

## Management Discussion and Analysis For the year ended December 31, 2010

(This report discusses principal changes in the unreviewed consolidated financial statement for the year ended December 31, 2010)

### Movement of Money Market and Capital Market

In 2010, the domestic economy showed strong recovery resulting from the government's economic stimulus measures, expansion in export sector and continual growth in domestic consumption. The Bank of Thailand (BOT) raised the policy rate 3 times from 1.25% at the end of 2009 to 1.50% and 1.75% during the third quarter of 2010 and increased to 2.00% in the fourth quarter of 2010 driven by economic expansion and upward inflationary pressure. Meanwhile, average 3-Month fixed deposit rates of Top 5 commercial banks increased from 0.71% at the end of 2009 to 1.13 % at the end of 2010 while the average minimum lending rate of Top 5 commercial banks increased from 5.94% to 6.20% at the end of 2010.

The SET index was continually increased following domestic economic recovery as well as improved political atmosphere. The SET index improved from the last year ending at 1,032.76 points, increased by 298.22 points. In terms of the trading activity, average daily turnover dramatically increased from 17,852.52 million baht to 28,668.95 million baht driven by reviving in local investors' confidence and massive fund inflow of foreign investors.

### Operating Results

**The Management Discussion and Analysis compares operating performance and financial position of the year 2010 with those of the year 2009.**

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 1,855.46 million baht, mainly contributed by dividend income and service fees from its subsidiary companies. TISCO Financial Group Public Company Limited operates a holding company with 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 year 2010, TISCO Group had the net profit before minority interest at 2,902.47 million baht, increased by 897.72 million baht (44.8% YoY) contributed by an increase in net interest and dividend income of 20.5% following strong expansion in all loan businesses of 32.2% (YoY) together with an ability to maintain average loan spread at 5.0% which was the same level as year 2009. Non-interest income was reported at 3,876.47 million baht, increased by 1,003.41 million baht (34.9%YoY), contributed by growth in banking fee of 28.5% (YoY). Moreover, the non-interest income was also contributed by fee income from financial advisory service for the sale of the stake in Siam City Bank Plc. and the gain on properties

## **TISCO FINANCIAL GROUP PUBLIC COMPANY LIMITED**

foreclosed totaling 129.39 million baht. In addition, the brokerage income increased by 29.2% (YoY), while TISCO Group recorded gain from investment totaling 210.01 million baht following the improvement in capital market condition compared with year 2009. Meanwhile, the basic fee income from asset management business increased by 20.2% (YoY) driven by the increase in asset under management. Overall, net profit after minority interest for the year 2010 totaled 2,888.25 million baht.

Diluted earnings per share for the year 2010 were 3.97 baht compared with 2.62 baht for the year 2009. The average return on equity (ROAE) for the year 2010 was 21.2% comparing with that in 2009 of 16.7%

### **Net Interest and Dividend Income**

Net interest and dividend income during the year 2010 was 7,204.67 million baht, increased by 1,223.77 million baht (20.5% YoY), while interest and dividend income was 9,519.94 million baht, increased by 1,047.28 million baht (12.4% YoY), following strong expansion in loan portfolio. Meanwhile, interest expense decreased by 176.49 million baht (7.1% YoY), to 2,315.27 million baht, following the interest rate environment and increase in retail deposit base.

TISCO Group was able to maintain loan spread at 5.0% which was the same level as the year 2009 through its ability to manage assets and liabilities mix and strong growth in retail deposit base. TISCO Group reported net interest and dividend income before bad debts and doubtful account of 11,081.14 million baht, increased by 2,227.18 million baht (25.2% YoY), compared with 8,853.96 million baht at the end of 2009.

### **Non-interest Income**

Non-interest income was recorded at 3,876.47 million baht, increased by 1,003.41 million baht (34.9% YoY), mainly due to an increase in non-interest income of banking business for 462.32 million baht (28.5% YoY), as contributed by loan businesses growth. Moreover, the brokerage fee income increased for 159.55 million baht (29.2% YoY) and the basic fee income from asset management business also increased by 99.99 million baht (20.2% YoY) following the increase in asset under management. In addition, TISCO group recorded significant gain from investment totaling 210.01 million baht, compared with gain on investment of 9.54 million baht in 2009.

### **Non-interest Expenses**

Non-interest expenses for this year were 4,989.10 million baht, increased by 528.21 million baht (11.8% YoY) mainly resulted from higher variable expenses associated with higher revenue. In addition, the cost-to-income ratio improved to 45.0%, compared to 45.4% in 2009.

