

Management Discussion and Analysis For the Second Quarter ended June 30, 2011

(This report discusses principal changes in the unreviewed consolidated financial statement for the second quarter ended June 30, 2011)

Movement of Money Market and Capital Market

During the second quarter of 2011, the Bank of Thailand (BOT) raised the policy rate twice from 2.50% at the end of first quarter 2011 to 2.75% and 3.00% driven by continual rising inflationary pressure. Meanwhile, average 3-month fixed deposit rates of Top 5 commercial banks increased from 1.45% at the end of first quarter of 2011 to 1.76 % at the end of this quarter, while the average minimum lending rate of Top 5 commercial banks increased from 6.70% at the end of first quarter of 2011 to 6.95% at the end of this quarter.

In the second quarter of 2011, the capital market was fluctuated driven by concerns over global economic uncertainty as well as domestic political direction after the general election. Moreover, the SET index improved from the first quarter of 2011 ending at 1,047.48 points to 1,065.63 points at the end of this quarter. The average daily turnover slightly decreased from 30,808.22 million baht in first quarter of 2011 to 29,438.92 million baht in this quarter.

Operating Results

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

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 79.55 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 2011, TISCO Group had the net profit after minority interest at 863.20 million baht, increased by 100.32 million baht (13.2% YoY) contributed by an increase in net interest income of 9.8% (YoY) following strong expansion in loan portfolio of 36.7% (YoY). However, loan spread declined from 5.1% compared to 4.1% in this quarter. Non-interest income from core business reported at 1,012.90 million baht, increased by 34.25 million baht (3.5% YoY) mainly contributed by growth in banking fee of 18.2% (YoY) following the growth in loan and bancassurance businesses. Furthermore, brokerage income increased by 15.3% (YoY) following an improvement in capital market condition. In addition, the basic fee income from asset management business increased by 9.7% (YoY), which was mainly contributed by expansion of asset under management.

During the first half of 2011, TISCO Group had the net profit after minority interest at 1,691.80 million baht, increased by 216.64 million baht (14.7% YoY) compared to 1,475.15 million baht in same period of last year, contributed by an increase in net interest income of 10.9% (YoY). However, loan spread declined from 5.0% to 4.2% in this period. Moreover, non-interest income from core business reported at 2,021.85 million baht, increased by 222.18 million baht (12.3% YoY) contributed by growth in non-interest income from banking business of 21.5% (YoY) following the growth of loan and bancassurance businesses. Furthermore, the brokerage income increased by 34.0% (YoY) following an improvement in capital market condition in this period. In addition, the basic fee income from asset management business increased by 18.2% (YoY), which was mainly contributed by expansion of asset under management.

Diluted earnings per share for the second quarter and first half of 2011 were 1.19 baht and 2.32 baht respectively compared with those in the same period in 2010 of 1.05 baht and 2.03 baht, respectively. The return on average equity (ROAE) for the second quarter and first half of 2011 were at same level of 22.9% compared those in same period of 2010 of 23.0% and 22.9%, respectively.

Net Interest Income

Net interest income in this quarter was 1,875.49 million baht, increased by 167.89 million baht (9.8% YoY), while interest income was 3,010.23 million baht, increased by 718.60 million baht (31.4% YoY), following an expansion in loan portfolio. Meanwhile, interest expense increased by 550.71 million baht (94.3% YoY) to 1,134.74 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 6.9% to 6.7% (YoY) due to intense price competition, especially hire purchase business. Meanwhile, TISCO Group's cost of fund increased from 1.9% to 2.6% driven by upward interest rate environment. As a result, loan spread declined from 5.1% to 4.1% (YoY).

