

Management Discussion and Analysis For the Second Quarter ended June 30, 2010

(This report discusses principal changes in the unreviewed consolidated financial statement for the 2nd quarter ended June 30, 2010)

Movement of Money Market and Capital Market

In the second quarter of 2010, the SET index was highly fluctuated following the domestic political unrest and the financial crisis in Europe. As a result, the SET index went down from 787.98 points as of the end of last quarter to 750.43 points as of the end of May 2010, before rising to 797.31 points at the end of this quarter. The average daily turnover increased from 19,323.24 million baht to 23,138.11 million baht (QoQ) following the significant fund outflow of foreign investors due to worsen confidence in Thai political situations during this quarter.

Due to the political uncertainty during the period, the Bank of Thailand (BOT) maintained the policy rate at 1.25%, in attempt to stimulate domestic economy. Meanwhile, average 3-Month fixed deposit rates and the average minimum lending rate of Top 5 commercial banks were maintained at the same rate as the end of last quarter at 0.69 and 5.94, respectively.

Operating Results

The Management Discussion and Analysis compares operating performance for the second quarter of 2010 with those of the second quarter of 2009

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 75.53 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 second quarter of 2010, TISCO Group had the net profit before minority interest at 767.34 million baht, increased by 261.02 million baht (51.6% YoY). Compared to the last quarter, the net profit increased by 50.59 million baht (7.1%QoQ), contributed by a significant increase in net interest and dividend income of 9.2% following strong expansion in corporate and retail lending businesses of 15.6%YoY together with an improvement in loan spread from 4.8% to 5.3%. Non-interest income was reported at 1,012.63 million baht, increased by 294.87 million baht (41.1%YoY), mainly contributed by the growth in banking fee of 64.7% (YoY) following strong loan growth. The fee income increased for 12.6% YoY from advisory fee from the Financial Institutions Development Fund (FIDF) for the sale of the stake in Siam City Bank PLC. Moreover, TISCO Group also recorded gain on sales of properties foreclosed in this quarter

totaling 114.86 million baht and also recorded significant gain from investment totaling 37.53 million baht, compared with gain from investment of 1.72 million baht in the second quarter of 2009 due to capital market improvement. Overall, net profit after minority interest for the second quarter of 2010 totaled 762.87 million baht.

As for performance of the first half of 2010, TISCO group reported a net profit of 1,475.15 million baht increased by 519.03 million baht or 54.3% compared with the net profit for the first half of 2009 amounting 956.12 million baht. Net interest and dividend income was increased by 29.6% following strong expansion in corporate and retail lending businesses together with an improvement in loan spread from 4.5% to 5.3%. In addition, non-interest income increased by 559.29 million baht (44.9% YoY), to 1,804.73 million baht for the first half of 2010, as contributed by significant growth in non-interest income from banking business for 51.5% (YoY). Moreover, the non-interest income also contributed by the sale of the stake in Siam City Bank PLC, resulting in the increase in fee income for 27.0% (YoY) and the gain on properties foreclosed recorded during the first half of the year 2010 totaling 129.39 million baht. The Brokerage income increased by 17.1% YoY and the gain from investment for the first half of 2010 was 57.17 million baht, comparing to loss for 3.51 million baht in the same period last year following the capital market improvement in the current year. However, the basic fee income from asset management business increased by 54.87 million baht or 23.9% YoY following the increase in asset under management.

Diluted earnings per share for the second quarter and the first half of 2010 were 1.05 baht and 2.03 baht respectively compared with those in the same period in 2009 of 0.63 baht and 1.19 baht respectively. The average return on equity (ROAE) for the second quarter and the first half of 2010 were 23.0% and 22.9% respectively comparing with those in the same period in 2009 of 17.3% and 16.7% respectively.

Net Interest and Dividend Income

Net interest and dividend income in this quarter was 1,789.73 million baht, increased by 305.66 million baht (20.6% YoY), interest and dividend income was 2,300.89 million baht, increased by 192.97 million baht (9.2% YoY). Meanwhile, interest expense decreased by 112.69 million baht (18.1% YoY), to 511.16 million baht, following the effect of downward interest rate environment since last year and the change in fund structure.

TISCO group was able to increase loan spread to 4.8%, compared to 5.3% (YoY) through its ability to manage asset and liabilities mix, as TISCO group has pursued the strategy to penetrate in high-yield loan segments under prudent risk management. Meanwhile, cost of fund significantly lowered following downward interest rate environment and strong growth in retail deposit base.

