

Management Discussion and Analysis For the year ended December 31, 2011

(This report discusses principal changes in the unreviewed consolidated financial statement for the year ended December 31, 2011)

Movement of Money Market and Capital Market

For the year 2011, overall Thailand domestic economy demonstrated slight growth momentum following expansion in domestic consumption from various government's economic stimulus packages and increase in exports. Nevertheless, major Thai flood crisis during the fourth quarter of 2011 has caused widespread damages to Thai economy particularly in agricultural and industrial sectors. Although, the flooding impact was more severe than anticipated, Thai domestic economy is expected to be able to resume normal level of business in the first half of the year 2012.

The Bank of Thailand (BOT) adjusted the policy rate 7 times from 2.00% at the end of 2010 to 2.25% and 2.50% during the first quarter of 2011. Subsequently, in the second quarter of 2011, BOT increased the policy rate to 2.75% and 3.00% and then to 3.25% and 3.50% in the third quarter of 2011, driven by improving economic condition and continual rising inflationary pressure. Nonetheless, the rate was reduced to 3.25% in the final quarter of 2011 to support the recovery of domestic economy from the effects of flood crisis. Meanwhile, average 3-month fixed deposit rates of Top 4 commercial banks increased from 1.10% at the end of 2010 to 2.08 % at the end of 2011, while the average minimum lending rate of Top 4 commercial banks increased from 6.12% at the end of 2010 to 7.25% at the end of 2011.

In 2011, the capital market was at the same level in 2010 amid concerns over European debt crisis and contraction in overall global economy. The SET index decreased from the same period last year to close at 1,025.32 points, a decline by 7.44 points. The average daily turnover slightly improved from 28,668.97 million baht in 2010 to 28,854.34 million baht.

Operating Results

The Management Discussion and Analysis compares operating performance and financial position of the year 2011 with those of the year 2010

TISCO Financial Group Public Company Limited had net profit from operations on a stand alone basis totaling 1,757.44 million baht mainly contributed by service fee and dividend income from subsidiary companies within the group. As a holding company, TISCO Financial Group Public Company Limited operates as shareholder in other companies 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.

For the year 2011, TISCO Group had the net profit after minority interest at 3,266.65 million baht, increased by 378.41 million baht 13.1% (YoY) compared with previous year, contributed by an increase in total operating income of 457.41 million baht or 4.3% (YoY). Meanwhile, interest income increased by 31.2% (YoY) following strong expansion in all loan segments. However, loan spread declined from 4.8% in 2010 to 3.7% in 2011 mainly due to higher cost of funds from rising interest rate cycle. Non-interest income from core business reported at 4,300.86 million baht, increased by 545.23 million baht (14.5% YoY). The increase was mainly contributed by growth in banking fee of 36.4% (YoY) following the increase in loan and bancassurance businesses. Furthermore, the basic fee income from asset management business increased by 8.2% (YoY), which was mainly contributed by expansion of asset under management and the issuance of various funds that match with clients' needs. Nevertheless, the brokerage fee income declined by 4.0% (YoY) compared to 2010 following uncertainties in capital market sentiment.

In 2011, TISCO Group also made full impairment to net deferred tax asset in an amount of 127.36 million baht following new corporate tax rates to be effective in 2012, which has been realized into profit and loss statement. If excluding the effect from deferred tax asset write-down, the net profit for year 2011 would be around 3,390 million baht, representing 17.4% growth from the previous year.

Diluted earnings per share for the year 2011 was 4.49 compared with 3.97 in 2010. Meanwhile, the return on average equity (ROAE) in 2011 was at 21.0% compared with 21.1% in 2010.

Net Interest Income

Interest income in 2011 was 12,376.36 million baht, increased by 2,943.33 million baht (31.2% YoY) due to continual growth in loan portfolio. Meanwhile, net interest income was 6,915.95 million baht, which was at the same level in 2010. Interest expense increased by 2,888.77 million baht (112.3% YoY) to 5,460.41 million baht, following the upward interest rate environment.

