

Management Discussion and Analysis For the Second Quarter ended June 30, 2015

(This report discusses principal changes in the unaudited consolidated financial statement for the second quarter ended June 30, 2015)

Movement of Money Market and Capital Market

In the second quarter of 2015, domestic economy remained sluggish with a slower-than-expected recovery. The private consumption softened following the cautious household spending given high level of household debt, together with subdued export. Meanwhile, the domestic car sales in the first 5 months of 2015 totaled 308,787 units, dropped by 15.9% (YoY). At the same time, the headline inflation has negative growth in the second quarter, following a decrease in global oil and commodity prices.

To support economic recovery, the Bank of Thailand (BOT) cut the policy rate further from 1.75% in the first quarter of 2015 to 1.50%. Accordingly, the average 3-month fixed deposit rates of Top-4 commercial banks decreased from 0.99% at the end of the first quarter to 0.93%, while the average minimum lending rate of Top-4 commercial banks decreased from 6.63% to 6.51% during the quarter.

During the second quarter of 2015, the capital market was sluggish with the pressure from declining investor confidence toward domestic economy and pressure from volatile global markets. Thus, SET index remained at 1,504.55, similar to the level at the end of the first quarter of 2015, while increased by 18.80 from the second quarter of 2014. While, the average daily turnover declined from 38,918.20 million baht in the second quarter of 2014 to 37,797.08 million baht in this quarter.

Operating Results

The Management Discussion and Analysis compares operating performance in the second quarter of 2015 and the second quarter of 2014

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 110.21 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 2015, the net profit attributed to owners of the Company totaled 1,003.96 million baht, increased by 12.17 million baht (1.2% YoY), supported by a decrease in interest expense and an increase in non-interest income from core business¹. Net interest income increased by 3.0% (YoY), driven by a decrease in cost of fund in accordance with the policy rate cut during the first half of 2015. Meanwhile, non-interest income from core business grew by 0.7% (YoY), mainly due to the increase in basic fee of asset management business by 38.6% (YoY) following the issuances of various mutual funds in correspondence

with the market demand. Furthermore, the Company recorded investment banking fee from underwriting service in May 2015. Nonetheless, during this quarter, there was the setup of provision expense to cushion against the volatility and uncertainty of economic condition.

Basic earnings per share in the second quarter of 2015 was 1.25 baht, compared with 1.24 baht in the second quarter of 2014. Meanwhile, the return on average equity (ROAE) was at 15.1% compared with 16.8% (YoY).

Net Interest Income

Net interest income in the second quarter of 2015 was 2,448.27 million baht, increased by 71.09 million baht (3.0% YoY). Total interest income was 4,263.15 million baht, decreased by 510.12 million baht (10.7% YoY) while interest expense dropped by 581.21 million baht (24.3% YoY) to 1,814.88 million baht, following effective cost management and lower cost of funds along with declining policy rate from the Bank of Thailand since the beginning of 2015.

Yield on loan declined from 6.5% to 6.4% (YoY) while cost fund significantly decreased from 3.3% to 2.8% (YoY) driven by a continual decline in funding cost. Consequently, loan spread improved from 3.2% to 3.7% (YoY). In addition, the net interest margin also rose from 2.9% to 3.3% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 1,204.36 million baht, grew by 46.74 million baht (4.0% YoY). Impairment losses on loans totaled 1,243.91 million baht, increased from 1,219.56 million baht (YoY), mainly resulting from the setup of provision expense to cushion against economic uncertainty.

Non-interest Income

Non-interest income of the Company's core businesses reported at 1,444.41 million baht, increased by 10.71 million baht (0.7% YoY), mainly supported by increasing basic fee income of asset management business of 86.65 million baht (38.6% YoY) from successful issuances of various mutual funds corresponding with the market demand. In addition, the Company recorded investment banking fee income of 44.86 million baht from underwriting service during this quarter. Meanwhile, banking fee declined by 59.61 million baht (6.4% YoY) aligning with the contraction in lending business, while brokerage fee weakened by 6.90 million baht (3.4% YoY) mainly from lower market trading volume.

