

Management Discussion and Analysis For the year ended December 31, 2008

(This report discusses principal changes in the unreviewed consolidated financial statement for the year ended December 31, 2008)

TISCO Group Restructuring

In 2008, under the restructuring plan of TISCO Group¹, TISCO Financial Group Public Company Limited (“the Company”) was set up and became a parent company of TISCO Group in place of TISCO Bank Public Company Limited (“the Bank”). The Company acquired all stakeholding in the Bank and other subsidiary companies identical to shareholding structure of the Bank before restructuring. The tender offer was successful on January 9, 2009 with the securities offered for the swap represented 99.51% of total outstanding paid-up shares of the Bank. The Company will be listed and tradable on the SET starting from January 15, 2009 onwards. In addition, operating performance of the bank and other subsidiary companies were consolidated in the Company’s financial statement starting from January 1, 2008 onward.

Moreover, the Company acquired 49% of shares in Tokyo Leasing (Thailand) Company Limited on December 30, 2008. Afterward, Tokyo Leasing (Thailand) Company Limited changed its name to TISCO Tokyo Leasing (Thailand) Company Limited and became a subsidiary company of TISCO Group, which its performance was consolidated in the Company’s financial statement starting from the end of 2008 onwards.

The Management Discussion and Analysis compares operating performance and financial position of TISCO Group for the year 2008, with TISCO Financial Group Public Company Limited as the parent company, with those of the year 2007, with TISCO Bank Public Company Limited as the parent company.

Movement of Money Market and Capital Market

In 2008, under highly fluctuated capital market, the Bank of Thailand raised its policy rate (Repo 1-day) twice in the third quarter from 3.25% at the end of 2007 to 3.50% and 3.75% in order to alleviate soaring inflation rate. However, the BoT lowered its policy rate to 2.75% in December 2008 with an attempt to stimulate domestic economy, together with easing inflation situation by the end of the third quarter. The rate cut was considered in line with monetary policy in other countries. Meanwhile, average 1-year fixed deposit rates of commercial banks increased from 2.50% at the end of 2007 to 3.00% at the end of the second quarter of 2008, then lowered to 2.00% at the end of 2008.

The SET index declined by 408.14 points from the end of the 2007, closed at 449.96 points following sluggish global capital market resulting from U.S. financial crisis, together with local political turmoil. As a

¹ After restructuring is complete, TISCO Group will comprise of TISCO Financial Group Public Company Limited as a parent company, and other subsidiary companies as follows: TISCO Bank Public Company Limited, Hi-Way Company Limited, TISCO Securities Company Limited, TISCO Asset Management Company Limited, TISCO Information Technology Company Limited, and TISCO Tokyo Leasing (Thailand) Company Limited.

result of weak sentiment, foreign investors recorded consecutive net selling during the year 2007. Average daily turnover decreased by 1,227.11 million baht to 15,869.94 million baht.

Operating Results

TISCO Financial Group Public Company Limited, as a holding company, 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.

In 2008, TISCO Group recorded income before minority interest of 1,720.61 million baht, increased by 69.43 million baht (4.2% YoY). Net interest and dividend income increased by 19.3% (YoY) following strong growth in corporate and retail lending businesses of 19.3% (YoY) together with a higher loan spread² at 3.7% compared to 3.5% in the year 2007. Non-interest income of TISCO Group's core businesses increased by 15.2% (YoY) as contributed by an increase in income from hire-purchase business of 76.6% (YoY), an increase in income from bancassurance business of 30.8% (YoY), an increase in income from financial advisory business of 61.4% (YoY), and an increase in income from asset management business of 2.4% (YoY), while brokerage income decreased by 16.9% (YoY) following sluggish investment environment. Overall, total non-interest income decreased by 12.7% (YoY) due to loss from investment of 222.61 million baht.

Diluted earnings per share for year 2008 were 2.11 baht increased from 2.01 baht in 2007. The average return on equity (ROAE) for the year 2008 was 14.39% with those in 2007 of 13.18%.

Net Interest and Dividend Income

Net interest and dividend income for the year 2008 was 4,161.63 million baht, increased by 673.82 million baht (19.3% YoY), interest and dividend income was 7,585.82 million baht, increased by 641.63 million baht (9.2% YoY). Meanwhile, interest expense increased by 32.18 million baht (0.9% YoY) to 3,424.19 million baht following strong loan growth.