TISCO group reported net interest and dividend income after bad debts and doubtful account of 1,371.98 million baht, increased by 241.56 million baht (21.4% YoY). Bad debts and doubtful account was 417.75 million baht following the loan growth during this quarter, compared to 353.65 million baht YoY.

Non-interest Income

Non-interest income for the second quarter of 2010 was 1,012.63 million baht, increased by 294.87 million baht (40.9% YoY), mainly due to the increase in non-interest income of banking business for 218.99 million baht (64.7% YoY), as contributed by strong hire purchase loan growth. Moreover, the investment banking fee increased for 65.25 million baht or 12.6% (YoY), following the advisory fee from the sale of the stake in Siam City Bank PLC. Also, TISCO Group recorded gain on properties foreclosed recorded during this quarter totaling 114.86 million baht and gain from investment amounting 37.53 million baht, comparing to gain for 1.72 million baht in the second quarter of 2009 following the improved market capital condition. The basic fee income from asset management business also increased by 20.38 million baht (15.5% YoY) following the increase in asset under management. Meanwhile, the brokerage fee income decreased for 15.1% YoY, down to 135.07 million baht in this quarter

Non-interest Expenses

Non-interest expenses for this quarter were 1,296.40 million baht, increased by 173.82 million baht (15.5% YoY). The increase was due to higher personal expenses for 179.19 million baht or 31.3% YoY following the cost structure that varied according to the revenue and branch expansion. Currently, the Bank has 46 branches comparing to 38 branches as at the end of the second quarter of 2009.

General Reserve Expenses

In the second quarter of 2010, the asset quality significantly improved with NPL ratio decreased from 2.2% as of the end of last quarter to 2.0% at the end of this quarter. However, to protect against future volatility and systematic risk, TISCO Group set up provision for bad debts and doubtful accounts for the second quarter of 2010 totaling 417.75 million baht which accounted for 1.4% of total average loan portfolio. Consequently, TISCO Group recorded increase in general reserve of 265.89 million baht in this quarter, compared to the reserve required according to the best estimate of expected credit losses from the portfolio over the next 12 months. As of June 31, 2010, TISCO Group had general reserve, totaling 1,496.40 million baht.

Corporate Income Tax

In the second quarter of 2010, the corporate income tax was 320.87 million baht, equivalent to the effective tax rate of 29.5%, compared to 30.2% YoY.

Financial Status

The Management Discussion and Analysis on financial status is a comparison between the financial positions as of June 30, 2010 and March 31, 2010.

Assets

TISCO Group's total assets as of June 30, 2010 were 147,476.19 million baht, increased by 7,669.73 million baht (5.5% QoQ) following strong loan growth from 117,830.76 million baht to 128,001.43 million baht (8.6% QoQ), mainly from the growth in hire-purchase loan.

Liabilities

Total liabilities as of June 30, 2010 increased by 7,713.17 million bath (6.1%QoQ) ,from 126,510.78 to 134,223.94 million baht. The main increase was from the increase in deposit for 4,881.80 million baht or 4.5% QoQ. The liabilities mix comprised of 84.9% total deposit including short-term borrowing, 5.0% interbank and money market items, 6.2% long-term borrowings, and 3.9% other liabilities. In addition, the bank issued additional subordinated debenture during this quarter amounting 1,000 million baht which will be counted as Tier II capital. The subordinated debenture will be matured in 2020.

Shareholders' Equity

Shareholder's equity as of June 30, 2010 were 13,252.25 million baht, decreased by 43.43 million baht (0.3% QoQ) as the company paid interim dividends from the last operation result for the year 2009, at 1.00 baht per preferred share and common share, totaling 902.48 million baht, in May 2010. Total annual dividend payment for the year 2009 was 1,356.34 million baht with dividend payout ratio of 68.2% resulting in unappropriated retained earnings of 4,915.14 million baht decreasing from 5,054.73 million baht (2.8% QoQ). Book value per share (BVPS) as of June 30, 2010 was 18.21 baht, down from 18.29 baht (QoQ). In the second quarter of 2010, the company had paid-up shares amounting 727.83 million shares, comprising 727.77 million common shares and 0.06 million preference shares.

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables were 128,001.43 million baht, up by 10,170.67 million baht (8.6% QoQ), and increased by 14,768.45 million baht or 13.0% compared with the end of year 2009,

following growth in corporate and retail loan. The composition of loan portfolio was 76.5% of retail loans, 16.2% of corporate loans, and 7.3% of other loans.

