

Management Discussion and Analysis For the First Quarter ended March 31, 2011

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2011)

Movement of Money Market and Capital Market

During the first quarter of 2011, the Bank of Thailand (BOT) raised the policy rate 2 times from 2.00% at the end of 2010 to 2.25% and 2.50% driven by rising inflationary pressure since the third quarter of 2011. Meanwhile, average 3-month fixed deposit rates of Top 5 commercial banks increased from 1.13% at the end of 2010 to 1.45 % at the end of this quarter, while the average minimum lending rate of Top 5 commercial banks increased from 6.20% at the end of 2010 to 6.70% at the end of this quarter.

In the first quarter of 2011, the domestic economy had continually improved since last year due to higher investor's confidence, domestic consumption together with easing political climate and expected general election during the mid year. In capital market, the trading activity fluctuated following the global equity markets which were affected by the political turmoil in middle east countries and disaster in Japan. However, the SET index significantly improved from the first quarter of 2010 ending at 1,047.48 points, increased by 259.50 points (YoY). The average daily turnover significantly increased from 19,323.24 million baht in first quarter of 2010 to 30,808.22 million baht in this quarter.

Operating Results

The Management Discussion and Analysis compares operating performance for the first quarter of 2011 and first quarter of 2010

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 80.57 million baht. 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.

During the first quarter of 2011, TISCO Group had the net profit after minority interest at 828.60 million baht, increased by 116.32 million baht (16.3% YoY) contributed by an increase in net interest income of 12.0% (YoY) following strong expansion in loan portfolio of 40.8% (YoY) however, loan spread declined to 4.3% compared to 5.1% in the first quarter of 2010. Non-interest income reported at 1,008.95 million baht, increased by 187.93 million baht (22.9% YoY) contributed by growth in banking fee of 8.7% (YoY) following strong growth in loan businesses, together with the growth in asset management fee of 10.0% (YoY), which was mainly contributed by expansion of asset under management. In addition, the brokerage income increased by 53.4% (YoY) following an improvement in capital market condition.

Diluted earnings per share for the first three-month-period of 2011 were 1.14 baht, significantly increased from 0.98 baht (YoY). Return on average equity (ROAE) was 21.8% compared with 22.1% (YoY).

Net Interest Income

Net interest income in this quarter was 1,831.49 million baht, increased by 196.30 million baht (12.0% YoY), while interest income was 2,712.43 million baht, increased by 505.31 million baht (22.9% YoY), following an expansion in loan portfolio. Meanwhile, interest expense increased by 309.01 million baht (54.1% YoY) to 880.68 million baht, following the upward interest rate environment.

TISCO Group's loan business was significantly expanded in this quarter. However, yield on loan declined from 7.0% to 6.5% (YoY) due to intense price competition, especially hire purchase business. Meanwhile, TISCO Group's cost of fund increased from 1.9% to 2.2% driven by upward interest rate environment. As a result, loan spread declined from 5.1% to 4.3% (YoY). Upon the effective of new financial statement presentation in fiscal years beginning on January 1, 2011 onwards, loan spread was reported lower compared to the former version of financial statement presentation due to the inclusion of the Deposit Protection Agency expense in interest expenses. Based on the former version of financial statement presentation, loan spread in the first quarter of 2010 and 2011 was at 5.3% and 4.4%, respectively (Details are shown in Table 2: Interest Spread)

TISCO Group reported net interest income after impairment loss of loans and debt securities for the first quarter of 2011 of 1,479.94 million baht, increased by 159.86 million baht (12.1% YoY). Impairment loss of loans and debt securities was 351.56 million baht, which was considered as normal level in supporting future loan growth, compared to 315.13 million baht (YoY). Despite, the set up of provision at normal level, the general reserve was increased by 113.51 million baht due to improvement in asset quality. In addition, impairment loss of loans and debt securities consisted of bad debt and doubtful account totaling 347.52 million baht and impairment on investment in receivable totaling 4.04 million baht.