Yield on loan improved from 6.7% in 2010 to 6.9% (YoY) amid upward interest rate cycle. Meanwhile, TISCO Group's cost of fund increased from 1.9% in 2010 to 3.1% driven by upward interest rate cycle and intensifying deposit competition. As a result, loan spread declined from 4.8% to 3.7% (YoY) in 2011.

Loan spread of TISCO Group has been continually decreasing from 4.5% in the fourth quarter of 2010 to 2.7% in last quarter of 2011 amid intensifying deposit competition, together with the deferred portion of interest income from flood affected clients during the fourth quarter of 2011. Nonetheless, TISCO Group anticipated that loan spread will continue to improve in the following quarters from stabilizing interest rate environment.

TISCO Group reported net interest income after impairment loss of loans and debt securities for the year 2011 of 5,624.87 million baht, increased by 710.41 million baht (14.5% YoY). Impairment loss of loans and debt securities was 1,291.07 million baht, compared to 1,946.93 million baht in 2010.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 4,300.86 million baht increased by 545.23 million baht (14.5% YoY) mainly from an increase in banking fee of 760.00 million baht (36.4% YoY) to 2,845.34 million baht following the growth of hire purchase loan and bancassurance businesses. Furthermore, the basic fee income from asset management business was at 644.13 million baht, increased by 8.2% (YoY). Meanwhile, brokerage income was at 678.18 million baht decreased 4.0% (YoY), amid uncertainties in capital market sentiment during the year.

In addition, total non-interest income was at 4,378.03 million baht, increased by 400.70 million baht (10.1% YoY) mainly from increase in revenue from loan and bancassurance businesses.

Non-interest Expenses

Non-interest expenses for the year 2011 were 4,934.56 million baht, increased by 416.38 million baht (9.2% YoY). The increase was due to higher variable expenses associated with higher business volume and revenue. Meanwhile, the cost to income ratio was 44.5% in 2011, comparing to 42.5% in 2010.

Corporate Income Tax

The corporate income tax in 2011 was 1,562.65 million baht, equivalent to the effective tax rate of 32.2%, compared to 30.2% (YoY) in 2010. For the year 2011, TISCO Group has made full impairment to net deferred tax asset in the amount of 127.36 million baht in respond to the decrease in corporate income tax rates to 23.0% and 20.0% in 2012 and 2013 respectively. Therefore, all deferred tax items of TISCO Group has been reduced accordingly to 20% tax rate.

Impacts from flood crisis

The severe flood crisis during the fourth quarter of 2011 was seriously devastated both people and economy. However, TISCO Group's operating asset was slightly impacted by the flood crisis whereby 10 bank branches were temporary halted during the crisis. These bank branches was reopened by the end of 2011 with minor maintenance expenses.

For the impact on loan business, the majority of affected customers are the customer of auto hire-purchase and loan against auto license businesses whereby their income were temporary impaired resulting in deterioration in repayment ability. Meanwhile, the customer's damaged assets due to the flood crisis (e.g. car, motorcycle) were relatively small, accounted for 5.0% – 10.0% of total affected customers. Furthermore, more than 50.0% of damaged assets were covered by insurance company. In addition, the customers who agreeing on debt moratorium were accounted for 2.0% – 3.0% compared to total loan portfolio.

To remedy for flood affected customers, TISCO Group has been carrying out various measures to help ease debt repayment burden of customers, for instance, 3-month principal and interest moratorium, waving or canceling of transaction fees, and other loan restructuring arrangement. The expected credit losses was approximately 300-500 million, accounted for in the general reserve of TISCO. In addition, TISCO Group has continued to closely monitor loan portfolio to maintain good level of loan quality.

Nonetheless, TISCO Group anticipated that most affected customers will resume normal repayment in the first quarter of 2012.

Financial Status

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of December 31, 2010 and December 31, 2011.

