business declined by 2.7% (QoQ) mainly driven by the decrease in asset management fee of 4.7% (QoQ) following the slowdown in mutual fund issuance during the end of the year. However, banking fee and brokerage fee improved at the same level of 2.1% (QoQ). Basic earnings per share for the fourth quarter of 2014 were 1.54 baht per share, compared to 1.36 baht per share in previous quarter.

Net Interest Income

Net interest income in 2014 was 9,539.79 million baht, increased by 722.91 million baht (8.2% YoY). Total interest income was 18,890.87 million baht, decreased by 70.04 million baht (0.4% YoY) while interest expense declined by 792.96 million baht (7.8% YoY) to 9,351.08 million baht, driven by the decrease in funding cost in line with declining policy rate from the Bank of Thailand since the beginning of 2014, together with effective cost management

Yield on loan decreased from 6.6% to 6.5% (YoY) while cost of fund also declined from 3.5% to 3.2% (YoY) supported by lower funding cost.

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

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 5,113.33 million baht, increased by 437.06 million baht (9.3% YoY). Impairment loss of loans and debt securities totaled 4,426.46 million baht, rose from 4,140.60 million baht in the previous year, owing 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 5,677.42 million baht, decreased by 12.10 million baht (0.2% YoY) with banking fee decreased by 8.85 million baht (0.2% YoY) following the contraction in lending business. Brokerage fee dropped by 154.35 million baht (14.5% YoY) following the slowdown in market trading volume while basic fee income from asset management business improved by 90.44 million baht (10.7% YoY) led by asset under management expansion, as well as the continual issuance of mutual funds corresponding with market demand.

Non-interest Expenses

Non-interest expenses were 5,604.95 million baht, increased by 339.78 million baht (6.5% YoY) mainly from the change in variable expenses associated with revenue growth. TISCO still maintained the effective operating cost control, reporting the relatively low cost to income ratio at 36.5%, slightly increased from 35.7% (YoY).

Corporate Income Tax

In 2014, the corporate income tax was 1,043.44 million baht, equivalent to the effective tax rate of 19.6%, remaining at the same level with the previous year.

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of December 31, 2014 and December 31, 2013

For the year end of 2014, the Company has early adopted International Financial Reporting Standard 10 (IFRS10) - the Consolidated Financial Statement (prior to the effective date on January 1, 2015). As a result, the financial statement of TISCO Tokyo Leasing Co., Ltd. is excluded from the Consolidated Financial Statement reporting, and reported as an investment in associated company.

Assets

As of December 31, 2014, TISCO Group's total assets were 317,656.54 million baht, decreased by 10.1% (YoY) due primarily to the contraction in loan portfolio from 286,414.66 million baht to 262,783.83 million baht (8.3% YoY) mainly from the decrease in retail loan portfolio. In addition, the interbank and money market items declined from 53,214.35 million baht to 38,057.99 million baht (28.5% YoY) following funding base adjustment to align with the slowdown in loan portfolio.

Nevertheless, under the previous Financial Statement Presentation Standard, which included TISCO Tokyo Leasing Co., Ltd. in consolidated financial statements, the total assets as of December 31, 2014 were 325,261.16 million baht, decreased by 9.5% (YoY) while the total loans were 270,392.54 million baht, declined by 7.4% (YoY)

Liabilities

As of December 31, 2014, total liabilities were 291,832.85 million baht, decreased by 11.7% (YoY), mainly from the decrease in deposits and short-term borrowings from 270,916.80 million baht to 213,090.11 million baht (21.3% YoY). The liabilities composition comprised of 73.0% total deposit including bill of exchange, 3.7% interbank and money market items, 19.8% debentures, and 3.5% other liabilities.

Shareholders' Equity

As of December 31, 2014, shareholders' equity was 25,823.69 million baht, increased by 2,769.34 million baht (12.0% YoY) from an increase in retained earnings for the year 2014. As a result, the book value per share (BVPS) as of December 31, 2014 was 32.25 baht per share, improved from 28.80 baht per share (YoY).

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables as of December 31, 2014 were 262,783.83 million baht, contracted by 23,630.83 million baht (8.3% YoY) amidst domestic economic slowdown and subdued automotive market throughout the year 2014. Under the previous Financial Statement Presentation Standard (including TISCO Tokyo Leasing), total consolidated loans and receivables were recorded at 270,392.54 million baht, declined by 21,758.11 million baht (7.4% YoY). The composition of loan portfolio was 69.1% of retail loans, 20.2% of corporate loans, 8.9% of commercial loans and 1.8% of other loans.