TISCO Group reported net interest income after impairment loss of loans and debt securities for the second quarter of 2011 of 1,547.35 million baht, increased by 260.22 million baht (20.2% YoY). Impairment loss of loans and debt securities was 328.14 million baht, which was considered as normal level in supporting future loan growth, compared to 420.47 million baht (YoY). Despite, the set up of provision at normal level, the general reserve was increased by 109.22 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 326.13 million baht and impairment on investment in receivable totaling 2.01 million baht.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 1,012.90 million baht increased by 34.25 million baht (3.5% YoY), compared with 978.65 million baht in the second quarter of 2010. However, if excluding the gain from sales of property foreclosed and fee income from advisory service to Financial Institutions Development Fund for the sales of stake in Siam City Bank Plc. which occurred in the

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second quarter of 2010, the non-interest income from core business will increase by 304.69 million baht (43.0% YoY) following an increase in banking fee of 100.29 million baht (18.2% YoY), to 651.92 million baht as contributed by continual growth in loan and bancassurance businesses. Furthermore, brokerage income increased by 20.67 million baht (15.3% YoY) following the improvement in capital market. Meanwhile, the basic fee income from asset management business increased by 14.75 million baht (9.7% YoY), mainly contributed by expansion in the asset under management. However, fee income from investment banking business decreased by 149.23 million baht (94.3% YoY) as there was fee income from advisory service to Financial Institutions Development Fund for the divestment of stake in Siam City Bank Plc. in the second of 2010. Moreover, TISCO Group recorded gain from investment totaled 56.71 million baht, increased by 59.9% from 35.47 million baht in same period of previous year. In addition, total non-interest income increased by 58.85 million baht (5.8% YoY). Meanwhile, fee and service expenses were 55.09 million baht, increased by 7.9% YoY, compared with same period of last year at 51.03 million baht.

Non-interest Expenses

Non-interest expenses for this quarter were 1,343.22 million baht, increased by 175.01 million baht (15.0% 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 46.4%, comparing to 43.6% in the second quarter of 2010.

Corporate Income Tax

In the second quarter of 2011, the corporate income tax was 358.14 million baht, equivalent to the effective tax rate of 29.2%, 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 June 30, 2011 and March 31, 2011.

Assets

TISCO Group's total assets as of June 30, 2011 were 198,421.49 million baht increased by 2,747.37 million baht (1.4% QoQ) mainly contributed by loan growth from 165,896.95 million baht to 174,979.44 million baht (5.5% QoQ).

Liabilities

Total liabilities as of June 30, 2011 were 180,143.43 million baht, increased by 2.0% (QoQ) from 183,759.82 million baht mainly contributed by an increase in bill of exchanges amounted to 10,694.89 million baht (10.2% QoQ) and interbank and money market item of 5,476.65 million baht (69.3% QoQ). The

liabilities mix comprised of 82.1% total deposit including bill of exchange, 7.3% interbank and money market items, 6.7% long-term borrowings, and 3.9% other liabilities.

Shareholders' Equity

Shareholder's equity as of June 30, 2011 were 14,661.67 million baht, decreased by 869.02 million baht (5.6% QoQ) as the Company paid annual dividend from operation result for the year 2010 at 2.25 baht per common and preferred share in May 2011, totaling 1,637.74 million baht with dividend payout ratio of 56.7%. The book value per share (BVPS) as of June 30, 2011 was 20.14 baht per share, decreased from 21.33 baht per share (QoQ). In the second quarter of 2011, the Company 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

At the end of the second quarter of 2011, total consolidated loans and receivables were 174,979.44 million baht, up by 9,082.50 million baht (5.5% QoQ), following growth in all businesses, especially corporate loans. The composition of loan portfolio was 72.4 % of retail loans, 17.7 % of corporate loans, 6.8 % of SME loans and 3.2 % of other loans.

Retail lending portfolio totaled 126,618.82 million baht, consisted of 93.8% car, motorcycle, and other hire purchase, 5.1% personal loan and 1.2% mortgage loans. The outstanding hire purchase loans totaled 118,787.17 million baht, rose by 4,641.74 million baht (4.1% QoQ). Car hire purchase new business volume amounted 15,384.20 million baht, increased by 1,273.08 million baht (8.3% YoY), while the domestic car sales in the first 5-month of 2011 reported at 361,753 units increased from 286,135 units (26.4 % YoY). The car penetration rate for the first 5-month was reported at 12.1%, which was at high level comparing with average penetration rate of 11.2% in 2010. In addition, the consumer loan which was mainly contributed by loan against auto license (TISCO Auto Cash) totaled 6,468.15 million baht, increased by 550.14 million baht (9.3% QoQ)

Corporate lending portfolio totaled 30,884.81 million baht, significantly increased by 3,281.94 million baht (11.9% QoQ), mainly due to an increase in loan to public utilities and services and agricultural and mining business.