Assets

TISCO Group's total assets as of December 31, 2011 were 220,709.08 million baht increased by 49,301.53 million baht (28.8% YoY) mainly contributed by 23.6% (YoY) increase in loan portfolio from 149,732.23 million baht to 185,013.62 million baht from strong expansion in all loan segments.

Liabilities

Total liabilities as of December 31, 2011 were increased by 47,869.41 million baht (30.6% YoY) from 156,550.32 million baht to 204,419.73 million baht primarily contributed by an increase in short-term bill of exchanges amounted to 57,257.26 million baht (76.0% YoY) to support expansion in loan business. The liabilities mix comprised of 84.0% total deposit including bill of exchange, 7.1% interbank and money market items, 5.7% long-term borrowings, and 3.2% other liabilities.

Shareholders' Equity

Shareholder's equity as of December 31, 2011 was 16,289.35 million baht, increased by 1,432.13 million baht (9.6% YoY) following continual increase in profit. The book value per share (BVPS) as of December 31, 2011 was 22.38 baht per share, increased from 20.41 baht per share in 2010. As of December 31, 2011, the Company had paid-up shares amounting to 727.91 million shares, comprising of 727.88 million common shares and 0.04 million preference shares.

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables at the end of December 31, 2011 were 185,013.62 million baht, up by 35,281.39 million baht (23.6% YoY) from the end of 2010, following growth in all loan. The composition of loan portfolio was 72.3% of retail loans, 17.5% of corporate loans, 7.4% of SME loans and 2.8% of other loans.

Retail lending portfolio totaled 133,822.50 million baht, consisted of 93.3% car, motorcycle, and other hire purchase loans, 5.7% consumer loan and 1.0% mortgage loans. The outstanding hire purchase loans totaled 124,915.88 million baht, up by 18,868.64 million baht (17.8% YoY) from the same period of previous year mainly due to the success of hire purchase business expansion into captive brands of Ford, Mazda, and Chevrolet. Car hire purchase new business volume amounted 62,888.66 million baht, increased by 5,787.23 million baht (10.1% YoY) from 2010, while the domestic car sales in the first 11-month of 2011 reported at 739,506 units increased by 10.1% (YoY) from the same period last year at 707,235 units. The car penetration rate for the first 11-month of 2011 was reported at 11.1 %, which was at the same level of average penetration rate of 11.2% in 2010. In addition, consumer loan stood at 7,539.93 million baht, increased by 2,171.51 million baht (40.4% YoY) compared to 2010 which was mainly contributed by increase in loan against auto license (TISCO Auto Cash) business.

Corporate lending portfolio totaled 32,348.73 million baht, increased by 9,917.15 million baht (44.2% YoY) from the end of year 2010 due to strong increase in manufacturing and commerce sectors and real estate and construction sectors.

SME lending portfolio totaled 13,628.40 million baht, up by 4,202.99 million baht (44.6% YoY) from 2010, mainly due to an increase in loan to car dealer.

Other loan portfolio totaled 5,214.00 million baht, increased by 178.14 million baht (3.5% YoY) from 5,035.86 million baht at the end of previous year.

Deposit

Total deposit¹ totaled 171,625.69 million baht, increased by 47,776.65 million baht (38.6% YoY) from 2010. The increase was higher than those of assets to accommodate for expansion in customer and deposit bases and to increase liquidity of TISCO Group. At the end of year 2011, TISCO Group had excess liquidity amounting to approximately 14,372 million baht, combining with the BOT required liquidity of 11,090 million baht (including Bill of exchange) to arrive at total liquidity of 13.8% which was well over the required liquidity by BOT of 6.0%. Meanwhile, the portion of saving accounts and current accounts of total deposits was at 11.9% in 2011. In addition, the portion of retail deposit with deposit amount less than 20 million baht to total funding in terms of clients was at 23.4% at the end of the year 2011.

