

Management Discussion and Analysis For the Third Quarter ended September 30, 2015

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

Movement of Money Market and Capital Market

In the third quarter of 2015, domestic economy remained sluggish and showed weak recovery. The private consumption continued to slow down following the cautious household spending and low level of household income, while the domestic car sale in the first 8 months of 2015 totaled 491,963 units, declined by 15.1% (YoY). Also, the export sector was deteriorated, along with the depreciation of Thai Baht affected by the pressure from overall Asian economy. Thus, the headline inflation remained negative in the third quarter, following a decrease in global oil and commodity prices.

The Bank of Thailand (BOT) held the policy rate at 1.50%. Accordingly, the average 3-month fixed deposit rates of Top-4 commercial banks remained stable at 0.93%, while the average minimum lending rate of Top-4 commercial banks remained at 6.51%, unchanged at the end of this quarter.

During the third quarter of 2015, the capital market was highly volatile from both internal and external factors. Thai capital market experienced a large amount of foreign capital outflow, which resulted from the negative investor sentiment toward domestic economy and disruption situation in Thailand, together with the continuing global market volatility since the previous quarter. Thus, SET index closed at 1,349.00, declined from the end of the second quarter of 2015 and from the third quarter of 2014. While, the average daily turnover declined from 48,510.97 million baht in the third quarter of 2014 to 38,291.14 million baht in this quarter.

Operating Results

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

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 179.16 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 third quarter of 2015, the net profit attributed to owners of the Company totaled 809.78 million baht, decreased by 279.18 million baht (25.6% YoY), mainly driven by the higher provision expense following the full setup of provisions assigned for Sahaviriya Steel Industries Pcl. (SSI) and its subsidiary Sahaviriya Steel Industries UK (SSI UK). Net interest income increased by 6.6% (YoY), driven by a continuing decrease in cost of fund following the effective cost management. Meanwhile, non-interest

income from core business¹ remained stable (YoY). Even though brokerage fee income declined by 28.8% (YoY) following lower market trading volume, banking fee improved by 14.4% (YoY) with the record of early prepayment fee, while basic fee of asset management business grew by 5.4% (YoY) following the issuances of various mutual funds in correspondence with the market demand.

Basic earnings per share in the third quarter of 2015 was 1.01 baht, compared with 1.36 baht in the third quarter of 2014. Meanwhile, the return on average equity (ROAE) was at 12.2% compared with 18.1% (YoY).

Net Interest Income

Net interest income in the third quarter of 2015 was 2,616.90 million baht, increased by 161.08 million baht (6.6% YoY). Total interest income was 4,176.30 million baht, decreased by 493.49 million baht (10.6% YoY) while interest expense dropped by 654.57 million baht (29.6% YoY) to 1,559.40 million baht, owing to the continuing decline in cost of fund, the Company's effective cost management and the beneficial low interest rate environment.

Yield on loan remained stable at 6.5% while cost of fund significantly decreased from 3.1% to 2.5% (YoY) driven by a continual decline in funding cost. Consequently, loan spread improved from 3.4% to 4.1% (YoY). In addition, the net interest margin also rose from 3.1% to 3.6% (YoY).

The Company reported net interest income after impairment loss of loans and debt securities totaled 451.34 million baht, dropped by 866.89 million baht (65.8% YoY). Impairment losses on loans totaled 2,165.57 million baht, increased from 1,137.60 million baht (YoY), mainly resulting from the full setup of provisions in accordance with Bank of Thailand's guideline for Sahaviriya Steel Industries Pcl. (SSI) and its subsidiary Sahaviriya Steel Industries UK (SSI UK).

Non-interest Income

Non-interest income of the Company's core businesses reported at 1,419.18 million baht, relatively stable comparing to the third quarter of 2014. Banking fee income increased by 119.40 million baht (14.4% YoY) mainly contributed by the record of early prepayment fee and the improvement in bancassurance business. Moreover, asset management basic fee also improved by 13.81 million baht (5.4% YoY) due to the issuances of various mutual funds corresponding to market demand. Nevertheless, brokerage fee income weakened by 77.67 million baht (28.8% YoY) following the lower market trading volume.

