

Management Discussion and Analysis For the year ended December 31, 2017

(This report discusses principal changes in the audited consolidated financial statement for the year ended December 31, 2017)

Movement of Money Market and Capital Market

In 2017, the domestic economy continued to expand following the strong growth in export sector and tourism, together with the steady improvement in private consumption and private investment. Public spending showed sign of recovery toward the end of 2017, while household spending started to recover gradually amidst high level of household debt. Nonetheless, domestic car sale in 2017 increased by 13.4% (YoY), totaled 871,647 units. Overall, the headline inflation for the year 2017 was reported at 0.66%, following an increase in oil prices.

The Bank of Thailand (BOT) maintained the policy rate at 1.50% throughout 2017. The average 3-month fixed deposit rates of Top-4 commercial banks remained stable at 0.93% (YoY), while the average minimum lending rate of Top-4 commercial banks declined from 6.26% to 6.20% (YoY).

The capital market in 2017 retained a solid growth with SET index closed at 1,753.71 points, increased by 210.77 points or 13.7% comparing to 1,542.94 points in the previous year, aligning with the growth in domestic economy and investor confidence toward Thai economy. Still, the average daily turnover decreased from 50,244.97 million baht in 2016 to 47,755.37.

Major Events

On April 20, 2017, the Annual General Meeting of Shareholders of TISCO Bank Public Company Limited and All-Ways Company Limited for the Year 2017 approved the transfer of retail banking business of Standard Chartered Bank (Thai) Public Company Limited, of which the transfer was completed successfully on October 1, 2017. After the transfer, TISCO Bank Public Company Limited acquired the retail banking business including mortgage loans, personal loans, business loans, wealth management and retail deposit business, as well as 4 new bank branches from the transfer. Meanwhile, All-Ways Company Limited acquired credit card business. The transfer was aligned with TISCO Group's business growth and customer base expansion strategy, together with the offer of a wide range of comprehensive financial products and services to retail customers in every sector.

Operating Results

The Management Discussion and Analysis compares operating performance of the year 2017 and 2016

TISCO Financial Group Public Company Limited ("the Company") had net profit from operations on a standalone basis totaling 4,417.09 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 2017, the net profit attributed to owners of the Company totaled 6,090.01 million baht, increased by 1,084.11 million baht (21.7% YoY), contributed by improved net interest income and non-interest income from core business¹, together with the lower provision expense comparing to the previous year. Net interest income increased by 6.7% (YoY) from the ability to maintain overall loan yield and the effective cost management, combining with the increase in interest income from the transfer of lending business from Standard Chartered Bank (Thai). Non-interest income from core business improved by 18.2% (YoY), from all business sectors. Banking fee increased by 10.6% (YoY) following the strong improvement in bancassurance business and the full initiation of Open Architecture platform. Brokerage fee income increased by 0.7% (YoY) following higher market share of TISCO Securities. Asset management basic fee grew by 20.7% (YoY) from the issuance of funds corresponding to the customer demand and the improvement in capital market condition. The Company also recorded investment banking fee from underwriting service throughout the year. Moreover, the Company recorded extraordinary income from dividend of equity investment and performance fee income from asset management business amid substantially improved capital market during 2017. Meanwhile, provision expense declined by 22.0% (YoY) from the further improved asset quality comparing to the previous year.

Basic earnings per share for the year 2017 was at 7.61 baht per share, increased from 6.25 baht per share in 2016. Meanwhile, the return on average equity (ROAE) was at 18.5%, increased from 16.9% (YoY).

Net Interest Income

Net interest income in 2017 was 11,654.79 million baht, increased by 734.35 million baht (6.7% YoY). Total interest income was 16,469.50 million baht, increased by 457.95 million baht (2.9% YoY), while interest expense declined by 276.40 million baht (5.4% YoY) to 4,814.71 million baht.

Yield on loan improved from 6.7% to 6.9% (YoY) from the shift in loan portfolio mix from hire purchase loans to consumer loans that offer higher yield. While, cost of fund declined from 2.2% to 2.1% (YoY) owing to a further decline in cost of fund and the Company's effective cost management. Consequently, loan spread increased from 4.5 to 4.9% (YoY). The net interest margin improved from 4.0% to 4.2% (YoY).

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

The Company reported net interest income after impairment loss of loans and debt securities totaled 8,556.52 million baht, increased by 1,608.45 million baht (23.1% YoY). Impairment losses on loans totaled 3,098.27 million baht, decreased comparing with 3,972.37 million baht in 2016 or 22.0% (YoY), resulting from the improved asset quality and the effective credit control.