Non-Performing Loans (NPLs) and Loan Loss Provision

In 2011, NPL ratio was at 1.4% declined from 1.8% (YoY) resulting from effective risk management tools and stringent practice of loan collection, debt restructuring and write-off process. Additionally, NPL ratio of retail loan was at 1.5%, NPL ratio of corporate loan was at 1.2% and NPL of SME loans was at 0.8%. The total NPLs was 2,611.73 million baht which decreased by 1.6% YoY or 42.35 million baht during

the year. (NPLs of the Bank was 2,215.13 million baht and there was NPLs of 396.60 million baht from other subsidiaries).

TISCO Group has applied Collective Approach for loan loss provisioning to the car hire-purchase portfolio following the Basel II framework. The loan loss reserve was derived from the best estimate of expected credit losses from the portfolio over the next 12 months, based on historical loss data incorporating with adjustment for the recent market situation and economic cycle.

TISCO Group set up provision for impairment loss of loans and debt securities totaling 1,291.07 million baht, compared to 1,946.93 million baht in 2010 from increase in assets quality which was considered as normal level to accommodate for the expansion in loan business. However in 2011, TISCO Group has utilized portion of general reserve to compensate for the effects of flooding and potential losses in the future. Meanwhile, as of December 31, 2011, loan loss reserve of TISCO Group was 4,428.35 million baht or 169.6% of NPLs. Total loan loss reserve of the Bank was 4,346.46 million baht which was well above the minimum required amount from BOT of 2,039.18 million baht, reflecting the prudent provisioning policy to mitigate potential risks. In addition, specific reserve for classified loan stood at 2,062.60 million baht, increased by 554.01 million baht following increase in loan portfolio and effects of domestic flooding, while general reserve was at 2,054.36 million baht.

(2) Securities Business

For the year 2011, the SET index slightly decreased from previous year due to the investors concern over uncertainty of European and US. economies. Average daily turnover of TISCO Securities Co., Ltd. was 1,361.82 million baht decreased by 4.4% (YoY) compared to same period last year. Furthermore, TISCO Securities' average market share was declined from 2.38% in 2010 to 2.25% (YoY) in 2011, mainly due to the decrease in market share of local and foreign institutional. Brokerage fee was 678.18 million baht, declined by 4.0% (YoY) from 706.28 million baht in same period of 2010. Meanwhile, brokerage volume in 2011 comprised of 27.5% of local institutions, 23.0% of foreign institutions, and 49.5% of retail customers. In addition, fee income from investment banking business during 2011 was 34.40 million baht, comparing to 144.30 million baht in same period of 2010 due mainly to investment banking business recorded fee from advisory service to the Financial Institution Developments Fund (FIDF) for the sales of stake in Siam City Bank Plc.

(3) Asset Management Business

As of November 30, 2011, asset management industry slightly increased from December 31, 2010 by 27,338.93 million baht (1.0% YoY). TISCO's assets under management as of December 31, 2011 were 135,880.35 million baht, decreased by 1,134.60 million baht (0.8% YoY). Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2011 was 4.9%, ranking 6th in the market. The market share of provident fund was 13.8%, ranking 3rd while the market share of private fund was 11.7%, ranking 2nd in the market. For mutual fund, the market share was 0.8%, ranking 15th in the market.

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

For the year 2011, basic fee income from asset management totaled 644.13 million baht, increased by 48.72 million baht (8.2% YoY). Meanwhile, total fee income decreased by 5.5% (YoY) due to the decrease in incentive and performance fee amid declining capital market. The composition of total asset under management was 62.5 % of provident fund, 27.1 % of private fund, and 10.4% of mutual fund.

Risk Management

As of December 31, 2011, TISCO Group's internal capital stood at 13,700.40 million baht comprising of Tier-I and available reserve adjustment. The integrated risk capital increased by 3,384.43 million baht from the end of 2010 to 11,126.10 million baht resulting from continuous business expansion and the impact of flooding situation in the last quarter of 2011. In addition, the capital surplus remained strong at 2,574.29 million baht or 18.8%.