Non-interest Expenses

Non-interest expenses were 928.15 million baht, declined by 510.84 million baht (35.5% YoY), primarily led by the declining variable expenses associated with revenue growth. The Company still maintained effective operating cost control, resulting in low cost to income ratio at 22.7%, compared with 36.4% during the third 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 third quarter of 2015, the corporate income tax was 196.82 million baht, equivalent to the effective tax rate of 19.6% which remained at the same level as in the third 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 September 30, 2015 and June 30, 2015

Assets

As of September 30, 2015, the Company's total assets were 283,639.50 million baht, decreased by 4.6% (QoQ) mainly due to the decline in loan portfolio from 249,340.60 million baht to 237,259.74 million baht (4.8% QoQ). In addition, investment also dropped from 9,050.57 million baht to 8,543.29 million baht (5.6% QoQ), while interbank and money market items declined from 37,003.33 million baht to 34,880.43 million baht (5.7% QoQ).

Liabilities

As of September 30, 2015, total liabilities were 256,679.15 million baht, decreased by 5.2% (QoQ), mainly due to the decrease in deposits from 191,749.56 million baht to 169,402.39 million baht (11.7% QoQ), together with the decrease in interbank and money market items from 12,917.28 million baht to 9,207.33 million baht (28.7% QoQ). The liabilities mix comprised of 66.0% total deposit including bill of exchange, 3.6% interbank and money market items, 26.9% debentures, and 3.5% other liabilities.

Shareholders' Equity

As of September 30, 2015, shareholders' equity was 26,960.35 million baht, increased by 533.03 million baht (2.0% QoQ) from an increase in retained earnings in the third quarter of 2015. As a result, the book value per share (BVPS) as of September 30, 2015 was 33.67 baht per share, increased from 33.01 baht per share (QoQ).

Business Segment Performance

(1) Banking Business

Loans

Total loans and receivables as of September 30, 2015 were 237,259.74 million baht, declined by 12,080.86 million baht (4.8% QoQ) following sluggish domestic economy and weak consumption, together with the loan prepayment and loan write-off of Sahaviriya Steel Industries UK (SSI UK). The composition of loan portfolio was 71.5% of retail loans, 18.1% of corporate loans, 8.5% of commercial loans and 2.0% of other loans.

Retail lending portfolio totaled 169,544.75 million baht or decreased by 1.9% (QoQ), where the portfolio consisted of 89.8% car, motorcycle and other hire purchase, 9.3% consumer loans and 0.9% mortgage loans. The outstanding hire purchase loans totaled 152,238.26 million baht, declined by 3,856.10 million baht (2.5% QoQ), from subdued domestic economy and weak consumption, together with high household debt level which limited consumers' purchasing power. Meanwhile, the domestic car sale in the first 8 months of 2015 was 491,963 units, decreased by 15.1% (YoY) compared to 579,273 units in the first 8 months of 2014. However, the car penetration rate of TISCO for the first 8 months was 8.5%, significantly improved from 7.5% (YoY). In addition, consumption loans amounted 15,712.29 million baht, increased by 267.09 million baht (1.7% QoQ).

Corporate lending portfolio totaled 42,845.33 million baht, decreased by 8,419.80 million baht (16.4% QoQ), mainly due to the loan early repayment in manufacturing and commercial sector, and loan write-off of Sahaviriya Steel Industries UK (SSI UK).

Commercial lending portfolio totaled 20,104.33 million baht, declined by 525.80 million baht (2.5% QoQ) from the contraction in lending demand during economic slowdown and the impact from weak industry car sale.

Other loan portfolio totaled 4,765.34 million baht, increased by 137.22 million baht (3.0% QoQ).

Deposits¹

Total deposits totaled 169,402.39 million baht, decreased by 22,347.17 million baht (11.7% QoQ) following the contraction in loan portfolio. As of September 30, 2015, The Company had excess liquidity amounting to approximately 29,186 million baht, combining with the BoT required liquidity of 10,313 million baht (including bill of exchange), resulting in liquidity ratio of 23.0% which was well over the required liquidity by BoT of 6.0%.