### **General Reserve Expenses**

In 2010, the asset quality significantly improved with NPL ratio decreased to 1.8%, compared to 2.5% at the end of 2009. However, to protect against future volatility and systematic risk, TISCO Group set up provision for bad debts and doubtful accounts totaling 1,933.40 million baht which accounted for 1.5% of total average loan portfolio. Consequently, TISCO Group recorded increase in general reserve of 1,622.98

million baht in 2010, compared to the reserve required according to the best estimate of expected credit losses from the portfolio over the next 12 months. At the end of 2010, TISCO Group had general reserve totaling 2,350.83 million baht.

### **Corporate Income Tax**

In 2010, the corporate income tax was 1,256.16 million baht, equivalent to the effective tax rate of 30.2%, compared to 29.5% (YoY).

## **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, 2009.**

### **Assets**

TISCO Group's total assets as of December 31, 2010 were 171,407.54 million baht, increased by 32,603.19 million baht (23.5% YoY) following strong loan growth from 113,232.98 million baht to 149,730.80 million baht (32.2% YoY), mainly from the strong growth in loan businesses.

### **Liabilities**

Total liabilities as of December 31, 2010 were 156,550.32 million baht, increased by 30,264.69 million baht (24.0% YoY) from 126,285.64 million baht at the end of 2009. The main increase was from the increase in long-term borrowings by 10,030.65 million baht (184.7% YoY) following additional long-term fund raising in the upward interest rate cycle. The liabilities mix comprised of 79.1% total deposit including short-term borrowing, 6.9% interbank and money market items, 9.9% long-term borrowings, and 4.1% other liabilities. In addition, TISCO Bank issued additional subordinated debenture during the current year amounting 2,000 million baht, which will be counted as Tier II capital. The subordinated debenture will be matured in 2020.

### **Shareholders' Equity**

Shareholder's equity and unappropriated retained earnings as of December 31, 2010 were 14,857.22 million baht and 6,235.41 million baht, increased by 2,338.51 million baht (18.7% YoY) and 1,892.97 million baht (43.6% YoY), respectively following the continual profit expansion.

The book value per share (BVPS) as of December 31, 2010 was 20.41 baht, increased from 17.22 baht as at December 31, 2009. As at December 31, 2010, TISCO Group had paid-up shares amounting 727.91 million shares, comprising 727.87 million common shares and 0.04 million preference shares.

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

Total consolidated loans and receivables were 149,730.80 million baht, up by 36,497.82 million baht (32.2% YoY), following growth in loan businesses. The composition of loan portfolio was 71.8% of retail loans, 15.0% of corporate loans, 6.3% of SME loans and 6.9% of other loans.

**Retail lending** portfolio consisted of 98.7% car, motorcycle, and other hire purchase and 1.3% mortgage loans. The outstanding hire purchase loans totaled 106,047.24 million baht, rose by 19,450.85 million baht (22.5% YoY) due partly to the successful in captive leasing business for Fords, Mazda, and Chevrolet. Car hire purchase new business volume amounted 57,101.43 million baht, increased by 15,126.17 million baht (36.0% YoY), while the domestic car sales in the first eleven months of 2010 reported at 707,235 units increased from 476,787 units (48.3% YoY). The car penetration rate for the first eleven months of 2010 was at 11.3% which was slightly decreased when compared to 12.0% in 2009.

**Corporate lending** portfolio totaled 22,431.58 million baht, significantly increased by 7,552.79 million baht (50.8% YoY), mainly due to an increase in loans to in loans to utilities and services as well as manufacturing & commerce.

**SME lending** portfolio totaled 9,425.41 million baht, up by 4,755.83 million baht (101.8% YoY), mainly due to the floor plan financing and logistics business.

**Other loan** portfolio totaled 10,404.29 million baht, increased by 4,791.89 million baht (85.4% YoY), mainly due to an increase in loan to other corporate businesses (referring to the Bank of Thailand's loan definition). In addition, TISCO Auto Cash loan increased for 2,744.18 million baht (104.6% YoY), from 2,624.24 million baht at the end of 2009 to 5,368.42 million baht.