Comparing to the end of 2010, the credit risk capital rose by 2,975.67 million baht to 8,173.84 million baht following the expansion of overall portfolio as well as the flooding crisis during fourth the quarter. The non-performing loan to total loans increased from 1.4% to 1.5%. Meanwhile, the market risk capital increase by 177.11 million baht from 1,419.21 million baht to 1,596.32 million baht, resulting from an increase in listed equity risk capital and the value of foreclosed assets.

The overall interest rate risk in banking book increased following the portfolio expansion. As the assets duration decreased from 1.57 years to 1.53 years resulting from increasing in corporate lending in which the duration is shorter than that of the hire purchase loan, while the liabilities duration excluding saving and current accounts which are less sensitive to the interest rate movement declines from 0.86 year to 0.65 year. Therefore, the decline in the sensitivity of interest rate to the duration gap of assets and liabilities was still at manageable level in the range of 11 months.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of 2011, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 14.5% remaining higher than the 8.50% required by the Bank of Thailand. While projected Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 9.5% and 5.0%, respectively, Tier-I capital adequacy ratio also remained higher than the minimum requirement at 4.25%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 138.4%, higher than the minimum required ratio by the Security and Exchange Commission of Thailand of 7.00%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2010		2011	
	Amount (Bt. million)	%	Amount (Bt. Million)	%
Interest income				
Interest on loans	1,632.44	15.4	3,221.33	29.1
market items	199.48	1.9	627.80	5.7
income	7,163.02	67.4	8,302.26	74.9
Investments	438.09	4.1	224.97	2.0
Total interest income	9,433.03	88.8	12,376.36	111.7
Interest expenses	(2,571.64)	(24.2)	(5,460.41)	(49.3)
Net interest income	6,861.39	64.6	6,915.95	62.4
Fee Income				
Fee Income	2,923.10		3,066.99	27.7
Fee Expenses	(214.97)		(212.82)	(1.9)
Net Fee Income	2,708.14		2,854.17	25.8
exchange				
transaction	221.69		77.17	0.7
Other Income	832.53		1,233.87	11.1
Net Operating Income	10,623.75		11,081.16	100.0
Non-interest expenses	(4,518.18)		(4,934.56)	
Impairment loss of loans and debt securities	(1,946.93)		(1,291.07)	
Bad debt written back revenue	-		-	
Profit before income tax and minority interest	4,158.63		4,855.53	
Corporate income tax	(1,256.16)		(1,562.65)	
Profit before minority interest	2,902.47		3,292.88	
Minority interest in net earnings in subsidiary company	(14.23)		(26.23)	
Net Profit	2,888.25		3,266.65	

Table 2: Interest Spread

%	2010	2011
Yield on Loans	6.7	6.9
Cost of fund	1.9	3.1
Loan spread	4.8	3.7

Table 3: Assets Breakdown

Assets	December 31, 2010		December 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	903.31	0.5	903.45	0.4	0.0
Interbank and Money Market Items	12,545.40	7.3	30,722.35	13.9	144.9
Derivative Asset	12.80	0.0	24.39	0.0	0.0
Fixed income	2,800.06	1.6	1,695.69	0.8	(39.4)
Equity	3,680.94	2.1	2,010.57	0.9	(45.4)
Corporate Loans	22,431.58	13.1	32,348.73	14.7	44.2
Retail Loans	112,837.95	65.83	133,822.50	78.07	18.60
SME Loans	9,425.41	5.5	13,628.40	6.2	44.6
Other Loans	5,037.29	2.9	5,214.00	2.4	3.5
Allowance for doubtful accounts and for loss on debt restructuring	(4,162.02)	(2.4)	(4,428.35)	(2.0)	6.4
Other Assets	5,894.83	3.4	4,767.37	2.2	(19.1)
Total – The Company and Subsidiaries	171,407.55	100.0	220,709.08	100.0	28.8