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

Non-Performing Loans (NPLs) and Loan Loss Provision

Regarding to the financial problem of our client, Sahaviriya Steel Industries Pcl. (SSI) and its subsidiary Sahaviriya Steel Industries UK (SSI UK), Sahaviriya Steel Industries UK (SSI UK) announced its close-down and the Company has classified Sahaviriya Steel Industries Pcl. (SSI) and its subsidiary Sahaviriya Steel Industries UK (SSI UK) loans as NPL loans, and fully set up 100% provisions based on the collateral value in accordance with the Bank of Thailand's guideline. However, the collateral value of Sahaviriya Steel Industries UK (SSI UK) still unable to appraise due to the firm's closedown, together with the high cost to restart steel operation, the collateral value was assumed at zero. Therefore, the setup of provisions was set at full amount of Sahaviriya Steel Industries UK loan and the loan was written off accordingly.

In addition, Sahaviriya Steel Industries Pcl. (SSI) Thailand is in the process of entering rehabilitation and restructuring. While, the Company has maintained full collateral coverage, the Company has fully set up provisions based on discounted collateral in accordance with the Bank of Thailand's guideline, which remaining provision was 30% of the total loan outstanding of 821 million baht. Thus, taking the effect of NPLs classification of Sahaviriya Steel Industries Pcl. (SSI) in the third quarter, NPL ratio increased from 2.86% to 3.30% (QoQ). If the effect of Sahaviriya Steel Industries Pcl. (SSI) was excluded, the NPL of other loan portfolios, which include hire purchase portfolio and commercial loan portfolio, started to decline. Total NPLs was 7,841.10 million baht, increased by 703.63 million baht (9.9% QoQ), comprising 7,034.52 million baht of the Bank NPLs and 806.59 million baht of other subsidiaries NPLs.

In the third quarter of 2015, the Company has set up provision for loan loss totaling 2,165.57 million baht, increased by 1,027.97 million baht (90.4% YoY), which accounted for 3.56% of average loan portfolio. If excluding the effect of the special provision buildup, the required provision tended to decline gradually, therefore the normal provision for core business in the third quarter was resulted at 1.3 – 1.4% of average loan portfolio.

Total allowance for loan loss for the Company was reported at 5,813.46 million baht, while loan loss reserve of the Bank was 5,204.61 million baht, which was higher than the specific reserve level required by the Bank of Thailand at 4,269.91 million baht or 121.89%. The specific reserve level declined from the previous quarter, mainly from the loan write-off of Sahaviriya Steel Industries UK (SSI UK) in this quarter.

(2) Securities Business

At the end of the third quarter of 2015, average daily turnover of TISCO Securities was 1,946.15 million baht, decreased by 21.3% (YoY) from 2,471.72 million baht, partly from a decrease in market trading volume amidst the volatile domestic and global economy. However, market share of TISCO Securities remained stable at 2.5% comparing with the third quarter of 2014. The market share of retail investors decreased from 2.0% to 1.8% (YoY) and the market share of local institution sector (excluding proprietary trading) declined from 8.2% to 7.2% (YoY). Meanwhile, the market share of foreign institution sector improved from 2.9% to 3.3% (YoY). Hence, TISCO brokerage volume comprised of 29.0% of local institutions, 31.9% of foreign institutions, and 39.1% of retail customers.

(3) Asset Management Business

As of September 30, 2015, assets under management of TISCO Asset Management Co., Ltd. was reported at 173,546.38 million baht, dropped by 3,534.50 million baht (2.0% QoQ), led by a decrease in the issuances of mutual funds and private funds amidst the volatile capital market. Nonetheless, in the third quarter of 2015, basic fee income from asset management totaled 268.74 million baht, increased by 13.81 million baht (5.4% YoY) following the successful issuances of various funds corresponding to market demands such as 3 "TISCO Oil Trigger Funds", 2 "TISCO China Equity Trigger Funds", "TISCO Germany Equity Trigger Fund", "TISCO Japan Equity Trigger Fund" and "TISCO Thai Equity Trigger Fund". In addition, 2 equity trigger funds were triggered during the quarter, namely "TISCO Thai Equity Trigger Fund" and "TISCO India Equity Trigger Fund".

The composition of total asset under management was 66.4% provident fund, 15.1% private fund, and 18.4% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2015 was 3.3%, ranking 10th in the market. The market share of provident fund was 13.1%, ranking 4th in the market. The market share of private fund was 5.4%, ranking 8th in the market. For mutual fund, the market share was 0.8%, ranking 14th in the market.