In the first quarter of 2011, TISCO had front-end fee from corporate loan business totaling 119.93 million baht. Based on accounting standard, this front-end fee will gradually be realized as interest income in line with loan repayment schedule within the period of approximately 2 - 5 years.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,008.95 million baht, increased by 187.93 million baht (22.9% YoY), following an increase in banking fee of 44.13 million baht (8.7% YoY), to 549.05 million baht as contributed by strong loan growth. The fee income from asset management business increased by 16.12 million baht (10.0% YoY), mainly contributed by expansion in the asset under management. Furthermore, brokerage income increased by 69.50 million baht (53.4% YoY) following the improvement in capital market. In addition, TISCO Group recorded loss on trading and foreign exchange transaction totaling 25.49 million baht resulting from the fair value adjustment of Interest Rate Swap Agreement and Cross Currency Swap Agreement of loan business, according to the accounting

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standard. Meanwhile, fee and service expenses was 56.54 million baht, declined from 64.49 million baht (12.3% YoY).

Non-interest Expenses

Non-interest expenses for this quarter were 1,233.74 million baht, increased by 131.43 million baht (11.9% YoY). The increase was due to higher personal expenses and variable expenses associated with higher business volume and revenue. In this quarter, the cost to income ratio was declined to 44.5%, comparing to 45.7% in the first quarter of 2009.

Corporate Income Tax

In the first quarter of 2011, the corporate income tax was 352.87 million baht, equivalent to the effective tax rate of 29.7%, compared to 28.1% (YoY).

Financial Status

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

Assets

TISCO Group's total assets as of March 31, 2011 were 195,657.26 million baht increased by 24,249.71 million baht (14.1% QoQ) following loan growth from 149,730.80 million baht to 165,896.95 million baht (10.8% QoQ) while the interbank and money market items increased by 8,515.35 million baht (67.7% QoQ)

Liabilities

Total liabilities as of March 31, 2011 were 180,126.57 million baht, increased by 15.1% (QoQ) from 156,550.32 million baht mainly contributed by an increase in bill of exchanges amounted to 29,932.19 million baht for supporting loan business expansion. The liabilities mix comprised of 82.9% total deposit including bill of exchange, 4.4% interbank and money market items, 8.6% long-term borrowings, and 4.1% other liabilities.

Shareholders' Equity

Shareholder's equity as of March 31, 2011 were 15,530.69 million baht, increased by 673.47 million baht (4.5% QoQ) arising from an increase in retained earnings in the first quarter of 2011. As a result, book value per share (BVPS) as of March 31, 2011 was 21.33 baht per share, increased from 20.41 baht per share (QoQ). In the first quarter of 2011, the Bank had paid-up shares amounting 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 were 165,896.95 million baht, up by 16,166.15 million baht (10.8% QoQ), following growth in all businesses, especially corporate and SME loans. The composition of loan portfolio was 69.6% of retail loans, 16.6% of corporate loans, 7.0% of SME loans and 6.7% of other loans.

Retail lending portfolio totaled 115,511.82 million baht, consisted of 98.8% car, motorcycle, and other hire purchase and 1.2% mortgage loans. The outstanding hire purchase loans totaled 114,145.43 million baht, rose by 8,098.20 million baht (7.6% QoQ). Car hire purchase new business volume amounted 19,017.54 million baht, increased by 5,633.82 million baht (42.1% YoY), while the domestic car sales in the first 2 months of 2010 reported at 145,611 units increased from 103,735 units (40.4% YoY). The car penetration rate for the first 2-month was reported at 12.2%, which was at high level comparing with average penetration rate of 11.2% in 2010.

Corporate lending portfolio totaled 27,602.87 million baht, significantly increased by 5,171.29 million baht (23.1% QoQ) due to the success of granting loan to Sahaviriya Steel Industries Plc. and its subsidiary amounting to 4,000 million baht.

SME lending portfolio totaled 11,597.63 million baht, up by 2,172.22 million baht (23.0% QoQ), mainly due to an increase in loan to construction material and logistics business.

Other loan portfolio totaled 11,184.63 million baht, increased by 780.34 million baht (7.5% QoQ), mainly due to an increase in TISCO Auto Cash loan by 549.58 million baht (10.2% YoY) from 5,368.42 million baht to 5,918.01 million baht.