Table 4: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2010		December 31, 2011		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	123,849.04	79.1	171,625.69	84.0	38.6
Interbank and money market items	10,842.76	6.9	14,478.65	7.1	33.5
Long-term borrowings	15,460.40	9.9	11,749.90	5.7	(24.0)
Others	6,398.11	4.1	6,565.48	3.2	2.6
Subsidiaries	156,550.32	100.0	204,419.73	100.0	30.6

Table 5: Loans and Receivables Breakdown

Type of Business	December 31, 2010		December 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	10,996.33	7.3	16,368.35	8.8	48.9
Real estate and construction	6,374.43	4.3	8,789.92	4.8	37.9
Public utilities and services	4,905.58	3.3	6,862.20	3.7	39.9
Agriculture and mining	155.24	0.1	328.26	0.2	111.5
Commercial Lending	22,431.58	15.0	32,348.73	17.5	44.2
SME Loans	9,425.41	6.3	13,628.40	7.4	44.6
Hire purchase	106,047.24	70.8	124,915.88	67.5	17.8
Housing	1,422.29	0.9	1,366.69	0.7	(3.9)
Consumer	5,369.86	3.59	7,539.93	4.08	40.41
Retail Loans	112,839.38	75.4	133,822.50	72.3	18.6
Others	5,035.86	3.4	5,214.00	2.8	3.5
Total – The Company and Subsidiaries	149,732.23	100.0	185,013.62	100.0	23.6

Table 6: Deposits Structure

Type of Deposits	December 31, 2010		December 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	4,859.99	3.9	3,423.09	2.0	(29.6)
Saving accounts	25,671.55	20.7	17,082.94	10.0	(33.5)
Fixed accounts	1,169.53	0.9	2,049.15	1.2	75.2
Negotiate certificate deposit	16,832.16	13.6	15,423.82	9.0	(8.4)
Short-term borrowings	75,313.44	60.8	133,646.70	77.9	77.5
Total deposits	123,849.04	100.0	171,625.69	100.0	38.6

Table 7: NPL Breakdown by Area

Type of Business	December 31, 2010			December 31, 2011			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.9	99.65	3.8	0.4	71.50	2.7	(28.3)
Real estate and construction	5.5	352.90	13.3	3.3	288.63	11.1	(18.2)
Public utilities and services	1.6	76.76	2.9	0.5	30.99	1.2	(59.6)
Agriculture and mining	4.0	6.24	0.2	0.7	2.34	0.1	(62.5)
Total NPL - Commercial Loans	2.4	535.55	20.2	1.2	393.46	15.1	(26.5)
NPL-SME Loans	0.8	76.64	2.9	0.8	114.13	4.4	48.9
Hire purchase	1.4	1,496.09	56.4	1.5	1,886.41	72.2	26.1
Housing	8.7	123.98	4.7	7.6	103.87	4.0	(16.2)
Total NPL - Retail Loans	1.4	1,620.07	61.0	1.5	1,990.28	76.2	22.9
Others	6.7	421.82	15.9	1.7	113.87	4.4	(73.0)
Subsidiaries	1.8	2,654.08	100.0	1.4	2,611.73	100.0	(1.6)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2010		December 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	77,265.69	56.4	84,958.81	62.5	10.0
Private Fund	42,027.46	30.7	36,814.50	27.1	(12.4)
Mutual Fund	17,721.80	12.9	14,107.04	10.4	(20.4)
Total	137,014.95	100.0	135,880.35	100.0	(0.8)

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	
	June 30, 2011	September 30, 2011	June 30, 2011	September 30, 2011
Assets	1.57	1.53	531.41	800.90
Liabilities*	0.86	0.65	(761.94)	(1,136.04)
Net Gap	0.71	0.88	(230.53)	(335.14)

Note : * Exclude saving and current account