**Deposit**

Total deposit totaled 123,849.04 million baht, increased by 13,341.62 million baht (12.1% YoY). Meanwhile, the portion of saving accounts and current accounts of total deposits remained high at 24.7%. 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 23.3%, 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 1.8% as of December 31, 2010, significantly decreased from 2.5% as of December 31, 2009. Additionally, NPL ratio of retail loan was at 1.5%, NPL ratio of corporate loan was at 2.4% and NPL of SME loans was at 0.8%. In addition, the total NPLs was 2,654.08 million baht which decreased by 5.4% YoY or 152.49 million baht during the year. (NPLs of the Bank was 2,359.00 million baht and there was NPLs of 295.08 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. As of December 31, 2010, loan loss reserve of TISCO Group was 4,162.02 million baht or 156.8% of NPLs. Total loan loss reserve of the Bank was 3,859.41 million baht which 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. In addition, total loan loss reserve comprised of specific reserve for classified loan of 1,508.59 million baht and general reserve of 2,350.83 million baht.

## **(2) Securities Business**

At the end of 2010, average daily turnover of TISCO Securities Co., Ltd. was 1,376.91 million baht, increased by 52.5% (YoY) following the increase in overall trading volume. TISCO Securities' average market share was slightly decreased from 2.5% at the end of 2009 to 2.4%, mainly due to the decrease in market share of foreign institutional and retail sector. However, the brokerage fee increased by 159.55 million baht to 706.28 million baht (29.2%YoY) in year 2010. Meanwhile, TISCO brokerage volume in 2010 comprised of 19.2% of foreign institutions, 31.4% of local institutions, and 48.7% of retail customers. Fee income from investment banking business in 2010 was 178.70 million baht, comparing to 53.86 million baht (YoY) mainly contributed by the achievement of financial advisory service for the sale of the stake in Siam City Bank Plc.

## **(3) Asset Management Business**

As of November 30, 2010, asset management industry improved by 245,229.52 million baht (10.2% YoY). TISCO's assets under management as of 31 December 2010 were 137,014.95 million baht, increased by 13,728.55 million baht (11.1% YoY). Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2010 was 5.0%, ranking 7th in the market. The market share of provident fund was 13.4%, ranking 3rd in the market while the market share of private fund 15.0%, ranking 2nd in the market. For mutual fund, the market share was 0.9%, ranking 16th in the market.

Basic fee income from asset management for the year 2010 totaled 595.42 million baht, increased by 153.19 million baht (31.4% YoY) following an increase in asset under management and the variety of funds launched according to market environment. Moreover, the variable performance and incentive fee was 102.90 million baht following improvement in capital market during the year. As a result, the total fee income from asset under management increased from 642.45 million baht in 2009 to 698.31 million baht.

The composition of total asset under management was 56.4% of provident fund, 30.7% of private fund, and 12.9% of mutual fund.

## **Risk Management**

As of December 31, 2010, TISCO Group's capital stood at 16,920.43 million baht comprising of Tier-I, Tier-II capital and adjustment from reserve. The integrated risk capital increased by 764.75 million baht (14.2% YoY) to 6,157.56 million baht following the expansion of the business with improving credit quality over the year. In addition, the capital surplus was remarkably strong at 10,762.87 million baht or 63.6%.

Comparing to the end of 2009, the market risk capital in 2010 significantly decreased by 361.31 million baht from 1,501.81 million baht to 1,123.07 million baht, resulting from a decrease of listed-equity risk capital as recovery of investment position in listed equity corresponding to a rebound in stock market. Meanwhile, the credit risk capital rose by 892.05 million baht to 4,036.15 million baht following the expansion of retail lending business by 22.0% from 88,072.22 million baht in 2009 to 107,469.52 million baht at the end of 2010. In addition, credit risk profile of loan portfolio has gradually improved over the second half of 2009 with a drop in the portion of non-performing loan in retail lending business from 1.9% in 2009 to 1.5% in 2010.