SME lending portfolio totaled 11,940.22 million baht, up by 342.59 million baht (3.0% QoQ), mainly due to an increase in loan to construction material and agricultural and mining business.

Other loan portfolio totaled 5,535.59 million baht, increased by 268.97 million baht (5.1% QoQ) from 5,266.62 million baht in previous quarter.

Deposit

Total deposit¹ totaled 150,958.36 million baht, increased by 1,633.37 million baht (1.1% QoQ) mainly from an increase in bill of exchanges. In addition, the portion of saving accounts and current accounts to total deposits declined from 18.9% to 13.3% (QoQ) 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.

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 1.6% as of June 30, 2011. Additionally, NPL ratio of retail loan, corporate loan, and SME loan were 1.3%, 1.7% and 2.2%, respectively with total NPLs of 2,834.67 million baht which increased by 9.9% (QoQ) or 255.55 million baht during the period. (NPLs of the Bank was 2,555.33 million baht and 279.34 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 328.14 million baht, compared to 420.47 million baht (YoY) which was considered as normal level. However, the general reserve increased by 109.22 million baht due to an improvement in asset quality. As of June 30, 2011, loan loss reserve of TISCO Group was 4,605.18 million baht or 162.5 % of NPLs. Total loan loss reserve of the Bank was 4,319.48 million baht with specific reserve for classified loan of 1,745.93 million baht and general reserve of 2,573.55 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,722.95 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

At the end of the second quarter of 2011, the SET index continual increased following the recovery in domestic economy. Average daily turnover of TISCO Securities Co., Ltd. was 1,290.41 million baht increased by 14.0% (YoY), compared to 1,132.11 million baht in second quarter of 2010. Furthermore, TISCO Securities' average market share was decreased from 2.41% to 2.12% (YoY), mainly due to the decrease in market share of local institutional from 9.89% to 7.52%. Brokerage fee was 155.74 million baht, up by

15.3% (YoY) from 135.07 million baht in same period of 2010. Meanwhile, TISCO brokerage volume in second quarter of 2011 comprised of 28.1% of local institutions, 20.5% of foreign institutions, and 51.4% of retail customers. In addition, fee income from investment banking business in the second quarter of 2011 was 9.00 million baht, comparing to 158.23 million baht in same period of 2010 due mainly to in the second quarter of 2010, investment banking business recorded fee from advisory service to the Financial Institution Developments Fund (FIDF) for the sales of stake in Siam City Bank Plc.

(3) Asset Management Business

As of May 31, 2011, asset management industry slightly declined from March 31, 2011 by 58,463.36 million baht (2.2% QoQ) due to the delay of investment decision and waiting for the outcome of election. TISCO's assets under management as of June 30, 2011 were 136,259.94 million baht, decreased by 4,563.05 million baht (3.2% QoQ) due to lower asset under management in private fund business, following intense price competition. Despite the decrease in fund size, TISCO Asset Management Co., Ltd. was able to maintain the basic fee income from asset management to be the same level as in the second quarter of 2010. Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2011 was 5.1%, ranking 7th in the market. The market share of provident fund was 13.5%, ranking 3rd while the market share of private fund was and 15.1%, ranking 2nd in the market. For mutual fund, the market share was 0.9%, ranking 16th in the market.

In second quarter of 2011, basic fee income from asset management totaled 166.92 million baht, increased by 14.75 million baht (9.7% YoY) following an increase in asset under management. As a result, total fee income from asset management as of June 30, 2011 increased by 39.31 million baht to 163.77 million baht (31.6% QoQ). The composition of total asset under management was 58.6% of provident fund, 28.8% of private fund, and 12.6% of mutual fund.

