

Management Discussion and Analysis For the First Quarter ended March 31, 2012

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2012)

Movement of Money Market and Capital Market

During the first quarter of 2012, the Bank of Thailand (BOT) cut the policy rate from 3.25% at the end of 2011 to 3.00% in order to support the domestic economic recovery from the flood crisis. Meanwhile, average 3-month fixed deposit rates of Top 4 commercial banks increased from 2.08% at the end of 2011 to 2.16%, while the average minimum lending rate of Top 4 commercial banks decreased from 7.25% at the end of 2011 to 7.13%.

In addition, the domestic economy had continually improved, compared to the end of the year 2011, following improved domestic consumption amid post-flood rebuilding activities together with government stimulus policies.

In capital market, the SET index closed at 1,196.77 points, increased by 171.45 points (QoQ), and 149.29 points (YoY). The average daily turnover was 29,976.98 million baht, decreased from 30,808.22 million baht (YoY).

Operating Results

The Management Discussion and Analysis compares operating performance for the first quarter of 2012 and first quarter of 2011

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 86.06 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 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 2012, TISCO Group had the net profit after minority interest totaled 836.84 million baht, increased by 8.24 million baht (1.0% YoY) contributed by an increase in total interest income of 25.9% (YoY) following strong expansion in loan portfolio of 17.3% (YoY). However, loan spread declined to 3.1% compared to 4.2% in the first quarter of 2011 amid upward interest environment together with intense deposit competition. Non-interest income was 1,316.84 million baht, increased by 307.88 million baht (30.5% YoY) contributed by growth in banking fee of 52.6% (YoY) following strong growth in loan and bancassurance businesses, together with the growth in asset management fee of 5.4% (YoY), which was mainly contributed by expansion of asset under management and improving capital market

condition. Meanwhile, brokerage fee decreased by 10.9% following lower market average daily turnover and a decline in market share of TISCO Securities Co., Ltd.

Basic Earnings per Share for the first three-month period of 2012 was 1.15 baht per share, slightly increased from 1.14 baht per share (YoY). Return on average equity (ROAE) was 20.0% compared with 21.8% (YoY).

Net Interest Income

Net interest income in this quarter was 1,565.61 million baht, decreased by 265.88 million baht (14.5% YoY), while total interest income was 3,413.39 million baht, increased by 701.21 million baht (25.9% YoY), following an expansion in loan portfolio. Meanwhile, interest expense increased by 967.09 million baht (109.8% YoY) to 1,847.77 million baht, following the intense deposit competition as well as the upward interest rate environment during the year 2011.

Yield on loan slightly increased from 6.5% to 6.7% (YoY) amid rising interest rate environment. Meanwhile, TISCO Group's cost of fund also increased from 2.2% to 3.7% driven by upward interest rate environment during the period and intense deposit competition. As a result, loan spread declined from 4.2% to 3.1% (YoY). However, loan spread improved from 2.7% in the fourth quarter of 2011, resulting from declining cost of fund following the market interest rate.

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,296.80 million baht, decreased by 183.13 million baht (12.4% YoY). Impairment loss of loans and debt securities was 268.81 million baht, compared with 351.56 million baht in the first quarter of 2011.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,316.84 million baht, significantly increased by 307.88 million baht (30.5% YoY), following an increase in banking fee of 312.59 million baht (52.6% YoY), to 907.32 million baht, contributed by strong growth in loan and bancassurance businesses. Meanwhile, fee income from asset management business increased by 9.63 million baht (5.4% YoY), mainly contributed by expansion in the asset under management. Furthermore, brokerage income decreased by 21.82 million baht (10.9% YoY), following lower market average daily turnover and a decline in market share of TISCO Securities Co., Ltd. Total net fee income was 1,302.55 million baht, increased by 305.86 million baht (30.7% YoY).

Non-interest Expenses

Non-interest expenses for this quarter were 1,448.14 million baht, increased by 212.95 million baht (17.2% YoY). The increase was due to higher marketing expense associated with higher business volume. In this quarter, the cost to income ratio was 51.6%. However, some of marketing expenses were compensated by business partners according to the subsidy program. Therefore, if excluded such expenses, the cost to income ratio would be reported at 47.6%

Corporate Income Tax

In the first quarter of 2012, the corporate income tax was 248.22 million baht, equivalent to the effective tax rate of 22.7%, compared to 29.7% (YoY) following the adjusted corporate tax from 30% to 23% according to the government policy.

Financial Status

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of March 31, 2012 and December 31, 2011.

Assets

As of March 31, 2012, TISCO Group's total assets were 232,971.03 million baht increased by 12,253.46 million baht (5.6% QoQ) due mainly to strong loan growth from 185,013.62 million baht to 194,560.80 million baht (5.2% QoQ). In addition, the investment in fixed income was 3,328.94 million baht, increased from 2,364.15 million baht (40.8% QoQ).