Deposit

Total deposit¹ totaled 149,324.99 million baht, increased by 25,475.95 million baht (20.6% QoQ) mainly from an increase in bill of exchanges. In addition, the portion of saving accounts and current accounts to total deposits declined from 24.6% to 18.9% (YoY) due to some of deposit clients shifted their deposits from saving account to bill of exchanges within TISCO Group following higher bill of exchanges rate adjustment compared to increase in saving rate.

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

Non-Performing Loans (NPLs) and Loan Loss Provision

TISCO Group has prudently managed non-performing loans (NPLs) with effective risk management tools and stringent practice of loan collection, debt restructuring and write-off process. NPL ratio was reported at 1.5% as of March 31, 2011, decreased from 1.8% as of December 31, 2010. Additionally, NPL ratio of retail loan, corporate loan, and SME loan were 1.3%, 2.0% and 0.7%, respectively with total NPLs of 2,579.13 million baht which decreased by 2.8% (QoQ) or 74.95 million baht during the period. (NPLs of the Bank was 2,303.01 million baht and 276.12 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 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 351.56 million baht, compared to 315.13 million baht (YoY) which was considered as normal level. However, the general reserve increased by 113.51 million baht due to an improvement in asset quality. As of March 31, 2011, loan loss reserve of TISCO Group was 4,387.95 million baht or 170.1% of NPLs. Total loan loss reserve of the Bank was 4,103.99 million baht with specific reserve for classified loan of 1,639.65 million baht and general reserve of 2,464.34 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,485.07 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

At the end of the first quarter of 2011, the SET index continual increased following the recovery in domestic economy. Average daily turnover of TISCO Securities Co., Ltd. was 1,517.24 million baht increased by 56.7% (YoY), compared to 968.11 million baht in the first quarter of 2010. Furthermore, TISCO Securities' average market share was decreased from 2.47% to 2.22% (YoY), mainly due to the decrease in market share of local institutional from 9.78% to 8.37%. Brokerage fee was 199.73 million baht, up by 53.4% (YoY) from 130.23 million baht in same period of 2010. Meanwhile, TISCO brokerage volume in 2010 comprised of 33.0% of local institutions, 25.7% of foreign institutions, and 41.3% of retail customers. In addition, fee income from investment banking business in the first quarter of 2011 was 11.54 million baht, comparing to 6.76 million baht (YoY).

(3) Asset Management Business

As of February 28, 2011, asset management industry slightly declined from December 31, 2010 by 49,996.79 million baht (1.8% QoQ). TISCO's assets under management as of March 31, 2011 were 140,858.99 million baht, increased by 3,844.04 million baht (2.8% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2011 was 5.2%, ranking 7th in the market. The market share of

provident fund and private fund was 13.5% and 16.1%, both ranking 2nd in the market respectively. For mutual fund, the market share was 0.9%, ranking 15th in the market.

In first quarter of 2011, basic fee income from asset management totaled 168.91 million baht, increased by 37.02 million baht (28.1% YoY) following an increase in asset under management and variety of funds launched that met market demands. As a result, total fee income from asset management as of March 31, 2011 increased by 16.12 million baht to 177.32 million baht (10.0% QoQ). The composition of total asset under management was 55.7% of provident fund, 32.0% of private fund, and 12.3% of mutual fund.

Risk Management

At the end of the first quarter of 2011, the integrated risk based on internal capital adequacy assessment framework increased by 517.67 million baht or 6.7% from the end of 2010 to 8,259.34 million baht owing to increasing credit risk from portfolio expansion especially corporate loan portfolio. However, the capital surplus remained strong at 4,541.70 million baht or 35.5% compared with total internal capital of 12,801.04 million baht comprising of Tier-I capital and available reserve adjustment.

During the past quarter, the credit risk capital rose by 468.40 million baht to 5,666.57 million baht following the expansion of overall portfolio during the quarter with a decrease of non-performing loan to total loans from 1.8% to 1.5% at the end of first quarter. The retail lending business and the wholesale lending - SME lending businesses expanded by 7.4% from 123,823.77 million baht to 132,951.95 million baht and 28.2% from 25,260.97 million baht to 32,374.58 million baht respectively. Meanwhile, the market risk capital rose by 49.27 million baht from 1,419.21 million baht to 1468.47 million baht, resulting from an increase in interest rate in banking book together with an increase in risk of listed equity portfolio.