Retail lending portfolio consisted of 98.5% car, motorcycle, and other hire purchase and 1.5% mortgage loans. The outstanding hire purchase loans equaled 96,431.81 million baht, rose by 5,121.07 million baht (5.6% QoQ) following the successful in captive leasing business for Fords, Mazda, and Chevrolet. Car hire purchase new business volume amounted 14,111.12 million baht, increased by 3,653.85 million baht (34.9% YoY), while the domestic car sales in the first 5 months of 2010 reported at 286,358 units increased from 188,027 units (52.3% YoY), resulting in car penetration rate of 12.4%, comparing with average penetration rate of 12.0% in 2009.

Corporate lending portfolio totaled 20,740.75 million baht, up by 2,212.00 million baht (11.9% QoQ), mainly due to an increase in loans to public utilities and service and manufacturing and commerces.

Other loan portfolio totaled 9,384.49 million baht, increased by 2,859.69 million baht (43.8% QoQ), mainly due to a increase in loan to other corporate businesses, totaling 1,900.00 million baht, referring to the Bank of Thailand's loan definition. In addition, TISCO Auto Cash loan increased for 719.36 million baht (22.9% QoQ), from 3,140.51 million baht to 3,859.87 million baht.

Deposit

Total deposit totaled 114,011.41 million baht, increased by 4,881.80 million baht (4.5% QoQ), mainly due to the increase in bill of exchanges. As a result, the short-term borrowing increased for 3,061.21 million baht (6.9% QoQ). Moreover, the deposit increased by 1,820.58 million baht or 2.8% (QoQ) following the Bank's success in launching new deposit product, "Super Saving", in early of this year. The portion of saving accounts and current accounts of total deposits significantly increased from 36.2% at the end of last quarter to 38.2% in this quarter. In addition, the portion of retail deposit with deposit amount less than 10 million baht to total funding in terms of clients remained high at 27.7% as of the end of this quarter, compared to 21.9% as of the end of 2009.

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 2.0% as of June 30, 2010, decreased from 2.2% as of March 31, 2009. Additionally, NPL ratio of retail loan and corporate loan was 1.6% and 3.2%, respectively with total NPLs of 2,641.10 million baht which increased by 0.3%QoQ or 7.62 million baht during the period. (NPLs of the Bank was 2,320.06 million baht and there was NPLs of 321.03 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. As of June 30, 2010, loan loss reserve of TISCO Group was 3,154.05 million baht or 119.7% of NPLs. Total loan loss reserve of the Bank was 2,837.09 million baht with specific reserve for classified loan of 1,340.69 million baht and general reserve of 1,496.40 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,317.00 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

In the second quarter of 2010, the SET index was highly fluctuated due to the political unrest during the period. the SET index decreased from 750.43 points as of the end of last quarter to hit the rock bottom in May at 721.29 points, before rising to 797.31 points at the end of this quarter. The average daily turnover for the second quarter of 2010 was 23,138.11 million baht, increased by 8.5% YoY following the uncertainty in political situation in the country, resulting in significant fund outflow of foreign investors during this quarter.

Average daily turnover for the first half of 2010 of TISCO Securities Co., Ltd. was 1,132.11 million baht, increased by 2.9% (YoY). TISCO Securities' average market share decreased from the first half of 2009 from 2.56% to 2.42%, mainly resulted by the decrease in market share of foreign institutional sector. As a result, the brokerage fee decreased by 24.05 million baht, ending at 135.07 million baht (15.1% YoY). Meanwhile. In addition, TISCO brokerage volume in this quarter comprised of 23.2% of foreign institutions, 30.2% of local institutions, and 46.6% of retail customers.

The fee income from investment banking business for the first half of 2010 was 158.23 million baht, significantly increase for 681.9% (YoY). The significant increase was mainly from the advisory fee to the Financial Institutions Development Fund (FIDF) for the sale of the stake in Siam City Bank PLC.

(3) Asset Management Business

As of May 31, 2010, asset management industry increased from March 31, 2010 by 2,798.38 million baht (0.1% QoQ). TISCO's assets under management as of 30 June 2010 were 134,449.17 million baht, increased by 4,515.79 million baht (3.5% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2010 was 5.4%, ranking 6th in the market. The market share of provident fund and private fund was 14.1% and 17.2%, both ranking 2rd in the market respectively. For mutual fund, the market share was 1.0%, ranking 14th in the market.