Loan spread increased to 3.7% compared to 3.5% in 2007, as TISCO Group has pursued the strategy to penetrate in high-yield loan segments under prudent risk management. Meanwhile, TISCO Group captured low-yield cost of fund segment by expanding retail deposit base via variety of saving product that meets customer needs resulting in growth in deposit³ of 46.9% (YoY).

TISCO Group reported net interest and dividend income after bad debts and doubtful account of 3,107.13 million baht, increased by 338.57 million baht (12.2% YoY). Bad debts and doubtful account was

² After Commission and Direct Expense from Hire Purchase Business

1,054.50 million baht, which was considered as normal in supporting future loan growth, compared to 719.25 million baht in 2007.

Non-interest Income

Non-interest income of TISCO Group's core businesses recorded at 2,356.94 million baht, increased by 310.76 million baht (15.2% YoY) as contributed by an increase in income from hire-purchase business of 171.98 million baht (76.6% YoY), an increase in income from bancassurance business of 121.72 million baht (30.8% YoY), an increase in income from financial advisory business of 30.06 million baht (61.4% YoY), and an increase in income from asset management business of 10.72 million baht (2.4% YoY), while brokerage income decreased by 106.13 million baht (16.9% YoY) following sluggish investment environment. Overall, total non-interest income decreased by 310.08 million baht (12.7% YoY) due to loss from investment of 222.61 million baht.

Non-interest Expenses

Non-interest expenses for 2008 were 3,233.81 million baht, increased by 285.42 million baht (13.7% YoY). The increase was due to higher personnel expenses associated with higher income, and higher premises and equipment expenses from investment in information technology and infrastructure in supporting increased business volume and service coverage.

Corporate Income Tax

In 2008, the corporate income tax was 361.04 million baht, equivalent to the effective tax rate of 17.3%, compared to 27.9% in 2007.

Financial Status**Assets**

TISCO Group's total assets as of December 31, 2008 were 126,173.13 million baht, increased by 27,220.04 million baht (27.5% YoY) following strong loan growth from 86,420.41 million baht to 103,109.71 million baht (19.3% YoY) together with higher short-term liquidity of 12,540.82 million baht following active funding activities to support future loan growth.

Liabilities

Total liabilities as of December 31, 2008 were 114,637.10 million baht, increased by 28,057.61 million baht (32.4% YoY) following an increase in deposit of 32,132.08 million baht (46.9% YoY).

³ Deposit includes short-term borrowings from the Bank's regular client base

Shareholders' Equity

Shareholder's equity as of December 31, 2008 was 11,536.04 million baht, and book value per share (BVPS) was 15.92 baht. TISCO Group had paid-up shares amounting 724.61 million shares, comprising 541.18 million common shares and 183.50 million preference shares. As the Company successfully acquired 99.51% of securities of TISCO Bank from tender offer, and also held 49% of shares in TISCO Tokyo Leasing (Thailand) Company Limited, TISCO Group recorded minority interest amounting 118.04 million baht as of December 31, 2008.

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables were 103,109.71 million baht, up by 16,689.30 million baht (19.3% YoY), following growth in corporate and retail loan. The composition of loan portfolio was 76.6% of retail loans, 18.9% of corporate loans, and 4.5% of other loans.

Retail lending portfolio consisted of 97.8% car, motorcycle, and other hire purchase and 2.2% mortgage loans. Outstanding hire purchase loans equaled 77,287.11 million baht, rose by 12,602.71 million baht (19.5% YoY). Car hire purchase new business volume amounted 41,448.99 million baht, increased by 4,432.18 million baht (12.0% YoY). The domestic car sales for 11 months of 2008 reported at 555,078 units decreased from 566,906 units (2.1% YoY), resulting in car penetration rate of 10.2%, compared with average penetration rate of 9.4% in 2007.

Corporate lending portfolio of the Bank and its subsidiaries totaled 19,488.07 million baht, up by 3,871.52 million baht (24.8% YoY), mainly due to an increase in loans to real estate and construction industry, public utilities and services, and agricultural and mining.