Retail lending portfolio totaled 181,494.16 million baht, decreased by 8.5% (YoY), with composition of 91.0% car, motorcycle and other hire purchase, 8.3% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 165,095.00 million baht, decreased by 17,467.55 million baht (9.6% YoY), primarily from the subdued automotive market. The domestic car sales in the first 11 months of 2014 was reported at 792,328 units, decreased by 34.9% (YoY) from 1,216,757 units, due mainly to the weakened economy and consumption. Meanwhile, TISCO car penetration rate for the first 11 months was reported at 7.4%. Moreover, consumption loans amounted 15,088.34 million baht, increased by 663.85 million baht (4.6% YoY).

Corporate lending portfolio totaled 53,083.22 million baht, grew by 1,961.59 million baht (3.8% YoY), due to the increase in loan from manufacturing and commercial sector, and real estate and construction sector.

Commercial lending portfolio totaled 23,389.51 million baht, declined by 8,644.93 million baht (27.0% YoY), mainly from the subdued Car Inventory Financing, following the declining demand of car dealers following lower industry car sale, together with the inventory stocks gradually adjusted demand and supply imbalance.

Other loan portfolio totaled 4,816.94 million baht, decreased by 26.41 million baht (0.5% YoY).

Deposits¹

Total deposits totaled 213,090.11 million baht, decreased by 57,826.69 million baht (21.3% YoY) following the rebalancing of liabilities mix to match with the slowdown in loan portfolio. As of December 31, 2014, TISCO Group had excess liquidity amounting to approximately 36,022 million baht, combining with the required liquidity under BoT regulation of 12,900 million baht (including bill of exchange), resulting in liquidity ratio of 19.5% which was well over the liquidity requirement by BoT of 6.0%.

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

Non-Performing Loans (NPLs) and Loan Loss Provision

As of December 31, 2014, the NPL ratio increased from 1.73% to 2.57% (YoY), driven by the increasing NPL amount of hire purchase business from depressed used car market price and sluggish loan growth during the year. Nevertheless, NPL amount started to maintain relatively stable during the latter half of the year after the impact from the used car market on NPL started to subside. Thus, NPL ratio of retail loan, corporate loan, and commercial loan were 3.32%, 0.49%, and 1.02% respectively. Total NPLs reported at 6,750.20 million baht, increased by 1,786.22 million baht (36.0% YoY), which comprised of 5,902.06 million baht from the Bank and 848.14 million baht from other subsidiaries. Under the previous Financial Statement Presentation Standard, the NPL ratio, which included loan portfolio of TISCO Tokyo Leasing Co., Ltd., increased from 1.70% to 2.50% (YoY).

TISCO Group set up provision for the full year 2014 of 4,426.46 million baht, increased by 285.86 million baht from the previous year, mainly from the slow recovery of used car market price, affected the persistently high loss from sale of repossessed cars. As of December 31, 2014, the loan loss reserve of TISCO Group was 6,950.42 million baht while the total loan loss reserve of the Bank was 6,380.34 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 3,517.27 million baht, accounted for 181.40% of minimum loan loss reserve requirement following a prudent provision policy. To counter the effect of economic cyclical, TISCO Group set up additional excess reserve of 480.72 million baht in 2014.

(2) Securities Business

In 2014, the average daily turnover through TISCO Securities was 2,196.03 million baht, decreased by 14.3% (YoY) from 2,561.87 million baht in 2013, due partly to low market trading volume during the beginning of the year as investor confidence was weakened by political instability. However, the trading volume had been gradually improved along with easing political climate. TISCO Securities market share slightly decreased from 3.0% to 2.9% (YoY). The lower market share was led by the decrease in market share of foreign institution sector from 4.1% to 3.3% (YoY). However, the market share of local institution sector (excluding proprietary trade) improved from 7.2% to 7.7% (YoY) mainly contributed by the professional investment advisory service and securities research for institutional investor of Deutsche TISCO Investment Advisory Co., Ltd. Meanwhile, the market share of retail sector was at 2.0%, at the same level as in 2013. In addition, TISCO brokerage volume comprised of 28.1% of local institutions, 27.2% of foreign institutions, and 44.7% of retail customers.