Basic fee income from asset management for the first half of 2010 totaled 152.26 million baht, increased by 31.74 million baht (26.3% YoY) following an increase in asset under management and the variety of funds launched which were conform with the market condition. However, the variable performance and incentive fee decreased significantly following the highly volatile capital market during the year. As a result, the total fee income from asset under management decreased from 198.44 million baht in the second quarter of 2009 to 124.58 million baht in this quarter. The composition of total asset under management was 56.5% of provident fund, 31.2% of private fund, and 12.3% of mutual fund.

Risk Management

As of June 30, 2010, TISCO Group's core capital based on Internal Rating Based Approach (IRB) stood at 11,367.73 million Baht comprising of Tier-I and adjustment from reserve. The integrated risk capital increased by 468.22 million Baht or 8.8% from the first quarter to 5,789.89 million Baht following portfolio expansion of 8.6% over the quarter. Nevertheless, the core capital surplus was remarkably strong at 5,577.85 million Baht or 49.1%.

Comparing to the first quarter of 2010, the credit risk capital rose by 394.20 million Baht to 3,316.90 million Baht following the portfolio expansion during the quarter with a stable portion of non-performing loan in retail lending business at 1.6%. In addition, as the core business in retail lending, the retail loan portfolio continually expanded by 5.5% from 92,777.20 million Baht at the end of first quarter to 97,876.18 million Baht. Meanwhile, the market risk capital in the second quarter increased by 48.71 million Baht from 1,589.18 million Baht to 1,637.88 million Baht, resulting from an increase in interest rate in banking book following the portfolio expansion offsetting by a decrease of listed-equity risk capital corresponding to an increase in stock market during the quarter.

The overall interest rate risk in banking book increased following the portfolio expansion. However, as the assets duration declined from 1.61 years at the end of the previous quarter to 1.58 years, the liabilities duration, excluding saving and current accounts which are less sensitive to the interest rate movement, increased from 0.67 year to 0.81 year mainly due to longer maturity of deposit and borrowing profiles, together with the issuance of long-term subordinate debenture of 1,000 million Baht in May. Therefore, the duration gap of assets and liabilities decreased from 0.94 year to 0.77 year which was still manageable.

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 second quarter, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 16.89% 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 13.79% and 7.09%, 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 63.55%, higher than the minimum required ratio by the SEC of 7.00%.

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Table 1: Consolidated Revenue Structure

Type of Revenue	2Q09		2Q10		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	321.00	14.6	367.31	13.1	14.4
Interest on interbank and money market items.	33.94	1.5	39.62	1.4	16.7
Hire purchase and financial lease income	1,582.57	71.9	1,761.47	62.9	11.3
Investments	170.41	7.7	132.49	4.7	(22.3)
Total interest and dividend income	2,107.93	95.7	2,300.89	82.1	9.2
Interest expenses	(623.9)	(28.3)	(511.2)	(18.2)	(18.1)
Net interest and dividend income	1,484.07	67.4	1,789.73	63.9	20.6
Non-interest income					
Brokerage Fees	159.12	7.2	135.07	4.8	(15.1)
Gain on securities	1.72	0.1	37.5	1.3	2,078.0
Fees and services income	518.20	23.5	583.45	20.8	12.6
Others	38.72	1.8	256.59	9.2	562.6
Total non-interest income	717.76	32.6	1,012.63	36.1	41.1
Total income before bad debts and doubtful accounts	2,201.84	100.0	2,802.36	100.0	27.3
Bad debt and doubtful accounts	(353.65)		(417.75)		
Bad debt written back revenue	-		-		
Total income – net of bad debts and doubtful accounts	1,848.18		2,384.61		
Non-interest expenses	(1,122.58)		(1,296.40)		
Profit before income tax and minority interest	725.60		1,088.21		
Corporate income tax	(219.27)		(320.87)		
Profit before minority interest	506.33		767.34		
Minority interest in net earnings in subsidiary company	(4.18)		(4.47)		
Net Profit	502.15		762.87		

Table2: Interest Spread

%	2008	2009	2Q09	1Q10	2Q10	6M09	6M10
Yield on Loans	7.3	7.0	7.0	7.0	6.9	7.1	6.9
Cost of fund	3.5	1.7	2.2	1.7	1.6	2.6	1.6
Loan spread	3.7	5.3	4.8	5.3	5.3	4.5	5.3