Non-interest Income

Non-interest income of the Company's core businesses reported at 7,012.61 million baht, increased by 1,079.91 million baht (18.2% YoY), from the growth in all business sectors. Banking fee income grew by 399.09 million baht (10.6% YoY) to 4,178.06 million baht following the strong improvement in bancassurance business and the full initiation of Open Architecture platform. Brokerage fee income increased by 5.49 million baht (0.7% YoY) to 830.76 million baht following higher market share. Asset management basic fee reported at 1,279.36 million baht, rose by 219.82 million baht (20.7% YoY) from the issuance of funds corresponding to the customer demand and the improved capital market condition. Additionally, the Company recorded the investment banking fee amounting 164 million baht from underwriting service during the year. Moreover, in 2017, the Company recorded extraordinary income from dividend of equity investment in total amounting 138 million baht, together with performance fee income from asset management business amounting 405 million baht amid the significantly improved capital market in 2017.

Non-interest Expenses

Non-interest expenses were 7,761.10 million baht, increased by 1,220.07 million baht (18.7% YoY), mainly from the increase in variable expenses associated with revenue and profit growth, and the expenses related to the business acquisition. The Company still maintained effective operating cost control, resulting in low cost-to-income ratio at 41.9%.

Corporate Income Tax

In 2017, the corporate income tax was 1,526.31 million baht, equivalent to the effective tax rate of 20.0%, increased from 19.5% (YoY).

Financial Position

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of December 31, 2017 and December 31, 2016

Assets

As of December 31, 2017, the Company's total assets were 303,388.41 million baht, increased by 11.8% (YoY), mainly resulting from the transfer of assets from Standard Chartered Bank (Thai). Hence, total loan portfolio increased from 224,934.00 million baht to 251,383.80 million baht (11.8% YoY). Interbank and money market also increased from 38,067.42 million baht to 44,647.15 million baht (17.3% YoY), and investment increased from 7,188.84 million baht to 7,547.14 million baht (5.0% YoY).

Liabilities

As of December 31, 2017, total liabilities were 268,656.64 million baht, increased by 12.0% (YoY) due to the increase in total deposits from 161,034.44 million baht to 188,280.76 million baht (16.9% YoY), stemming from the transfer of liabilities from Standard Chartered Bank (Thai) including individual deposits. However, interbank and money market decreased from 5,196.60 million baht to 4,017.51 million baht (22.7% YoY) and debentures decreased from 64,362.00 million baht to 63,601.70 million baht (1.2% YoY). The liabilities mix comprised of 70.1% total deposits including bill of exchange, 1.5% interbank and money market items, 23.7% debentures, and 4.7% other liabilities.

Shareholders' Equity

As of December 31, 2017, shareholders' equity was 34,731.76 million baht, increased by 3,406.22 million baht (10.9% YoY) from an increase in retained earnings for the year 2017. As a result, the book value per share (BVPS) as of December 31, 2017 was 43.38 baht per share, rose from 39.12 baht per share (YoY).

Business Segment Performance

(1) Banking Business

Loans

Total loans and receivables as of December 31, 2017 were 251,383.80 million baht, increased by 26,449.80 million baht (11.8% YoY), driven by the transfer of retail banking business from Standard Chartered Bank (Thai). The composition of loan portfolio was 74.9% of retail loans, 18.5% of corporate loans, 6.0% of commercial loans and 0.6% of other loans.

Retail Lending¹ portfolio totaled 188,213.76 million baht, increased by 15.6% (YoY) primarily from the transfer of retail banking business from Standard Chartered Bank (Thai), comprising mortgage loans, personal loans and credit card loans. The total retail portfolio as of December 31, 2017 consisted of 68.9% car and motorcycle hire purchase, 16.4% consumer loans, 11.0% mortgage loans, 2.1% personal loans and 1.6% credit card loans. The outstanding hire purchase loans totaled 129,719.70 million baht, declined by 6.4% (YoY), resulting from the prudent lending policy amid high level of household debt. The domestic car sale in 2017 was 871,647 units, increased by 13.4% (YoY), compared to 768,788 units in 2016. The car penetration rate of TISCO for year declined from 8.0% to 7.2% (YoY).

Consumer loans (including all finance loans for corporate clients) amounted 30,853.58 million baht, increased by 7,601.09 million baht (32.7% YoY), from the increased new business from all channels – bank branches and loan offices – especially from the expansion of new customer acquisition through “Somwang” channel of 3,020.79 million baht (41.9% YoY) to total of 10,236.25 million baht, which accounted for 33.2% of total consumer loans. Hence, at the end of 2017, “Somwang” loan offices totaled 193 branches nationwide. In addition, the growth of consumer loans included home-equity loans that were transferred from Standard Chartered Bank (Thai) amounting 3,105.06 million baht.