Meanwhile, the overall interest rate risk in banking book increased following the portfolio expansion. As the assets duration declined from 1.57 years to 1.50 years, the liabilities duration excluding saving and current accounts which are less sensitive to the interest rate movement decreased from 0.86 year to 0.67 year resulting from increasing in short-term bill of exchange with 1 month maturity. Therefore, the duration gap of assets and liabilities increased from 0.71 year to 0.84 year which was still manageable level in the range of 10 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 first quarter, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 15.21% remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 11.15% and 6.50%, 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 57.99%, higher than the minimum required ratio by the SEC of 7.0%.

Supplemental explanation on changing significant accounting standard and financial statement presentation standard

Federation of Accounting Professions issued a new accounting standard and financial statement presentation standard which complied with international accounting standard and international financial statement presentation. The new standards become effective in fiscal years beginning on or after January 1, 2011, applying for financial statements of commercial banks and holding companies which are the parent company of financial group. The changes will affect the presentation and disclosure of financial statement whereby the comprehensive income statement in the first quarter of 2011 comprising of Net profit (loss) and Other comprehensive incomes.

The key changes of accounting classification items in comprehensive income statement which affected to financial statement presentation are summarized as follows;

1. Net interest income presents interest incomes net of interest expenses. The interest expenses includes contribution to the Deposit Protection Agency. In addition, net interest income exclude dividend income which is reclassified to include in other operating income.
2. Net fee and service income presents fee and service income net of fee and service expense
3. Impairment loss of loans and debt securities is exclusively presented in comprehensive income statement after total operating expense item.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q10		1Q11		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest income					
Interest on loans	317.84	13.2	592.55	21.4	86.4
Interest on interbank and money market items	45.31	1.9	97.72	3.5	115.7
Hire purchase and financial lease income	1,706.48	70.7	1,952.91	70.5	14.4
Investments	137.24	5.7	68.99	2.5	(49.7)
Total interest income	2,206.87	91.4	2,712.17	97.9	22.9
Interest expenses	(571.67)	(23.7)	(880.68)	(31.8)	54.1
Net interest income	1,635.20	67.7	1,831.49	66.1	12.0
Fee Income					
Fee Income	624.49	25.9	793.27	28.6	27.0
Fee Expenses	(64.49)	(2.7)	(56.54)	(2.0)	(12.3)
Net Fee Income	560.00	23.2	736.73	26.6	31.6
Gain on investment and foreign exchange transaction	22.59	0.9	(12.26)	(0.4)	(154.3)
Other Income	196.53	8.1	215.68	7.8	9.7
Net Operating Income	2,414.32	100.0	2,771.65	100.0	14.8
Non-interest expenses	(1,102.31)		(1,233.74)		
Impairment loss of loans and debt securities	(315.13)		(351.56)		
Bad debt written back revenue	-		-		
Profit before income tax and minority interest	996.89		1,186.36		
Corporate income tax	(280.61)		(352.87)		
Profit before minority interest	716.28		833.49		
Minority interest in net earnings in subsidiary company	(4.00)		(4.89)		
Net Profit	712.28		828.60		

Table 2: Interest Spread

%	2010	1Q10	1Q11
Yield on Loans	6.7	7.0	6.5
Cost of fund	1.9	1.9	2.2
Loan spread	4.8	5.1	4.3

Interest Spread (Former version of financial statement presentation)

%	2010	1Q10	1Q11
Yield on Loans	6.7	7.0	6.5
Cost of fund	1.7	1.7	2.1
Loan spread	5.0	5.3	4.4

Table 3: Assets Breakdown

Assets	December 31, 2010		March 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	903.31	0.5	757.14	0.4	(16.2)
Interbank and Money Market Items	12,545.40	7.3	21,044.75	10.8	67.7
Derivative Asset	12.80	0.0	0.00	0.0	0.0
Fixed income	2,800.06	1.6	2,773.37	1.4	(1.0)
Equity	3,680.94	2.1	3,464.23	1.8	(5.9)
Corporate Loans	22,431.58	13.1	27,602.87	14.1	23.1
SME Loans	9,425.41	5.5	11,597.63	6.8	23.05
Retail Loans	107,469.52	62.7	115,511.82	59.0	7.5
Other Loans	10,404.29	6.1	11,184.63	5.7	7.5
Allowance for doubtful accounts and for loss on debt restructuring	(4,162.02)	(2.4)	(4,387.95)	(2.2)	5.4
Other Assets	5,896.26	3.4	6,108.78	3.1	3.6
Total – The Company and Subsidiaries	171,407.54	100.0	195,657.26	100.0	14.1