Table 3: Assets Breakdown

Assets	March 31, 2010		June 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	664.40	0.5	654.87	0.4	(1.4)
Interbank and Money Market Items	9,833.27	7.0	8,086.75	5.5	(17.8)
Securities purchased under resale agreements	0.00	0.0	0.00	0.0	0.0
Fixed income	3,770.91	2.7	4,140.34	2.8	9.8
Equity	5,166.32	3.7	4,544.74	3.1	(12.0)
Corporate Loans	18,528.76	13.3	20,740.75	14.1	11.9
Retail Loans	92,777.20	66.4	97,876.18	66.4	5.5
Other Loans	6,524.80	4.7	9,384.49	6.4	43.8
Allowance for doubtful accounts and for loss on debt restructuring	(2,834.86)	(2.0)	(3,154.05)	(2.1)	11.3
Other Assets	5,375.67	3.8	5,202.11	3.5	(3.2)
Total – The Company and Subsidiaries	139,806.46	100.0	147,476.19	100.0	5.5

Table 4: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2010		June 30, 2010		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	109,129.61	86.3	114,011.41	84.9	4.5
Interbank and money market items	6,896.37	5.5	6,752.23	5.0	(2.1)
Long-term borrowings	5,407.09	4.3	8,275.97	6.2	53.1
Others	5,077.71	4.0	5,184.32	3.9	2.1
Total – The Company and Subsidiaries	126,510.78	100.0	134,223.94	100.0	6.1

Table 5: Loans and Receivables Breakdown

Type of Business	March 31, 2010		June 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	8,592.95	7.3	9,381.81	7.3	9.2
Real estate and construction	6,184.10	5.2	6,654.23	5.2	7.6
Public utilities and services	3,615.64	3.1	4,568.77	3.6	26.4
Agriculture and mining	136.07	0.1	135.94	0.1	(0.1)
Commercial Lending	18,528.76	15.7	20,740.75	16.2	11.9
Hire purchase	91,310.74	77.5	96,431.81	75.3	5.6
Housing	1,466.46	1.2	1,444.38	1.1	(1.5)
Retail Lending	92,777.20	78.7	97,876.18	76.5	5.5
Others	6,524.80	5.5	9,384.49	7.3	43.8
Total – The Company and Subsidiaries	117,830.76	100.0	128,001.43	100.0	8.6

Table 6: Deposits Structure

Type of Deposits	March 31, 2010		June 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	7,601.54	7.0	8,594.74	7.5	13.1
Saving accounts	31,870.33	29.2	34,943.17	30.6	9.6
Fixed accounts	1,332.33	1.2	1,216.67	1.1	(8.7)
Negotiate certificate deposit	24,144.60	22.1	22,014.80	19.3	(8.8)
Promissory notes and Bill of exchange	2.38	0.0	2.38	0.0	0.0
Short-term borrowings	44,178.44	40.5	47,239.65	41.4	6.9
Total deposits	109,129.61	100.0	114,011.41	100.0	4.5

Table 7: NPL Breakdown by Area

Type of Business	March 31, 2010			June 30, 2010			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.4	122.94	4.7	1.4	132.14	5.0	7.5
Real estate and construction	7.0	432.78	16.4	6.0	398.56	15.1	(7.9)
Public utilities and services	3.7	133.49	5.1	2.7	124.14	4.7	(7.0)
Agriculture and mining	3.9	5.24	0.2	3.7	5.08	0.2	(3.1)
Total NPL - Commercial Lending	3.7	694.45	26.4	3.2	659.91	25.0	(5.0)
Hire purchase	1.5	1,373.46	52.2	1.5	1,414.40	53.6	3.0
Housing	9.7	142.35	5.4	9.6	138.60	5.2	(2.6)
Total NPL - Retail Lending	1.6	1,515.81	57.6	1.6	1,553.00	58.8	2.5
Others	5.6	423.21	16.1	4.0	428.19	16.2	1.2
Total NPL – The Company and Subsidiaries	2.2	2,633.47	100.0	2.0	2,641.10	100.0	0.3

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2010		June 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	73,852.84	56.8	75,930.26	56.5	2.8
Private Fund	41,141.70	31.7	42,014.32	31.2	2.1
Mutual Fund	14,938.84	11.5	16,504.59	12.3	10.5
Total	129,933.38	100.0	134,449.17	100.0	3.5

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	
	March 31, 2010	June 30, 2010	March 31, 2010	June 30, 2010
Assets	1.61	1.58	411.62	427.04
Liabilities	0.67	0.81	(605.29)	(591.48)
Net Gap	0.94	0.77	(193.67)	(164.44)

Note : * Exclude saving and current account