Non-interest Expenses

Non-interest expenses were 1,433.52 million baht, increased by 78.48 million baht (5.8% YoY), partly from increasing debt collection expenses and personnel expenses. However, the Company still maintained effective operating cost control, resulting in the cost to income ratio remained low at 36.5%, slightly increased compared with 35.6% during the second quarter of 2014.

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

Corporate Income Tax

In the second quarter of 2015, the corporate income tax was 243.26 million baht, equivalent to the effective tax rate of 19.4% which remained at the same level as in the second quarter of 2014.

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of June 30, 2015 and March 31, 2015

Assets

As of June 30, 2015, the Company's total assets were 297,278.94 million baht, decreased by 1.6% (QoQ) mainly due to the decline in loan portfolio from 254,437.06 million baht to 249,340.60 million baht (2.0% QoQ). In addition, investment also dropped from 15,455.01 million baht to 9,050.57 million baht (41.4% QoQ).

Liabilities

As of June 30, 2015, total liabilities were 270,832.97 million baht, decreased by 1.6% (QoQ), mainly due to the decrease in deposits from 206,200.17 million baht to 191,749.56 million baht (7.0% QoQ). The liabilities mix comprised of 70.8% total deposit including bill of exchange, 4.8% interbank and money market items, 20.4% debentures, and 4.0% other liabilities.

Shareholders' Equity

As of June 30, 2015, shareholders' equity was 26,445.97 million baht, declined by 546.43 million baht (2.0% QoQ) as TISCO Group paid annual dividend from operation result for the year 2014 at 2.00 baht per common and preferred share in May 2015. The total dividend payment was 1,601.24 million baht with dividend payout ratio of 37.7%. Meanwhile, the book value per share (BVPS) as of June 30, 2015 was 33.03 baht per share, decreased from 33.71 baht per share in the first quarter.

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

Total loans and receivables as of June 30, 2015 were 249,340.60 million baht, declined by 5,096.46 million baht (2.0% QoQ) following sluggish domestic economy and weak consumption. The composition of loan portfolio was 69.3% of retail loans, 20.6% of corporate loans, 8.3% of commercial loans and 1.9% of other loans.

Retail lending portfolio totaled 172,817.23 million baht or decreased by 2.2% (QoQ), where the portfolio consisted of 90.3% car, motorcycle and other hire purchase, 8.9% consumer loans and 0.7% mortgage loans. The outstanding hire purchase loans totaled 156,094.36 million baht, declined by 3,987.98 million baht (2.5% QoQ), from slow domestic economy and weak consumption, together with high household debt level which limited additional purchasing power. Meanwhile, the domestic car sales in the first 5 months of 2015 was 308,787 units, decreased by 15.9% (YoY) compared to 367,112 units in the first 5 months of 2014. However, the car penetration rate of TISCO for the first 5 months was 8.4%, improved from 7.6% (YoY). In addition, consumption loans amounted 15,445.20 million baht, increased by 158.91 million baht (1.0% QoQ).

Corporate lending portfolio totaled 51,265.13 million baht, increased by 1,226.53 million baht (2.5% QoQ) following the loan drawdown from clients in manufacturing and commercial sector and real estate and construction sector.

Commercial lending portfolio totaled 20,630.12 million baht, declined by 2,376.41 million baht (10.3% QoQ) from the contraction in lending demand during economic slowdown. The car inventory financing was weakened following a drop in industry car sales.

Other loan portfolio totaled 4,628.12 million baht, increased by 25.57 million baht (0.6% QoQ).