Consequently, after the completion of the business transfer, at the end of 2017, mortgage loans totaled 20,757.33 million baht, personal loans (included only unsecured loans) totaled 3,930.96 million baht and credit card loans totaled 2,952.19 million baht.

Corporate Lending portfolio totaled 46,578.47 million baht, increased by 2,293.38 million baht (5.2% YoY), due to the loan drawdown from the clients in real estate and construction sector and agriculture and mining sector. Furthermore, in the beginning of 2017, the Company has made loan classification adjustment by reclassifying some clients in Commercial Lending sector to Corporate Lending sector at the approximate amount of 2,100 million baht, with purpose to improve efficiency of loan management.

Commercial Lending portfolio totaled 15,099.95 million baht, declined by 1,354.11 million baht (8.2% YoY) from the reclassification of some clients to Corporate Lending sector. Nonetheless, during 2017,

¹ Consumer loans was reclassified as consumer loans issued for corporate clients previously classified under Corporate lending was now included in total Consumer Loans for a clarification purpose.

the Company received the transfer of small business loans from Standard Chartered Bank (Thai), amounting 2,281.36 million baht at the end of 2017.

Other Loans portfolio totaled 1,491.61 million baht, increased by 93.74 million baht (6.7% YoY).

Deposits and Borrowings

Total deposits and borrowings totaled 251,882.46 million baht, increased by 11.8% (YoY). Total deposits totaled 188,280.76 million baht, grew by 27,246.32 million baht (16.9% YoY) from the acquisition of retail deposit business, while debentures totaled 63,601.70 million baht, declined by 760.30 million baht (1.2% YoY). As of December 31, 2017, the Bank had liquid assets totaling 47,765.38 million baht, increased by 6,523.71 million baht (15.8% YoY). Thus, the liquid assets were 19.0% of total deposits and borrowings.

Non-Performing Loans (NPLs) and Loan Loss Provision

In 2017, the Company reported NPL ratio at 2.32%, decreased from 2.54% (YoY) contributed by the further improved credit quality of the overall loan portfolio following the effective credit control throughout the year. NPL ratio of retail loans, corporate loans, and commercial loans were 2.74%, 0.94%, and 1.27% respectively. Total NPLs were reported at 5,829.35 million baht, increased by 119.21 million baht (2.1% YoY), aligning with the loans transferred from Standard Chartered Bank (Thai). The NPLs comprised of 5,300.68 million baht from the Bank and 528.67 million baht from other subsidiaries. Total NPLs of transferred loans totaled 1,279 million baht or accounted for NPL ratio of 3.9%.

The Company set up provision for the year at 3,098.27 million baht, accounted for 1.3% of average loan, and decreased comparing with 3,972.37 million baht (YoY) following the further improved credit quality.

At the end of 2017, loan loss reserve of the Company was 11,456.11 million baht while total loan loss reserve of the Bank was 10,709.29 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 4,560.68 million baht or accounted 234.8% of minimum loan loss reserve requirement. The loan loss provision coverage ratio at the end of the year increased to 196.5%. In 2017, the setup of excess loan loss reserve was 3,180 million baht for countercyclical buffer, reflecting the Company's prudent policy to cushion against business volatility, and partly the setup of provisions to support the change in accounting standard of IFRS 9.

(2) Securities Business

In 2017, TISCO Securities reported strong brokerage fee income totaling 830.76 million baht, improved by 0.7% (YoY), with average daily turnover of TISCO Securities of 2,226.82 million baht, increased by 3.5% (YoY) from 2,152.29 million baht, following higher market share of TISCO Securities which improved from 2.4% to 2.6% (YoY). The market share of local institution sector (excluding proprietary trading) increased from 6.1% to 6.4% (YoY) and the market share of retail investors increased from 1.6% to 1.9% (YoY). Meanwhile, the market share of foreign institution sector dropped from 2.5% to 2.3% (YoY). All in all, TISCO brokerage volume comprised of 31.5% of local institutions, 30.5% of foreign institutions, and 38.0% of retail customers.

(3) Asset Management Business

As of December 31, 2017, assets under management of TISCO Asset Management Co., Ltd. reported at 240,242.80 million baht, increased by 24.4% (YoY), from the growth in all business areas and improved capital market condition. Consequently, basic fee income from asset management grew by 20.7% (YoY), totaling 1,279.36 million baht. Furthermore, performance fee income was recorded amounting 405 million baht during the year, reporting the total asset management fee income of 1,684.45 million baht, significantly increased by 47.6% (YoY), mainly contributed by the continual issuance of various types of funds corresponding to market demands, along with the improved capital market condition.