Liabilities

As of March 31, 2012, total liabilities were 215,784.66 million baht, increased by 11,378.68 million baht (5.6% QoQ) mainly due to the issuance of debentures of TISCO Bank. The liabilities mix comprised of 79.9% total deposit including bill of exchange, 7.1% interbank and money market items, 6.2% debentures, 2.7% long-term borrowings, and 4.1% other liabilities.

In the first quarter of 2012, TISCO Bank had issued debentures amounted 6,324.30 million baht, comprising of 4,324.30 million baht 1-year debenture and 1,000.00 million baht 10-year subordinated debentures.

Shareholders' Equity

As of March 31, 2012, shareholders' equity was 17,186.37 million baht, increased by 874.77 million baht (5.4% QoQ) following an increase in retained earnings in the first quarter of 2012. As a result, book value per share (BVPS) as of March 31, 2012 was 23.61 baht per share, increased from 22.41 baht per share (QoQ). In the first quarter of 2012, TISCO Group had paid-up shares amounting 727.91 million shares, comprising of 727.88 million common shares and 33,858 preference shares.

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

Total consolidated loans and receivables were 194,560.80 million baht, up by 9,547.18 million baht (5.2% QoQ), following growth in all loan businesses, especially corporate and commercial loans. The composition of loan portfolio was 71.8% of retail loans, 17.9% of corporate loans, 7.7% of commercial loans and 2.6% of other loans.

Retail lending portfolio totaled 139,753.56 million baht, consisted of 93.2% car, motorcycle, and other hire purchase, 5.8% consumer loans and 1.0% mortgage loans. The outstanding hire purchase loans totaled 130,370.55 million baht, rose by 5,391.67 million baht (4.3% QoQ). The domestic car sales in the first 2-month of 2012 reported at 166,707 units, increased from 145,611 units (14.5% YoY). The car penetration rate for the first 2-month was reported at 8.2%. Moreover, consumer loans amounted 8,106.58 million baht increased by 566.65 million baht (7.5% QoQ) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 34,886.68 million baht, increased by 2,537.95 million baht (7.8% QoQ) due to an increase in loan to public utilities and services business.

Commercial lending portfolio totaled 14,885.70 million baht, up by 1,257.30 million baht (9.2% QoQ), mainly due to an increase in loan to agriculture and logistics business.

Other loan portfolio totaled 5,034.86 million baht, decreased by 179.13 million baht (3.4% QoQ).

Deposits¹

Total deposits totaled 172,500.43 million baht, increased by 1,950.74 million baht (1.1% QoQ). At the end of the first quarter of 2012, TISCO Group had excess liquidity amounting to approximately 16,276 million baht, combining with the BoT required liquidity of 11,313 million baht (including bill of exchange), resulting in liquidity ratio of 14.6% 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 13.9%. In addition, the portion of retail deposit with deposit amount less than 20 million baht to total funding in terms of clients was at 22.5% in the first quarter of 2012.

Non-Performing Loans (NPLs) and Loan Loss Provision

TISCO Group still maintained NPL ratio at 1.4% as of March 31, 2012, which was at the same level as the end of 2011. Although the beginning of the first quarter of 2012, retail loan of TISCO Group was affected by the flood crisis, various measures have been carried out to ease debt repayment burden of customers, while continued to closely monitor loan portfolio. As the flood situation has been improved, the customers have been able to resume normal repayment by the end of this quarter. Additionally, NPL ratio of

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

retail loan, corporate loan, and commercial loan were 1.6%, 1.2% and 0.7%, respectively with total NPLs of 2,820.39 million baht, increased by 208.66 million baht (8.0% QoQ) during the period (NPLs of the Bank were 2,404.64 million baht and 415.75 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 268.81 million baht, compared to 351.56 million baht (YoY) which was considered as normal level. As of March 31, 2012, loan loss reserve of TISCO Group was 4,523.61 million baht or 160.4% of NPLs. Total loan loss reserve of the Bank was 4,186.91 million baht with minimum required reserve of 2,111.73 million baht and excess reserve of 2,075.18 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 2,089.50 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

At the end of the first quarter of 2012, the SET index continually increased following the recovery in domestic economy. Average daily turnover of TISCO Securities Co., Ltd. was 1,315.86 million baht, decreased by 13.3% (YoY), compared to 1,517.24 million baht in the first quarter of 2011. Furthermore, TISCO Securities' average market share was decreased from 2.43% to 2.14% (YoY), mainly due to the decrease in market share of local institutional from 8.37% to 6.13%. Brokerage fee was 177.91 million baht, down by 10.9% (YoY) from 199.73 million baht in same period of 2011. Meanwhile, TISCO brokerage volume in 2011 comprised of 20.5% of local institutions, 33.4% of foreign institutions, and 46.1% of retail customers. In addition, fee income from investment banking business was 12.62 million baht, increased by 1.08 million baht (9.4% YoY), compared to 11.54 million baht in the first quarter of 2011.