In the meantime, the interest rate risk in banking book remained stable as a result of a decreasing interest rate gap (BPV) during 2010. The assets duration was shorter from 1.62 years to 1.57 years while the liabilities duration increased from 0.62 year to 0.86 year as an issuance of long-term subordinated debentures during the year. Therefore, the duration gap of assets and liabilities decreased and was still manageable in the range of 8.5 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 2010, the projected regulatory capital adequacy ratio (BIS ratio) under IRB approach after an adjustment of capital floor stood at 15.38% remaining higher than the 8.50% required by the Bank of Thailand. While Tier-I and Tier-II projected capital adequacy ratio before an adjustment of capital floor stood at 11.44% and 6.63%, 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. remained strong at 49.75%, greatly higher than the minimum required ratio by the SEC of 7.0%.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	2009		2010		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	1,262.28	14.3	1,632.44	14.7	29.3
Interest on interbank and money	150.39	1.7	199.48	1.8	32.6
Hire purchase and financial lease	6,426.68	72.6	7,163.02	64.6	11.5
Investments	633.31	7.2	525.00	4.7	(17.1)
<b>Total interest and dividend income</b>	<b>8,472.66</b>	<b>95.7</b>	<b>9,519.94</b>	<b>85.9</b>	<b>12.4</b>
Interest expenses	(2,491.76)	(28.1)	(2,315.27)	(20.9)	(7.1)
<b>Net interest and dividend income</b>	<b>5,980.90</b>	<b>67.6</b>	<b>7,204.67</b>	<b>65.0</b>	<b>20.5</b>
Non-interest income					
Brokerage Fees	546.74	6.2	706.28	6.4	29.2
Gain on securities	9.54	0.1	210.0	1.9	2,101.1
Fees and services income	1,531.06	17.3	2,217.41	20.0	44.8
Others	785.72	8.9	742.77	6.7	(5.5)
<b>Total non-interest income</b>	<b>2,873.06</b>	<b>32.4</b>	<b>3,876.47</b>	<b>35.0</b>	<b>34.9</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>8,853.96</b>	<b>100.0</b>	<b>11,081.14</b>	<b>100.0</b>	<b>25.2</b>
Bad debt and doubtful accounts	(1,547.88)		(1,933.40)		
Bad debt written back revenue	-		-		
<b>Total income – net of bad debts and doubtful accounts</b>	<b>7,306.08</b>		<b>9,147.74</b>		
Non-interest expenses	(4,460.89)		(4,989.10)		
<b>Profit before income tax and minority interest</b>	<b>2,845.19</b>		<b>4,158.63</b>		
Corporate income tax	(840.44)		(1,256.16)		
<b>Profit before minority interest</b>	<b>2,004.75</b>		<b>2,902.47</b>		
Minority interest in net earnings in subsidiary company	(16.36)		(14.23)		
<b>Net Profit</b>	<b>1,988.39</b>		<b>2,888.25</b>		

**Table2: Interest Spread**

%	2009	2010
Yield on Loans	7.1	6.7
Cost of fund	2.1	1.7
<b>Loan spread</b>	<b>5.0</b>	<b>5.0</b>

**Table 3: Assets Breakdown**

Assets	December 31, 2009		December 31, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	826.53	0.6	903.31	0.5	9.3
Interbank and Money Market Items	12,708.24	9.2	12,545.40	7.3	(1.3)
Securities purchased under resale agreements	0.00	0.0	0.00	0.0	0.0
Fixed income	3,512.55	2.5	2,800.06	1.6	(20.3)
Equity	5,925.40	4.3	3,680.94	2.1	(37.9)
Corporate Loans	14,878.78	10.7	22,431.58	13.1	50.8
SME Loans	4,669.58	3.36	9,425.41	6.79	101.85
Retail Loans	88,072.22	63.5	107,469.52	62.7	22.0
Other Loans	5,612.40	4.0	10,404.29	6.1	85.4
Allowance for doubtful accounts and for loss on debt restructuring	(2,425.28)	(1.7)	(4,162.02)	(2.4)	71.6
Other Assets	5,023.94	3.6	5,909.06	3.4	17.6
<b>Total – The Company and Subsidiaries</b>	<b>138,804.36</b>	<b>100.0</b>	<b>171,407.54</b>	<b>100.0</b>	<b>23.5</b>



**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2009		December 31, 2010		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	110,507.42	87.5	123,849.04	79.1	12.1
Interbank and money market items	6,380.22	5.1	10,842.76	6.9	69.9
Long-term borrowings	5,429.75	4.3	15,460.40	9.9	184.7
Others	3,968.25	3.1	6,398.11	4.1	61.2
<b>Total – The Company and Subsidiaries</b>	<b>126,285.64</b>	<b>100.0</b>	<b>156,550.32</b>	<b>100.0</b>	<b>24.0</b>