(3) Asset Management Business

As of November 30, 2014, overall asset under management of industry was 5,029,889.52 million baht, increased by 926,831.13 million baht (22.6% YoY). The assets under management of TISCO Asset Management Co., Ltd. as of December 31, 2014 were 169,720.72 million baht, increased by 11,458.39 million baht (7.2% YoY) driven by asset under management expansion amidst improvement in capital market condition, together with the issuance of various funds corresponding to market demand. The composition of total asset under management was 65.1% provident fund, 17.5% private fund, and 17.4% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2014 was 3.4%,

ranking 9th in the market. The market share of provident fund was 13.2%, ranking 3rd in the market. The market share of private fund was 6.3%, ranking 7th in the market. For mutual fund, the market share was 0.8%, ranking 13th in the market.

For the year 2014, basic fee income from asset management totaled 933.53 million baht, increased by 90.44 million baht (10.7% YoY) due partly to the launch of 21 new equity trigger funds (there were 14 funds reached the target) and foreign funds such as TISCO German Equity fund, TISCO North Asia Equity fund and TISCO Europe Equity fund.

Risk Management

As of December 31, 2014, TISCO Group's internal capital stood at 24,982.72 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital decreased by 1,642.56 million baht from the end of 2013 to 8,698.38 million baht, resulting from a decrease in credit and market risk capital. In addition, the capital surplus remained strong at 16,284.35 million baht or 65.2% of total internal capital.

Comparing to the end of 2013, the credit risk capital stood at 6,462.22 million baht, decreasing by 1,745.66 million baht or 21.3% following loan portfolio contraction by 8.3% during the period. The non-performing loan of TISCO Group rose from 1.7% at the end of 2013 to 2.6% at the end of 2014, mainly from an increase in non-performing loan of hire purchase portfolio as well as decreasing loan base.

The market risk capital decreased from 334.05 million baht to 163.92 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 decreased to 1.03 year, which was in a manageable level. The assets duration fell from 1.53 year to 1.40 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, stood at 0.37 year.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of December 2014, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 16.72%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 12.50% and 4.22%, 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 54.73%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2013		2014		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	5,896.03	40.0	6,157.31	40.1	4.4
Interest on interbank and money market items	996.40	6.8	674.76	4.4	(32.3)
Hire purchase and financial lease income	11,851.74	80.3	11,654.05	75.9	(1.7)
Investments	216.75	1.5	404.75	2.6	86.7
Total interest income	18,960.91	128.5	18,890.87	123.1	(0.4)
Interest expenses	(10,144.03)	(68.8)	(9,351.08)	(60.9)	(7.8)
Net interest income	8,816.88	59.8	9,539.79	62.2	8.2
Fee income					
Fee income	5,416.91	36.7	5,187.25	33.8	(4.2)
Fee expenses	(225.84)	(1.5)	(211.64)	(1.4)	(6.3)
Net fee income	5,191.07	35.2	4,975.61	32.4	(4.2)
Gain on investment and foreign exchange transaction	428.42	2.9	291.33	1.9	(32.0)
Share of profit from invest in subsidiaries	45.69	0.3	52.13	0.3	14.1
Other operating income	1,172.98	7.9	764.93	5.0	(34.8)
Total operating income	15,655.04	106.1	15,623.79	101.8	(0.2)
Expenses to business promotion relating to the business	(900.37)	(6.1)	(274.76)	(1.8)	
Total net operating income	14,754.67	100.0	15,349.02	100.0	4.0
Other operating expenses	(5,265.16)		(5,604.95)		
Bad debt and doubtful account and impairment loss of debt securities	(4,140.60)		(4,426.46)		
Profit before income tax and minority interest	5,348.90		5,317.62		(0.6)
Corporate income tax expenses	(1,040.71)		(1,043.44)		
Profit before minority interest	4,308.19		4,274.17		(0.8)
Minority interest in net earnings in subsidiary company	(59.14)		(24.66)		
Net profit	4,249.05		4,249.51		0.0