Deposits¹

Total deposits totaled 191,749.56 million baht, decreased by 14,450.61 million baht (7.0% QoQ) following the contraction in loan portfolio. As of June 30, 2015, The Company had excess liquidity amounting to approximately 30,141 million baht, combining with the BoT required liquidity of 11,856 million baht (including bill of exchange), resulting in liquidity ratio of 21.3% which was well over the required liquidity by BoT of 6.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

During the second quarter of 2015, NPL ratio slightly increased from 2.65% to 2.86% (QoQ), mainly driven by a continual loan portfolio contraction and some increase in NPLs in hire purchase portfolio and commercial loan portfolio. For hire purchase portfolio, the NPL movement was primarily affected by seasonal late repayment behavior from long holidays which usually occurs in the second quarter of every year, after which the payment will usually return to normal. Meanwhile, commercial lending business continued to be pressured by slow going economy, and restructured commercial clients have been relapsed to overdue, pending restructuring in progress. The NPL ratios for retail loan, corporate loan, and commercial loan stood at 3.60%, 0.61%, and 2.01% respectively. Total NPLs was 7,137.48 million baht, increased by 395.05 million baht (5.9% QoQ), comprising 6,317.44 million baht of the Bank NPLs and 820.04 million baht of other subsidiaries NPLs.

Due to sluggish economic environment with high uncertainty, together with the Company's ability to generate strong revenue stream, TISCO has decided to adhere further to our prudent provisioning policy by adding up loan loss reserve in this quarter to cushion against economic volatility. While, the normal provision required from the course of business, particularly mainly from retail loan portfolio, continue to move lower, the Company has set up increased provision for loan loss totaling 1,243.91 million baht, increased by 24.35 million baht (2.0% YoY), which accounted for 1.98% of average loan portfolio. The building up of the reserve was a one-time event, and if excluding the effect of this special reserve build-up, the provision expense for the quarter should be resulted around 1.4% – 1.5% of average loan portfolio.

Total allowance for loan loss for the Company stood at 7,649.84 million baht, while loan loss reserve of the Bank was 7,023.92 million baht, which was higher than the specific reserve level required by the Bank of Thailand at 4,341.02 million baht or 161.80%. The specific reserve level according to the Bank of Thailand increased by 820.74 million baht (QoQ) mainly from the setup of additional reserve for corporate loan exposure.

(2) Securities Business

At the end of the second quarter of 2015, average daily turnover of TISCO Securities was 2,160.41 million baht, increased by 6.3% (YoY) from 2,032.56 million baht from an increase in market share from 2.6% to 2.9% (YoY). The increase in market share was stemmed from the higher market share of local institution sector (excluding proprietary trading) from 6.8% to 8.1% (YoY) and of foreign institution sector from 3.1% to 3.8% (YoY), while the market share of retail investors decreased from 2.1% to 1.8% (YoY). Hence, TISCO brokerage volume in the second quarter of 2015 comprised of 32.3% of local institutions, 34.6% of foreign institutions, and 33.1% of retail customers.

(3) Asset Management Business

As of June 30, 2015, assets under management of TISCO Asset Management Co., Ltd. was 177,080.88 million baht, grew by 2,836.94 million baht (1.6% QoQ). In the second quarter of 2015, basic

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

fee income from asset management totaled 311.40 million baht, increased by 86.65 million baht (38.6% YoY) due to the growth in assets under management driven by successful issuances of various mutual funds, such as 3 "TISCO China Equity trigger funds", 2 "TISCO Germany Equity trigger fund", 1 "TISCO India Equity trigger fund" and "TISCO Global Healthcare Star Plus fund", of which were well responded to market demand.

The composition of total asset under management was 64.4% provident fund, 16.6% private fund, and 19.0% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2015 was 3.4%, ranking 9th in the market. The market share of provident fund was 13.1%, ranking 4th in the market. The market share of private fund was 5.9%, ranking 8th in the market. For mutual fund, the market share was 0.9%, ranking 14th in the market.

Risk Management

As of June 30, 2015, TISCO Group's internal capital stood at 26,898.40 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 645.55 million baht from the end of March 2015 to 9,407.11 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 17,491.29 million baht or 65.0% of total internal capital.