**Table 5: Loans and Receivables Breakdown**

Type of Business	December 31, 2009		December 31, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	6,811.98	6.0	10,996.33	7.3	61.4
Real estate and construction	6,167.64	5.4	6,374.43	4.3	3.4
Public utilities and services	1,781.04	1.6	4,905.58	3.3	175.4
Agriculture and mining	118.13	0.1	155.24	0.1	31.4
<b>Commercial Lending</b>	<b>14,878.78</b>	<b>13.1</b>	<b>22,431.58</b>	<b>15.0</b>	<b>50.8</b>
<b>SME Loans</b>	<b>4,669.58</b>	<b>4.1</b>	<b>9,425.41</b>	<b>6.3</b>	<b>101.8</b>
Hire purchase	86,596.39	76.5	106,047.24	70.8	22.5
Housing	1,475.83	1.3	1,422.29	0.9	(3.6)
<b>Retail Loans</b>	<b>88,072.22</b>	<b>77.8</b>	<b>107,469.52</b>	<b>71.8</b>	<b>22.0</b>
Others	5,612.40	5.0	10,404.29	6.9	85.4
<b>Total – The Company and Subsidiaries</b>	<b>113,232.98</b>	<b>100.0</b>	<b>149,730.80</b>	<b>100.0</b>	<b>32.2</b>

**Table 6: Deposits Structure**

Type of Deposits	December 31, 2009		December 31, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	7,430.53	6.7	4,859.99	3.9	(34.6)
Saving accounts	17,920.36	16.2	25,671.55	20.7	43.3
Fixed accounts	1,939.79	1.8	1,169.53	0.9	(39.7)
Negotiate certificate deposit	29,515.42	26.7	16,832.16	13.6	(43.0)
Promissory notes and Bill of exchange	2.38	0.0	2.38	0.0	0.0
Short-term borrowings	53,698.94	48.6	75,313.44	60.8	40.3
<b>Total deposits</b>	<b>110,507.42</b>	<b>100.0</b>	<b>123,849.04</b>	<b>100.0</b>	<b>12.1</b>

**Table 7: NPL Breakdown by Area**

Type of Business	December 31, 2009			December 31, 2010			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.8	122.15	4.4	0.9	99.65	3.8	(18.4)
Real estate and construction	6.8	422.46	15.1	5.5	352.90	13.3	(16.5)
Public utilities and services	2.9	52.49	1.9	1.6	76.76	2.9	46.2
Agriculture and mining	2.6	3.10	0.1	4.0	6.24	0.2	101.0
<b>Total NPL - Commercial Loans</b>	<b>4.0</b>	<b>600.21</b>	<b>21.4</b>	<b>2.4</b>	<b>535.55</b>	<b>20.2</b>	<b>(10.8)</b>
<b>NPL-SME Loans</b>	<b>1.6</b>	<b>72.65</b>	<b>2.6</b>	<b>0.8</b>	<b>76.64</b>	<b>2.9</b>	<b>5.5</b>
Hire purchase	1.7	1,497.31	53.4	1.4	1,496.09	56.4	(0.1)
Housing	11.6	170.50	6.1	8.7	123.98	4.7	(27.3)
<b>Total NPL - Retail Loans</b>	<b>1.9</b>	<b>1,667.82</b>	<b>59.4</b>	<b>1.5</b>	<b>1,620.07</b>	<b>61.0</b>	<b>(2.9)</b>
<b>Others</b>	<b>7.0</b>	<b>465.90</b>	<b>16.6</b>	<b>3.6</b>	<b>421.82</b>	<b>15.9</b>	<b>(9.5)</b>
<b>Total NPL – The Company and Subsidiaries</b>	<b>2.5</b>	<b>2,806.57</b>	<b>100.0</b>	<b>1.8</b>	<b>2,654.08</b>	<b>100.0</b>	<b>(5.4)</b>



**Table 8: Assets under Management Breakdown by Type of Fund**

Type of Fund	December 31, 2009		December 31, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	70,461.35	57.2	77,265.69	56.4	9.7
Private Fund	37,797.42	30.7	42,027.46	30.7	11.2
Mutual Fund	15,027.62	12.2	17,721.80	12.9	17.9
<b>Total</b>	<b>123,286.40</b>	<b>100.0</b>	<b>137,014.95</b>	<b>100.0</b>	<b>11.1</b>

**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	
	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010
Assets	1.62	1.57	432.73	531.41
Liabilities*	0.62	0.86	(737.17)	(761.94)
Net Gap	1.00	0.71	(304.44)	(230.53)

Note : \* Exclude saving and current account