(3) Asset Management Business

As of February 29, 2012, industry asset under management increased from December 31, 2011 by 106,638.89 million baht (3.7% QoQ). TISCO's assets under management as of March 31, 2012 were 144,460.89 million baht, increased by 8,511.01 million baht (6.3% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of February 29, 2012 was 4.8%, ranking 7th in the market. The market share of provident fund and private fund was 13.6% and 10.8%, both ranking 3rd in the market respectively. For mutual fund, the market share was 0.8%, ranking 15th in the market.

In first quarter of 2012, total fee income from asset management totaled 186.95 million baht, increased by 9.63 million baht (5.4% YoY), whereas, variable incentive fee was 25.73 million baht, increased by 205.6% (YoY) following an increase in asset under management and variety of funds launched corresponding to market demands. The composition of total asset under management was 60.3% of provident fund, 27.6% of private fund, and 12.1% of mutual fund.

Risk Management

As of March 31, 2012, TISCO Group's internal capital stood at 14,154.16 million baht comprising of Tier-I and available reserve adjustment. The integrated risk capital was 10,561.99 million baht, increased by 110.74 million baht compared to the end of 2011 resulting from continuous business growth. In addition, the capital surplus remained strong at 3,592.16 million baht or 25.4% of total internal capital.

Comparing to the end of 2011, the credit risk capital was 7,814.88.10 million baht, rose by 225.5 million baht following overall loan portfolio expansion. The non-performing loan of TISCO Group was stable at 1.4%.

The market risk capital decreased from 1,522.00 million baht to 1,407.24 million baht, resulting from an improving gain in market value along with SET index and also declining in market volatilities.

The overall interest rate risk in banking book slightly increased following the portfolio expansion and increasing duration gap. As the assets duration decreased from 1.53 years to 1.48 years resulting from increasing in corporate lending and liquid assets 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 declined from 0.65 year to 0.59 year. Therefore, the duration gap of assets and liabilities slightly increased, but was still in a manageable level in the range of 11 months.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions remained strong and sufficient to cushion for the expansion of asset in the future. At the end of the first quarter of 2012, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 13.9% higher than the 8.5% required by the Bank of Thailand. While Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 9.3% and 4.6%, respectively, Tier-I capital adequacy ratio also remained higher than the minimum requirement at 4.3%. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 43.5%, higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q11		1Q12		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest income					
Interest on loans	592.55	21.4	932.80	33.2	57.4
Interest on interbank and money market items	97.72	3.5	187.28	6.7	91.6
Hire purchase and financial lease income	1,952.91	70.4	2,252.24	80.2	15.3
Investments	68.99	2.5	41.06	1.5	(40.5)
Total interest income	2,712.17	97.8	3,413.39	121.5	25.9
Interest expenses	(880.68)	(31.8)	(1,847.77)	(65.8)	109.8
Net interest income	1,831.49	66.0	1,565.61	55.7	(14.5)
Fee Income					
Fee Income	793.12	28.6	970.78	34.6	22.4
Fee Expenses	(55.09)	(2.0)	(59.84)	(2.1)	8.6
Net Fee Income	738.03	26.6	910.93	32.4	23.4
Gain on investment and foreign exchange transaction	(12.3)	(0.4)	(14.28)	(0.5)	16.5
Other Income	215.84	7.8	346.06	12.3	60.3
Net Operating Income	2,773.10	100.0	2,808.32	100.0	1.3
Non-interest expenses	(1,235.19)		(1,448.14)		
Impairment loss of loans and debt securities	(351.56)		(268.81)		
Profit before income tax and minority interest	1,186.36		1,091.38		
Corporate income tax	(352.87)		(248.22)		
Profit before minority interest	833.49		843.16		
Minority interest in net earnings in subsidiary company	(4.89)		(6.32)		
Net Profit	828.60		836.84		

Table 2: Interest Spread

%	2011	1Q11	4Q11	1Q12
Yield on Loans	6.9	6.5	6.6	6.7
Cost of fund	3.1	2.2	3.9	3.7
Loan spread	3.7	4.2	2.7	3.1