The composition of total asset under management was 62.9% provident fund, 17.4% private fund, and 19.7% mutual fund. Total market share of TISCO Asset Management Co., Ltd. as of December 31, 2017 was 3.5%, ranking 9th in the market. The market share of provident fund was 14.0%, ranking 3rd in the market. The market share of private fund was 5.0%, ranking 5th in the market. For mutual fund, the market share was 0.9%, ranking 14th in the market.

Risk Management

As of December 31, 2017, TISCO Group's internal capital stood at 33,454.81 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 1,693.08 million baht from the end of 2016 to 11,523.16 million baht, mainly resulting from an increase in credit risk capital. In addition, the capital surplus remained strong at 21,931.65 million baht or 65.6% of total capital.

Comparing to the end of year 2016, the credit risk capital stood at 8,937.88 million baht, which increased by 1,657.99 million baht or 22.8%, while loan portfolio expanded by 11.8% during the year mostly from SCBT retail business acquisition. The non-performing loan of TISCO Group decreased from 2.5% to 2.3% mainly owing to the improved credit profile, particularly in HP and SME businesses.

The market risk capital decreased from 204.62 million baht to 127.18 million baht, resulting from a decrease in risk capital of investment portfolio along with improved SET index. Meanwhile, the overall duration gap decreased to 0.69 year, which was in a manageable level. The assets duration declined from 1.48 year to 1.32 year, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, fell from 0.70 year to 0.63 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 December 2017, the regulatory capital adequacy ratio based on IRB approach (BIS ratio) of the bank stood at 20.72%, remaining higher than the 9.75% required by the Bank of Thailand. The Tier-I and Tier-II capital adequacy ratio stood at 15.98% and 4.74%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 7.25%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 58.24%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2016		2017		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	5,568.41	33.2	6,696.66	36.2	20.3
Interest on interbank and money market items	497.30	3.0	584.94	3.2	17.6
Hire purchase and financial lease income	9,749.53	58.2	8,993.74	48.6	(7.8)
Investments	196.31	1.2	194.16	1.0	(1.1)
Total interest income	16,011.54	95.5	16,469.50	89.0	2.9
Interest expenses	(5,091.11)	(30.4)	(4,814.71)	(26.0)	(5.4)
Net interest income	10,920.43	65.2	11,654.79	63.0	6.7
Fee income					
Fee income	5,396.85	32.2	6,395.61	34.6	18.5
Fee expenses	(230.08)	(1.4)	(250.02)	(1.4)	8.7
Net fee income	5,166.77	30.8	6,145.59	33.2	18.9
Gain on investment and foreign exchange transaction	3.13	0.0	(44.80)	(0.2)	(1,533.2)
Share of profit from invest in subsidiaries	131.21	0.8	130.42	0.7	(0.6)
Other operating income	838.77	5.0	1,391.53	7.5	65.9
Total operating income	17,060.31	101.8	19,277.52	104.2	13.0
Expenses to business promotion relating to the business	(302.92)	(1.8)	(774.53)	(4.2)	
Total net operating income	16,757.39	100.0	18,502.98	100.0	10.4
Other operating expenses	(6,541.03)		(7,761.10)		
Bad debt and doubtful account and impairment loss of debt securities	(3,972.37)		(3,098.27)		
Profit before income tax and minority interest	6,243.99		7,643.62		22.4
Corporate income tax expenses	(1,220.41)		(1,526.31)		
Profit before minority interest	5,023.58		6,117.31		21.8
Non-controlling interests of the subsidiaries	(17.69)		(27.30)		
Net profit	5,005.89		6,090.01		21.7

Table2: Interest Spread

%	2016	2017
Yield on Loans	6.7	6.9
Cost of fund	2.2	2.1
Loan spread	4.5	4.9

Table 3: Assets Breakdown

Assets	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	1,149.00	0.4	1,324.81	0.4	15.3
Interbank and Money Market Items	38,067.42	14.0	44,647.15	14.7	17.3
Derivative Asset	0.00	0.0	0.00	0.0	n.a.
Investment – Net	7,188.84	2.7	7,547.14	2.5	5.0
Investments in subsidiaries, associate and joint venture	442.75	0.2	573.93	0.2	29.6
Corporate Loans	46,509.94	17.1	50,607.52	16.7	8.8
Retail Loans	160,572.12	59.2	184,184.72	60.7	14.7
Commercial Loans	16,454.07	6.1	15,099.95	5.0	(8.2)
Other Loans	1,397.87	0.5	1,491.61	0.5	6.7
Allowance for doubtful accounts and for loss on debt restructuring	(7,983.64)	(2.9)	(11,456.11)	(3.8)	43.5
Other Assets	7,474.02	2.8	9,367.70	3.1	25.3
Total – The Company	271,272.40	100.0	303,388.41	100.0	11.8