Risk Management

As of June 30, 2011, the integrated risk based on internal capital adequacy assessment framework increased by 562.71 million baht or 6.6% from the first quarter to 9,067.29 million baht owing to increasing credit risk from portfolio expansion especially corporate loan portfolio. However, the capital surplus remained strong at 3,582.02 million baht or 28.3% compared with total internal capital of 12,649.31 million baht comprising of Tier-I capital and available reserve adjustment.

Comparing to the first quarter of 2011, the credit risk capital rose by 335.72 million baht to 6,247.53 million baht following the expansion of overall portfolio during the quarter. The non-performing loan to total loans slightly increased from 1.5% to 1.6%. The retail lending business and the wholesale lending - SME lending businesses expanded by 4.3% from 132,951.95 million baht to 138,647.72 million baht and 9.6% from 32,321.80 to 35,414.99 million baht respectively. Meanwhile, the market risk capital rose by 177.71

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

million baht from 1,468.47 million baht to 1,646.18 million baht, resulting from an increase in interest rate in banking book together with an increase in risk of listed equity portfolio.

The overall interest rate risk in banking book increased following the portfolio expansion. As the assets duration increased from 1.50 years to 1.54 years, the liabilities duration excluding saving and current accounts which are less sensitive to the interest rate movement decreased from 0.67 year to 0.64 year resulting from increasing in short-term bill of exchange with 1 month maturity. Therefore, the duration gap of assets and liabilities increased which was still manageable level in the range of 11 months.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of first quarter, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 14.16% 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 10.17% and 6.00%, 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 66.64%, higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q10		2Q11		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest income					
Interest on loans	367.31	13.7	803.98	27.8	118.9
Interest on interbank and money market items	39.62	1.5	92.83	3.2	134.3
Hire purchase and financial lease income	1,761.47	65.8	2,054.47	70.9	16.6
Investments	123.23	4.6	58.95	2.0	(52.2)
Total interest income	2,291.63	85.6	3,010.23	103.9	31.4
Interest expenses	(584.44)	(21.8)	(1,134.74)	(39.2)	94.2
Net interest income	1,707.19	63.8	1,875.49	64.7	9.9
Fee Income					0.0
Fee Income	711.23		766.22	26.5	7.7
Fee Expenses	(47.98)		(55.09)	(1.9)	14.8
Net Fee Income	663.25		711.14	24.6	7.2
Gain on investment and foreign exchange transaction	39.04		63.23	2.2	62.0
Other Income	267.42		246.67	8.5	(7.8)
Net Operating Income	2,676.89		2,896.53	100.0	8.2
Non-interest expenses	(1,168.21)		(1,343.22)		
Impairment loss of loans and debt securities	(420.47)		(328.14)		
Bad debt written back revenue	-		-		
Profit before income tax and minority interest	1,088.21		1,225.17		
Corporate income tax	(320.87)		(358.14)		
Profit before minority interest	767.34		867.03		
Minority interest in net earnings in subsidiary company	(4.47)		(3.84)		
Net Profit	762.87		863.20		

Table2: Interest Spread

%	2010	2Q10	2Q11	6M10	6M11
Yield on Loans	6.7	6.9	6.7	6.9	6.7
Cost of fund	1.9	1.9	2.6	1.9	2.5
Loan spread	4.8	5.1	4.1	5.0	4.2

Table 3: Assets Breakdown

Assets	March 31, 2011		June 30, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	757.14	0.4	849.35	0.4	12.2
Interbank and Money Market Items	21,044.75	10.8	16,881.86	8.5	(19.8)
Derivative Asset	16.86	0.0	4.78	0.0	0.0
Fixed income	2,773.37	1.4	1,857.12	0.9	(33.0)
Equity	3,464.23	1.8	2,563.72	1.3	(26.0)
Corporate Loans	27,602.87	14.1	30,884.81	15.6	11.9
Retail Loans	121,429.82	62.06	126,618.82	64.71	4.27
SME Loans	11,597.63	5.9	11,940.22	6.0	3.0
Other Loans	5,266.62	2.7	5,535.59	2.8	5.1
Allowance for doubtful accounts and for loss on debt restructuring	(4,386.51)	(2.2)	(4,605.18)	(2.3)	5.0
Other Assets	6,107.34	3.1	5,890.40	3.0	(3.6)
Total – The Company and Subsidiaries	195,674.12	100.0	198,421.49	100.0	1.4