Deposit

Total deposit totaled 100,591.04 million baht, increased by 32,132.08 million baht (46.9% YoY). The portion of saving accounts and current accounts contributed to 11.5% of total deposits, increased from 6.2% (YoY).

Loans to Deposit Ratio

The loans to deposit ratio decreased from 126.2% to 102.5% (YoY) as a result of strong growth in retail deposit base and higher short term excess liquidity.

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. In which, the percentage of total NPLs declined from 4.3% at year-end 2007 to 2.9% as of December 31, 2008. Additionally, the percentage of NPLs of retail loan and corporate loan was 2.4% and 3.1%, respectively with

total NPLs of 2,984.42 million baht which declined by 20.4% or 766.99 million baht during the period. (NPLs of the Bank was 2,566.08 million baht and there was NPLs of 418.34 million baht from other subsidiaries)

TISCO Group has applied the portfolio provisioning approach to the car hire-purchase portfolio following Basel II and Collective Approach framework. In which, the loan loss reserve will be based on expected loss from historical loss data incorporating with adjustment for the recent market situation. As of December 31, 2008, loan loss reserve of TISCO Group was 1,854.53 million baht or 62.1% of NPLs. In which, the total loan loss reserve of the Bank was 1,604.48 million baht with specific reserve for classified loan of 1,336.89 million baht and general reserve of 266.59 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,270.58 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

At the end of 2008, the SET index ended at 449.96 points, decreased from 858.10 points (YoY), with average daily turnover of 15,869.94 million baht, decreased from 17,097.05 million baht (YoY) following bearish capital market as affected by global capital market conditions.

Average daily turnover of TISCO Securities Co., Ltd. decreased from 1,049.24 million baht to 845.01 million baht (YoY). Average market share decreased from 3.03% to 2.64% (YoY), mainly due to a decrease in market share of local institutional sector from 5.60% to 4.11% as overall institutional investors had lower trading volume comparing to total trading volume in the market. In addition, the majority of TISCO's client emphasized on long-term investment and seldom traded on regular basis. In terms of revenue, brokerage commission income decreased from 627.34 million baht to 521.21 million baht (YoY) Meanwhile, TISCO brokerage volume in 2008 comprised of 30.5% of foreign institutions, 26.4% of local institutions, and 43.1% of retail customers.

Fee income from investment banking business continuously improved since the second quarter of 2007 after realigning business strategy to be in line with current capital market situation. Investment banking fee increased by 30.06 million baht to 78.99 million baht (61.4% YoY).

(3) Asset Management Business

Fee income from asset management totaled 464.45 million baht, increased by 10.72 million baht (2.4% YoY). The asset management fee comprised of basic fee of 447.20 million baht, increased by 82.20 million baht (22.5% YoY) in line with growth in asset under management. However, performance and incentive fee declined by 71.48 million baht (80.5% YoY) following sluggish capital market environment.

As of November 30, 2008, asset management industry shrank by 282,101.98 million baht (12.7%) from December 31, 2007. During the year 2008, TISCO Asset Management Co., Ltd. was successful in launching variety of funds. However, due to sluggish capital market since the second half of 2008 onwards, TISCO Asset Management Co., Ltd. recorded assets under management of 106,985.17 million baht, slightly

decreased by 728.14 million baht (0.7% YoY). The composition of total asset under management was 64.1% of provident fund, 22.3% of private fund, and 13.7% of mutual fund. In addition, mutual fund business successfully launched Foreign Investment Funds (FIF) in 2008, which were well-responded from investors. Those FIFs were TISCO Korean Bond Fund #2, TISCO Sovereign Bond #1-2 and TISCO China Link Fund #3.

Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2008 was 5.30%, ranking 8th in the market. Provident fund business has stepped up to be the 1st in the market since January 2008 onwards with market share of 14.71%. The market share of private fund was 13.76%, ranking 3rd in the market. For mutual fund, the market share was 1.05%, ranking 15th in the market which was up from 17th ranking in December 2007 with market share of 0.9% following aggressive business strategy. In addition, TISCO Asset Management Co., Ltd. recorded an achievement in FIF investment, namely TISCO Asia Pacific ex Japan Trigger 15% fund, in which the fund successfully generated the target returns within 3 months.