Comparing to the end of the first quarter, the credit risk capital stood at 7,038.69 million baht, increasing by 550.04 million baht or 8.5% following seasonal overdue during the period. The non-performing loan of TISCO Group slightly increased from 2.65% at the end of March 2015 to 2.86% at the end of June 2015 resulting from lower loan base.

The market risk capital decreased from 205.23 million baht to 171.85 million baht, resulting from a decrease in risk capital of investment portfolio as gain in market value increased. Meanwhile, the overall duration gap decreased to 0.91 year, which was in a manageable level. The assets duration remained at 1.39 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.41 year to 0.48 year.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions were strong and sufficient levels to cushion for the expansion of asset in the future. At the end of June 2015, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 17.46%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 13.07% and 4.39%, 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 57.32%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q14		2Q15		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,543.94	40.6	1,416.01	36.0	(8.3)
Interest on interbank and money market items	162.71	4.3	142.58	3.6	(12.4)
Hire purchase and financial lease income	2,952.07	77.6	2,627.61	66.9	(11.0)
Investments	114.55	3.0	76.95	2.0	(32.8)
Total interest income	4,773.27	125.5	4,263.15	108.5	(10.7)
Interest expenses	(2,396.09)	(63.0)	(1,814.88)	(46.2)	(24.3)
Net interest income	2,377.18	62.5	2,448.27	62.3	3.0
Fee income					
Fee income	1,299.36	34.2	1,347.73	34.3	3.7
Fee expenses	(47.77)	(1.3)	(45.90)	(1.2)	(3.9)
Net fee income	1,251.59	32.9	1,301.83	33.1	4.0
Gain on investment and foreign exchange transaction	26.61	0.7	47.78	1.2	79.6
Share of profit from invest in subsidiaries	13.32	0.4	35.20	0.9	164.3
Other operating income	214.93	5.7	231.43	5.9	7.7
Total operating income	3,883.62	102.1	4,064.52	103.4	4.7
Expenses to business promotion relating to the business	(80.59)	(2.1)	(134.76)	(3.4)	
Total net operating income	3,803.02	100.0	3,929.77	100.0	3.3
Other operating expenses	(1,355.04)		(1,433.52)		
Bad debt and doubtful account and impairment loss of debt securities	(1,219.56)		(1,243.91)		
Profit before income tax and minority interest	1,228.42		1,252.34		1.9
Corporate income tax expenses	(239.16)		(243.26)		
Profit before minority interest	989.27		1,009.08		2.0
Non-controlling interests of the subsidiaries	2.52		(5.12)		
Net profit	991.78		1,003.96		1.2

Table2: Interest Spread

%	2014	2Q14	1Q15	2Q15
Yield on Loans	6.5	6.5	6.4	6.4
Cost of fund	3.2	3.3	2.9	2.8
Loan spread	3.3	3.2	3.5	3.7

Table 3: Assets Breakdown

Assets	March 31, 2015		June 30, 2015		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,081.59	0.4	1,021.58	0.3	(5.5)
Interbank and Money Market Items	30,056.95	9.9	37,003.33	12.4	23.1
Derivative Asset	5.36	0.0	0.00	0.0	(100.0)
Investment in Fixed income	13,934.66	4.6	7,431.29	2.5	(46.7)
Investment in Equity	1,520.35	0.5	1,619.31	0.5	6.5
Investments in subsidiaries, associate and joint venture	217.90	0.1	247.46	0.1	13.6
Corporate Loans	50,038.59	16.6	51,265.13	17.2	2.5
Retail Loans	176,789.39	58.5	172,817.23	58.1	(2.2)
Commercial Loans	23,006.53	7.6	20,630.12	6.9	(10.3)
Other Loans	4,602.55	1.5	4,628.12	1.6	0.6
Allowance for doubtful accounts and for loss on debt restructuring	(7,096.03)	(2.3)	(7,649.84)	(2.6)	7.8
Other Assets	8,048.96	2.7	8,265.23	2.8	2.7
Total – The Company	302,206.80	100.0	297,278.94	100.0	(1.6)