Table 4: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2011		June 30, 2011		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	149,324.99	82.9	150,958.36	82.1	1.1
Interbank and money market items	7,901.09	4.4	13,377.75	7.3	69.3
Long-term borrowings	15,505.97	8.6	12,330.84	6.7	(20.5)
Others	7,411.37	4.1	7,092.88	3.9	(4.3)
Total – The Company and Subsidiaries	180,143.43	100.0	183,759.82	100.0	2.0

Table 5: Loans and Receivables Breakdown

Type of Business	March 31, 2011		June 30, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	14,646.12	8.8	16,428.16	9.4	12.2
Real estate and construction	7,664.58	4.6	8,313.44	4.8	8.5
Public utilities and services	5,118.65	3.1	5,944.22	3.4	16.1
Agriculture and mining	173.52	0.1	198.99	0.1	14.7
Commercial Lending	27,602.87	16.6	30,884.81	17.7	11.9
SME Loans	11,597.63	7.0	11,940.22	6.8	3.0
Hire purchase	114,145.43	68.8	118,787.17	67.9	4.1
Housing	1,366.38	0.8	1,363.50	0.8	(0.2)
Consumer	5,918.01	3.57	6,468.15	3.70	9.30
Retail Loans	121,429.82	73.2	126,618.82	72.4	4.3
Others	5,266.62	3.2	5,535.59	3.2	5.1
Total – The Company and Subsidiaries	165,896.95	100.0	174,979.44	100.0	5.5

Table 6: Deposits Structure

Type of Deposits	March 31, 2011		June 30, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	5,438.23	3.6	3,653.30	2.4	(32.8)
Saving accounts	22,797.89	15.3	16,482.71	10.9	(27.7)
Fixed accounts	1,030.20	0.7	998.02	0.7	(3.1)
Negotiate certificate deposit	14,813.03	9.9	13,883.79	9.2	(6.3)
Promissory notes and Bill of exchange	-	0.0	-	0.0	0.0
Short-term borrowings	105,245.64	70.5	115,940.53	76.8	10.2
Total deposits	149,324.99	100.0	150,958.36	100.0	1.1

Table 7: NPL Breakdown by Area

Type of Business	March 31, 2011			June 30, 2011			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.7	109.32	4.2	0.6	94.83	3.3	(13.2)
Real estate and construction	4.6	348.99	13.5	4.2	352.04	12.4	0.9
Public utilities and services	1.5	76.82	3.0	1.1	67.03	2.4	(12.7)
Agriculture and mining	2.3	4.06	0.2	2.3	4.50	0.2	10.8
Total NPL - Commercial Loans	2.0	539.18	20.9	1.7	518.39	18.3	(3.9)
NPL-SME Loans	0.7	79.75	3.1	2.2	261.52	9.2	227.9
Hire purchase	1.2	1,409.28	54.6	1.3	1,486.99	52.5	5.5
Housing	8.2	111.41	4.3	8.5	115.98	4.1	4.1
Total NPL - Retail Loans	1.3	1,520.69	59.0	1.3	1,602.98	56.5	5.4
Others	6.7	439.50	17.0	6.6	451.78	15.9	2.8
Total NPL – The Company and Subsidiaries	1.5	2,579.13	100.0	1.6	2,834.67	100.0	9.9

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2011		June 30, 2011		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	78,426.19	55.7	79,823.68	58.6	1.8
Private Fund	45,124.39	32.0	39,301.75	28.8	(12.9)
Mutual Fund	17,308.41	12.3	17,170.51	12.6	(0.8)
Total	140,858.99	100.0	136,295.94	100.0	(3.2)

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 (MB)	
	March 31, 2011	June 30, 2011	March 31, 2011	June 30, 2011
Assets	1.50	1.54	694.57	647.97
Liabilities*	0.67	0.64	(1,093.56)	(1,141.01)
Net Gap	0.84	0.90	(398.99)	(493.04)

Note : * Exclude saving and current account