Table 3: Assets Breakdown

Assets	December 31, 2011		March 31, 2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	903.45	0.4	870.53	0.4	(3.6)
Interbank and Money Market Items	30,722.35	13.9	30,899.42	13.3	0.6
Derivative Asset	45.37	0.0	0.00	0.0	0.0
Fixed income	2,364.15	1.1	3,328.94	1.4	40.8
Equity	1,342.11	0.6	1,439.93	0.6	7.3
Corporate Loans	32,348.73	14.7	34,886.68	15.0	7.8
Retail Loans	133,822.50	60.6	139,753.56	63.3	4.4
Commercial Loans	13,628.40	6.2	14,885.70	6.4	9.2
Other Loans	5,214.00	2.4	5,034.86	2.2	(3.4)
Allowance for doubtful accounts and for loss on debt restructuring	(4,420.35)	(2.0)	(4,523.61)	(1.9)	2.3
Other Assets	4,746.88	2.2	6,395.02	2.7	34.7
Total – The Company and Subsidiaries	220,717.57	100.0	232,971.03	100.0	5.6

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2011		March 31, 2012		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	16,368.35	8.8	16,745.57	8.6	2.3
Real estate and construction	8,789.92	4.8	9,524.73	4.9	8.4
Public utilities and services	6,862.20	3.7	8,235.08	4.2	20.0
Agriculture and mining	328.26	0.2	381.30	0.2	16.2
Commercial Loans	32,348.73	17.5	34,886.68	17.9	7.8
Commercial Loans	13,628.40	7.4	14,885.70	7.7	9.2
Hire purchase	124,915.88	67.5	130,307.55	67.0	4.3
Mortgage	1,366.69	0.7	1,339.44	0.7	(2.0)
Consumer	7,539.93	4.1	8,106.58	4.2	7.5
Retail Loans	133,822.50	72.3	139,753.56	71.8	4.4
Others	5,214.00	2.8	5,034.86	2.6	(3.4)
Total – The Company and Subsidiaries	185,013.62	100.0	194,560.80	100.0	5.2

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2011			March 31, 2012			% Change
	% NPL	Amount	%	% NPL	Amount	%	
		(Bt. million)			(Bt. million)		
Manufacturing and commerce	0.4	71.50	2.7	0.5	82.60	2.9	15.5
Real estate and construction	3.3	288.63	11.1	3.0	284.51	10.1	(1.4)
Public utilities and services	0.5	30.99	1.2	0.4	31.77	1.1	2.5
Agriculture and mining	0.7	2.34	0.1	0.7	2.78	0.1	19.1
Total NPL - Corporate Loans	1.2	393.46	15.1	1.2	401.66	14.2	2.1
NPL-Commercial Loans	0.8	114.13	4.4	0.7	108.29	3.8	(5.1)
Hire purchase	1.5	1,886.41	72.2	1.6	2,063.31	73.2	9.4
Housing	7.6	103.87	4.0	7.7	103.62	3.7	(0.2)
Total NPL - Retail Loans	1.5	1,990.28	76.2	1.6	2,166.93	76.8	8.9
Others	2.2	113.87	4.4	2.9	143.50	5.1	26.0
Total NPL – The Company and Subsidiaries	1.4	2,611.73	100.0	1.4	2,820.39	100.0	8.0

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2011		March 31, 2012		Change %
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	170,549.69	83.4	172,500.43	79.9	1.1
Interbank and money market items	14,478.65	7.1	15,341.68	7.1	6.0
Debentures	7,076.00	3.5	13,400.30	6.2	89.4
Long-term borrowings	5,749.90	2.8	5,738.60	2.7	(0.2)
Others	6,551.73	3.2	8,803.65	4.1	34.4
Total – The Company and Subsidiaries	204,405.98	100.0	215,784.66	100.0	5.6

Table 7: Deposits Structure

Type of Deposits	December 31, 2011		March 31, 2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,423.09	2.0	3,399.62	2.0	(0.7)
Saving accounts	17,082.94	10.0	20,511.42	11.9	20.1
Fixed accounts	2,049.15	1.2	2,326.97	1.3	13.6
Negotiate certificate deposit	15,423.82	9.0	15,458.30	9.0	0.2
Short-term borrowings	132,570.70	77.7	130,804.12	75.8	(1.3)
Total deposits	170,549.69	100.0	172,500.43	100.0	1.1

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2011		March 31, 2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	85,028.35	62.5	87,151.29	60.3	2.5
Private Fund	36,814.50	27.1	39,883.01	27.6	8.3
Mutual Fund	14,107.04	10.4	17,426.60	12.1	23.5
Total	135,949.89	100.0	144,460.89	100.0	6.3

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 (Bt. million)	
	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012
Assets	1.53	1.48	800.90	849.41
Liabilities*	0.65	0.59	(1,136.04)	(1,323.42)
Net Gap	0.88	0.89	(335.14)	(474.01)

Note : * Exclude saving and current account