Table 4: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2010		March 31, 2011		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	123,849.04	79.1	149,324.99	82.9	20.6
Interbank and money market items	10,842.76	6.9	7,901.09	4.4	(27.1)
Long-term borrowings	15,460.40	9.9	15,505.97	8.6	0.3
Others	6,398.11	4.1	7,394.51	4.1	15.6
Total – The Company and Subsidiaries	156,550.32	100.0	180,126.57	100.0	15.1

Table 5: Loans and Receivables Breakdown

Type of Business	December 31, 2010		March 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	10,996.33	7.3	14,646.12	8.8	33.2
Real estate and construction	6,374.43	4.3	7,664.58	4.6	20.2
Public utilities and services	4,905.58	3.3	5,118.65	3.1	4.3
Agriculture and mining	155.24	0.1	173.52	0.1	11.8
Commercial Lending	22,431.58	15.0	27,602.87	16.6	23.1
SME Loans	9,425.41	6.3	11,597.63	7.0	23.0
Hire purchase	106,047.24	70.8	114,145.43	68.8	7.6
Housing	1,422.29	0.9	1,366.38	0.8	(3.9)
Retail Loans	107,469.52	71.8	115,511.82	69.6	7.5
Others	10,404.29	6.9	11,184.63	6.7	7.5
Total – The Company and Subsidiaries	149,730.80	100.0	165,896.95	100.0	10.8

Table 6: Deposits Structure

Type of Deposits	December 31, 2010		March 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	4,859.99	3.9	5,438.23	3.6	11.9
Saving accounts	25,671.55	20.7	22,797.89	15.3	(11.2)
Fixed accounts	1,169.53	0.9	1,030.20	0.7	(11.9)
Negotiate certificate deposit	16,832.16	13.6	14,813.03	9.9	(12.0)
Promissory notes	2.38	0.0	-	0.0	0.0
Short-term borrowings	75,313.44	60.8	105,245.64	70.5	39.7
Total deposits	123,849.04	100.0	149,324.99	100.0	20.6

Table 7: NPL Breakdown by Area

Type of Business	December 31, 2010			March 31, 2011			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.9	99.65	3.8	0.7	109.32	4.2	9.7
Real estate and construction	5.5	352.90	13.3	4.6	348.99	13.5	(1.1)
Public utilities and services	1.6	76.76	2.9	1.5	76.82	3.0	0.1
Agriculture and mining	4.0	6.24	0.2	2.3	4.06	0.2	(35.0)
Total NPL - Commercial Loans	2.4	535.55	20.2	2.0	539.18	20.9	0.7
NPL-SME Loans	0.8	76.64	2.9	0.7	79.75	3.1	4.1
Hire purchase	1.4	1,496.09	56.4	1.2	1,409.28	54.6	(5.8)
Housing	8.7	123.98	4.7	8.2	111.41	4.3	(10.1)
Total NPL - Retail Loans	1.5	1,620.07	61.0	1.3	1,520.69	59.0	(6.1)
Others	3.6	421.82	15.9	3.5	439.50	17.0	4.2
Total NPL – The Company and Subsidiaries	1.8	2,654.08	100.0	1.5	2,579.13	100.0	(2.8)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2010		March 31, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	77,265.69	56.4	78,426.19	55.7	1.5
Private Fund	42,027.46	30.7	45,124.39	32.0	7.4
Mutual Fund	17,721.80	12.9	17,308.41	12.3	(2.3)
Total	137,014.95	100.0	140,858.99	100.0	2.8

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 rate increase	
	December 31, 2010	March 31, 2011	December 31, 2010	March 31, 2011
	Assets	1.57	1.50	531.41
Liabilities*	0.86	0.67	(761.94)	(1,093.56)
Net Gap	0.71	0.84	(230.53)	(398.99)

Note : * Exclude saving and current account