Table 4: Loans and Receivables Breakdown¹

Type of Business	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	10,496.69	4.7	11,019.73	4.4	5.0
Real estate and construction	11,696.34	5.2	14,972.95	6.0	28.0
Public utilities and services	23,908.50	10.6	22,696.33	9.0	(5.1)
Agriculture and mining	408.41	0.2	1,918.50	0.8	369.7
Corporate Loans	46,509.94	20.7	50,607.52	20.1	8.8
Commercial Loans	16,454.07	7.3	15,099.95	6.0	(8.2)
Hire purchase	138,565.68	61.6	129,719.70	51.6	(6.4)
Mortgage Loan	978.81	0.4	20,757.33	8.3	2,020.7
Consumer Finance Loan*	21,027.63	9.3	26,824.54	10.7	27.6
Personal Loan**	-	-	3,930.96	1.6	n.a.
Credit Card	-	-	2,952.19	1.2	n.a.
Retail Loans	160,572.12	71.4	184,184.72	73.3	14.7
Others	1,397.87	0.6	1,491.61	0.6	6.7
Total – The Company	224,934.00	100.0	251,383.80	100.0	11.8

Remark: *Consumer Finance Loan is the loan secured by any types of collaterals, including car-pledged loans and home-equity loans

**Personal Loan consists of unsecured loan only.

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2016			December 31, 2017			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.78	187.21	3.3	2.06	227.38	3.9	21.5
Real estate and construction	0.70	81.57	1.4	0.51	76.05	1.3	(6.8)
Public utilities and services	0.52	123.39	2.2	0.66	149.10	2.6	20.8
Agriculture and mining	4.85	19.83	0.3	1.23	23.63	0.4	19.2
Total NPL - Corporate Loans	0.89	412.01	7.2	0.94	476.16	8.2	15.6
NPL-Commercial Loans	3.62	595.16	10.4	1.27	191.48	3.3	(67.8)
Hire purchase	2.95	4,090.68	71.6	2.56	3,325.24	57.0	(18.7)
Mortgage Loan	9.32	91.24	1.6	4.08	847.30	14.5	828.7
Consumer Finance Loan	1.91	402.07	7.0	3.18	852.68	14.6	112.1
Personal Loan	-	-	-	0.16	6.37	0.1	n.a.
Credit Card	-	-	-	0.61	18.07	0.3	n.a.
Total NPL - Retail Loans	2.85	4,583.99	80.3	2.74	5,049.67	86.6	10.2
Others	8.51	118.98	2.1	7.51	112.05	1.9	(5.8)
Total NPL – The Company	2.54	5,710.14	100.0	2.32	5,829.35	100.0	2.1

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits	161,034.44	67.1	188,280.76	70.1	16.9
Interbank and money market items	5,196.60	2.2	4,017.51	1.5	(22.7)
Debentures	64,362.00	26.8	63,601.70	23.7	(1.2)
Others	9,353.81	3.9	12,756.67	4.7	36.4
Total – The Company and Subsidiaries	239,946.86	100.0	268,656.64	100.0	12.0

¹ Classification under Bank of Thailand standard

Table 7: Deposits Structure

Type of Deposits	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,690.70	2.3	3,785.00	2.0	2.6
Saving accounts	51,928.03	32.2	64,544.34	34.3	24.3
Fixed accounts	14,839.89	9.2	19,860.34	10.5	33.8
Negotiate certificate deposit	84,608.90	52.5	92,614.16	49.2	9.5
Short-term borrowings	5,966.92	3.7	7,476.92	4.0	25.3
Total deposits	161,034.44	100.0	188,280.76	100.0	16.9

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2016		December 31, 2017		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	131,073.24	67.9	151,053.43	62.9	15.2
Private Fund	26,732.95	13.8	41,855.28	17.4	56.6
Mutual Fund	35,356.24	18.3	47,334.10	19.7	33.9
Total	193,162.42	100.0	240,242.80	100.0	24.4

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)	
	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017
Assets	1.48	1.32	1,075.50	1,423.78
Liabilities*	0.70	0.63	(1,065.21)	(1,154.74)
Net Gap	0.78	0.69	10.29	269.04

Note: * Exclude saving and current account