Risk Management

As of September 30, 2015, TISCO Group's internal capital stood at 25,352.09 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 116.38 million baht from the end of June 2015 to 9,002.48 million baht, mainly resulting from an increase in market risk capital. In addition, the capital surplus remained strong at 16,349.62 million baht or 64.5% of total internal capital.

Comparing to the end of the second quarter, the credit risk capital stood at 6,313.40 million baht, decreasing by 110.40 million baht or 1.7% following loan portfolio contraction by 4.8% during the period, mostly from loan repayment of major corporate client in manufacturing and commercial sector and the write-off of Sahaviriya Steel Industries UK Ltd. (SSI UK). The non-performing loan of TISCO Group increased from 2.86% to 3.30% resulting from reclassification of Sahaviriya Steel Industries Plc. (SSI) as NPL.

The market risk capital increased from 266.84 million baht to 493.62 million baht, resulting from an increase in risk capital of investment portfolio along with higher market volatility. Meanwhile, the overall duration gap remained at 0.90 year, which was in a manageable level. The assets duration increased from 1.39 year to 1.46 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, rose from 0.48 year to 0.55 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 September 2015, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 17.92%, remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio stood at 13.88% and 4.04%, 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 92.45%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	3Q14		3Q15		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	1,565.00	39.6	1,420.85	34.7	(9.2)
Interest on interbank and money market items	138.81	3.5	141.00	3.4	1.6
Hire purchase and financial lease income	2,864.49	72.5	2,565.17	62.6	(10.4)
Investments	101.50	2.6	49.28	1.2	(51.4)
Total interest income	4,669.79	118.2	4,176.30	102.0	(10.6)
Interest expenses	(2,213.97)	(56.1)	(1,559.40)	(38.1)	(29.6)
Net interest income	2,455.82	62.2	2,616.90	63.9	6.6
Fee income					
Fee income	1,330.25	33.7	1,244.87	30.4	(6.4)
Fee expenses	(57.41)	(1.5)	(46.15)	(1.1)	(19.6)
Net fee income	1,272.85	32.2	1,198.72	29.3	(5.8)
Gain on investment and foreign exchange transaction	98.53	2.5	83.14	2.0	(15.6)
Share of profit from invest in subsidiaries	8.52	0.2	23.32	0.6	173.8
Other operating income	196.29	5.0	256.05	6.3	30.4
Total operating income	4,032.01	102.1	4,178.14	102.0	3.6
Expenses to business promotion relating to the business	(82.61)	(2.1)	(81.74)	(2.0)	
Total net operating income	3,949.39	100.0	4,096.40	100.0	3.7
Other operating expenses	(1,438.99)		(928.15)		
Bad debt and doubtful account and impairment loss of debt securities	(1,137.60)		(2,165.57)		
Profit before income tax and minority interest	1,372.80		1,002.68		(27.0)
Corporate income tax expenses	(272.42)		(196.82)		
Profit before minority interest	1,100.38		805.86		(26.8)
Non-controlling interests of the subsidiaries	(11.42)		3.92		
Net profit	1,088.96		809.78		(25.6)

Table2: Interest Spread

%	2014	3Q14	2Q15	3Q15
Yield on Loans	6.5	6.5	6.4	6.5
Cost of fund	3.2	3.1	2.8	2.5
Loan spread	3.3	3.4	3.7	4.1

Table 3: Assets Breakdown

Assets	June 30, 2015		September 30, 2015		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,021.58	0.3	954.74	0.3	(6.5)
Interbank and Money Market Items	37,003.33	12.4	34,880.43	12.3	(5.7)
Derivative Asset	0.00	0.0	0.19	0.0	n.a.
Investment in Fixed income	7,431.29	2.5	7,180.40	2.5	(3.4)
Investment in Equity	1,619.31	0.5	1,362.91	0.5	(15.8)
Investments in subsidiaries, associate and joint venture	247.46	0.1	262.17	0.1	5.9
Corporate Loans	51,265.13	17.2	42,845.33	15.1	(16.4)
Retail Loans	172,817.23	58.1	169,544.75	59.8	(1.9)
Commercial Loans	20,630.12	6.9	20,104.33	7.1	(2.5)
Other Loans	4,628.12	1.6	4,765.34	1.7	3.0
Allowance for doubtful accounts and for loss on debt restructuring	(7,649.84)	(2.6)	(5,813.46)	(2.0)	(24.0)
Other Assets	8,269.33	2.8	7,552.39	2.7	(8.7)
Total – The Company	297,283.04	100.0	283,639.50	100.0	(4.6)