Table2: Interest Spread

	2013	2014
Yield on Loans	6.6	6.5
Cost of fund	3.5	3.2
Loan spread	3.1	3.3

Table 3: Assets Breakdown

Assets	December 31, 2013		December 31, 2014		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,130.97	0.3	1,180.48	0.4	4.4
Interbank and Money Market Items	53,214.35	15.1	38,057.99	12.0	(28.5)
Derivative Asset	28.22	0.0	0.00	0.0	(100.0)
Investment in Fixed income	9,840.22	2.8	13,119.50	4.1	33.3
Investment in Equity	1,649.38	0.5	1,675.95	0.5	1.6
Investment in Subsidiaries	157.28	0.0	207.23	0.1	31.8
Corporate Loans	51,121.63	14.5	53,083.22	16.7	3.8
Retail Loans	198,415.24	56.1	181,494.16	57.1	(8.5)
Commercial Loans	32,034.44	9.1	23,389.51	7.4	(27.0)
Other Loans	4,843.35	1.4	4,816.94	1.5	(0.5)
Allowance for doubtful accounts and for loss on debt restructuring	(6,331.22)	(1.8)	(6,950.42)	(2.2)	9.8
Other Assets	7,302.46	2.1	7,581.98	2.4	3.8
Total – TISCO Group	353,406.31	100.0	317,656.54	100.0	(10.1)

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2013		December 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,739.39	6.2	18,862.96	7.2	6.3
Real estate and construction	11,417.61	4.0	12,160.59	4.6	6.5
Public utilities and services	21,554.03	7.5	21,802.94	8.3	1.2
Agriculture and mining	410.61	0.1	256.73	0.1	(37.5)
Corporate Loans	51,121.63	17.8	53,083.22	20.2	3.8
Commercial Loans	32,034.44	11.2	23,389.51	8.9	(27.0)
Hire purchase	182,562.55	63.7	165,095.00	62.8	(9.6)
Mortgage	1,428.19	0.5	1,310.82	0.5	(8.2)
Consumer	14,424.50	5.0	15,088.34	5.7	4.6
Retail Loans	198,415.24	69.3	181,494.16	69.1	(8.5)
Others	4,843.35	1.7	4,816.94	1.8	(0.5)
Total – TISCO Group	286,414.66	100.0	262,783.83	100.0	(8.3)

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2013			December 31, 2014			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
	Manufacturing and commerce	0.77	136.16	2.7	0.61	115.63	
Real estate and construction	0.40	45.18	0.9	0.55	66.97	1.0	48.2
Public utilities and services	0.32	69.83	1.4	0.34	73.41	1.1	5.1
Agriculture and mining	3.11	12.78	0.3	0.75	1.92	0.0	(84.9)
Total NPL - Corporate Loans	0.52	263.95	5.3	0.49	257.93	3.8	(2.3)
NPL-Commercial Loans	0.47	151.64	3.1	1.02	239.36	3.5	57.8
Hire purchase	2.28	4,153.93	83.7	3.35	5,533.19	82.0	33.2
Mortgage	4.85	69.23	1.4	7.33	96.04	1.4	38.7
Consumer	1.69	244.44	4.9	2.57	387.39	5.7	58.5
Total NPL - Retail Loans	2.25	4,467.60	90.0	3.32	6,016.62	89.1	34.7
Others	1.67	80.79	1.6	4.91	236.29	3.5	192.5
Total NPL – TISCO Group	1.73	4,963.98	100.0	2.57	6,750.20	100.0	36.0

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2013		December 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	270,916.80	82.0	213,090.11	73.0	(21.3)
Interbank and money market items	12,182.92	3.7	10,897.49	3.7	(10.6)
Debentures	36,809.00	11.1	57,699.90	19.8	56.8
Others	10,443.24	3.2	10,145.35	3.5	(2.9)
Total – The Company and Subsidiaries	330,351.96	100.0	291,832.85	100.0	(11.7)

Table 7: Deposits Structure

Type of Deposits	December 31, 2013		December 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	2,482.33	0.9	2,915.43	1.4	17.4
Saving accounts	40,751.44	15.0	49,606.05	23.3	21.7
Fixed accounts	34,056.54	12.6	23,961.31	11.2	(29.6)
Negotiate certificate deposit	187,351.86	69.2	128,900.99	60.5	(31.2)
Short-term borrowings	6,274.62	2.3	7,706.32	3.6	22.8
Total deposits	270,916.80	100.0	213,090.11	100.0	(21.3)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2013		December 31, 2014		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	102,694.50	64.9	110,451.63	65.1	7.6
Private Fund	31,813.60	20.1	29,645.55	17.5	(6.8)
Mutual Fund	23,754.24	15.0	29,619.55	17.5	24.7
Total	158,262.34	100.0	169,716.73	100.0	7.2

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, 2013	December 31, 2014	December 31, 2013	December 31, 2014
	Assets	1.53	1.40	1,468.96
Liabilities*	0.37	0.37	(2,139.51)	(1,780.69)
Net Gap	1.16	1.03	(670.55)	(471.16)

Note: * Exclude saving and current account