Table 4: Loans and Receivables Breakdown

Type of Business	March 31, 2015		June 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,508.95	6.9	17,574.09	7.0	0.4
Real estate and construction	11,355.33	4.5	12,061.55	4.8	6.2
Public utilities and services	20,922.52	8.2	21,352.54	8.6	2.1
Agriculture and mining	251.79	0.1	276.94	0.1	10.0
Corporate Loans	50,038.59	19.7	51,265.13	20.6	2.5
Commercial Loans	23,006.53	9.0	20,630.12	8.3	(10.3)
Hire purchase	160,082.34	62.9	156,094.36	62.6	(2.5)
Mortgage	1,420.76	0.6	1,277.67	0.5	(10.1)
Consumer	15,286.29	6.0	15,445.20	6.2	1.0
Retail Loans	176,789.39	69.5	172,817.23	69.3	(2.2)
Others	4,602.55	1.8	4,628.12	1.9	0.6
Total – The Company	254,437.06	100.0	249,340.60	100.0	(2.0)

Table 5: NPL Breakdown by Area

Type of Business	March 31, 2015			June 30, 2015			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.92	161.47	2.4	0.74	130.06	1.8	(19.4)
Real estate and construction	0.63	71.45	1.1	0.63	76.04	1.1	6.4
Public utilities and services	0.47	98.46	1.5	0.48	101.72	1.4	3.3
Agriculture and mining	0.52	1.32	0.0	1.20	3.31	0.0	150.8
Total NPL - Corporate Loans	0.66	332.70	4.9	0.61	311.14	4.4	(6.5)
NPL-Commercial Loans	1.16	266.97	4.0	2.01	414.35	5.8	55.2
Hire purchase	3.36	5,380.94	79.8	3.63	5,669.63	79.4	5.4
Mortgage	6.76	96.07	1.4	7.61	97.25	1.4	1.2
Consumer	2.86	437.64	6.5	2.91	449.01	6.3	2.6
Total NPL - Retail Loans	3.35	5,914.66	87.7	3.60	6,215.88	87.1	5.1
Others	4.96	228.10	3.4	4.24	196.11	2.7	(14.0)
Total NPL – The Company	2.65	6,742.42	100.0	2.86	7,137.48	100.0	5.9

Table 6: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2015		June 30, 2015		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	206,200.17	74.9	191,749.56	70.8	(7.0)
Interbank and money market items	11,305.46	4.1	12,917.28	4.8	14.3
Debentures	46,875.90	17.0	55,337.80	20.4	18.1
Others	10,832.87	3.9	10,828.33	4.0	(0.0)
Total – The Company and Subsidiaries	275,214.40	100.0	270,832.97	100.0	(1.6)

Table 7: Deposits Structure

Type of Deposits	March 31, 2015		June 30, 2015		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,382.06	1.6	3,391.57	1.8	0.3
Saving accounts	51,808.58	25.1	52,906.51	27.6	2.1
Fixed accounts	23,873.64	11.6	23,428.58	12.2	(1.9)
Negotiate certificate deposit	121,084.67	58.7	104,627.48	54.6	(13.6)
Short-term borrowings	6,051.22	2.9	7,395.42	3.9	22.2
Total deposits	206,200.17	100.0	191,749.56	100.0	(7.0)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2015		June 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	111,539.58	64.0	114,013.02	64.4	2.2
Private Fund	29,561.22	17.0	29,452.61	16.6	(0.4)
Mutual Fund	33,143.14	19.0	33,615.25	19.0	1.4
Total	174,243.95	100.0	177,080.88	100.0	1.6

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)	
	March 31, 2015	June 30, 2015	March 31, 2015	June 30, 2015
	Assets	1.39	1.39	1,215.85
Liabilities*	0.41	0.48	(1,560.24)	(1,434.81)
Net Gap	0.98	0.91	(344.39)	(225.11)

Note: * Exclude saving and current account