Table 4: Loans and Receivables Breakdown

Type of Business	June 30, 2015		September 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,574.09	7.0	10,492.19	4.4	(40.3)
Real estate and construction	12,061.55	4.8	11,481.22	4.8	(4.8)
Public utilities and services	21,352.54	8.6	20,556.46	8.7	(3.7)
Agriculture and mining	276.94	0.1	315.47	0.1	13.9
Corporate Loans	51,265.13	20.6	42,845.33	18.1	(16.4)
Commercial Loans	20,630.12	8.3	20,104.33	8.5	(2.5)
Hire purchase	156,094.36	62.6	152,238.26	64.2	(2.5)
Mortgage	1,277.67	0.5	1,594.20	0.7	24.8
Consumer	15,445.20	6.2	15,712.29	6.6	1.7
Retail Loans	172,817.23	69.3	169,544.75	71.5	(1.9)
Others	4,628.12	1.9	4,765.34	2.0	3.0
Total – The Company	249,340.60	100.0	237,259.74	100.0	(4.8)

Table 5: NPL Breakdown by Area

Type of Business	June 30, 2015			September 30, 2015			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.74	130.06	1.8	9.27	972.73	12.4	647.9
Real estate and construction	0.63	76.04	1.1	0.68	78.02	1.0	2.6
Public utilities and services	0.48	101.72	1.4	0.49	101.07	1.3	(0.6)
Agriculture and mining	1.20	3.31	0.0	1.26	3.96	0.1	19.6
Total NPL - Corporate Loans	0.61	311.14	4.4	2.70	1,155.78	14.7	271.5
NPL-Commercial Loans	2.01	414.35	5.8	1.76	354.06	4.5	(14.6)
Hire purchase	3.63	5,669.63	79.4	3.69	5,614.98	71.6	(1.0)
Mortgage	7.61	97.25	1.4	5.46	87.11	1.1	(10.4)
Consumer	2.91	449.01	6.3	2.92	458.85	5.9	2.2
Total NPL - Retail Loans	3.60	6,215.88	87.1	3.63	6,160.93	78.6	(0.9)
Others	4.24	196.11	2.7	3.57	170.34	2.2	(13.1)
Total NPL – The Company	2.86	7,137.48	100.0	3.30	7,841.10	100.0	9.9

Table 6: Liabilities Breakdown by Area

Type of Borrowings	June 30, 2015		September 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	191,749.56	70.8	169,402.39	66.0	(11.7)
Interbank and money market items	12,917.28	4.8	9,207.33	3.6	(28.7)
Debentures	55,337.80	20.4	69,141.00	26.9	24.9
Others	10,851.08	4.0	8,928.44	3.5	(17.7)
Total – The Company and Subsidiaries	270,855.72	100.0	256,679.15	100.0	(5.2)

Table 7: Deposits Structure

Type of Deposits	June 30, 2015		September 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	3,391.57	1.8	3,204.25	1.9	(5.5)
Saving accounts	52,906.51	27.6	49,052.29	29.0	(7.3)
Fixed accounts	23,428.58	12.2	19,650.80	11.6	(16.1)
Negotiate certificate deposit	104,627.48	54.6	90,198.13	53.2	(13.8)
Short-term borrowings	7,395.42	3.9	7,296.92	4.3	(1.3)
Total deposits	191,749.56	100.0	169,402.39	100.0	(11.7)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	June 30, 2015		September 30, 2015		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	114,013.02	64.4	115,299.89	66.4	1.1
Private Fund	29,452.61	16.6	26,283.35	15.1	(10.8)
Mutual Fund	33,615.25	19.0	31,963.15	18.4	(4.9)
Total	177,080.88	100.0	173,546.38	100.0	(2.0)

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, 2015	September 30, 2015	June 30, 2015	September 30, 2015
	Assets	1.39	1.46	1,209.70
Liabilities*	0.48	0.55	(1,434.81)	(1,304.92)
Net Gap	0.91	0.91	(225.11)	(263.84)

Note: * Exclude saving and current account