Risk Management

The capital of TISCO group as of December 31, 2008 was 11,535.60 million baht higher than the integrated risk capital requirement at 8,467.50 million baht, which calculated based on internal risk model, by 24.5%. During the past year, the internal risk capital requirement increased by 788.39 million baht, resulting from continuing business growth.

Compared to the end of 2007, the market risk capital slightly increased by 49.78 million baht from 2,538.59 million baht to 2,588.37 million baht, primarily resulted from higher interest rate volatility offsetting by lower equity market value, due to global financial crisis and domestic political issues. Meanwhile, the credit risk capital rose by 735.05 million baht to 5,104.70 million baht following the expansion of hire purchase business by 19.5% from 64,684.40 million baht at the end of 2007 to 77,287.11 million baht at the end of 2008.

Meanwhile, the interest rate risk increased due to increasing in interest rate volatility. Despite a widening interest rate gap (BPV) from the last year, the gap was still in the manageable level. The difference in the duration of assets and liabilities remained in range approximately 12 months as a result of increasing portion of current deposit and saving deposit which has lower sensitivity to interest rate change.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong levels and sufficient to cushion for the expansion of asset in the future. The regulatory capital adequacy ratio (BIS ratio) based on Basel II reduced from 12.81% to 11.75% following a continuous expansion in loan position while Tier-I capital adequacy ratio decreased from 12.41% to 11.20%. Nevertheless, they remained higher than the 8.5% and 4.25% required by the Bank of Thailand. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. remained strong at 115.86%, greatly higher than the

minimum required ratio by the SEC of 7.0%. Meanwhile, TISCO Group planned to issue subordinated debenture with amount of 2,000 million baht to increase Tier II capital and will improve capital adequacy ratio more than 2.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2007		2008		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	1,044.30	17.6	1,214.90	19.3	16.3
Interest on interbank and money market items.	441.71	7.4	333.89	5.3	(24.4)
Hire purchase and financial lease income	5,173.01	87.2	5,679.67	90.2	9.8
Investments	285.17	4.8	357.37	5.7	25.3
Total interest and dividend income	6,944.19	117.1	7,585.82	120.5	9.2
Interest expenses	(3,456.38)	(58.3)	(3,424.19)	(54.4)	(0.9)
Net interest and dividend income	3,487.81	58.8	4,161.63	66.1	19.3
Non-interest income					
Brokerage Fees	627.34	10.6	521.21	8.3	(16.9)
Gain on securities	398.23	6.7	(222.61)	(3.5)	n.a.
Fees and services income	1,194.33	20.1	1,439.24	22.9	20.5
Others	224.50	3.8	396.49	6.3	76.6
Total non-interest income	2,444.41	41.2	2,134.33	33.9	(12.7)
Total income before bad debts and doubtful accounts	5,932.22	100.0	6,295.96	100.0	6.1
Bad debt and doubtful accounts	(719.25)		(1,054.50)		
Bad debt written back revenue	24.19		74.00		
Total income – net of bad debts and doubtful accounts	5,237.15		5,315.46		
Non-interest expenses	(2,948.39)		(3,233.81)		
Profit before income tax and minority interest	2,288.77		2,081.65		
Corporate income tax	(637.58)		(361.04)		
Profit before minority interest	1,651.18		1,720.61		
Minority interest in net earnings in subsidiary company	(0.07)		(8.38)		
Net Profit	1,651.11		1,712.23		

Table2: Interest Spread

%	2007	2008
Yield on Loans	7.6	7.3
Cost of fund	4.1	3.6
Loan spread	3.5	3.7

Table 3: Assets Breakdown

Assets	December 31, 2007		December 31, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	439.90	0.4	595.57	0.5	35.4
Interbank and Money Market Items	1,050.15	1.1	13,590.97	10.8	1,194.2
Securities purchased under resale agreements	2,400.00	2.4	0.00	0.0	(100.0)
Fixed income	1,390.83	1.4	2,712.75	2.2	95.0
Equity	4,389.73	4.4	2,642.72	2.1	(39.8)
Corporate Loans	15,616.55	15.8	19,488.07	15.4	24.8
Retail Loans	66,572.29	67.3	78,993.14	62.6	18.7
Other Loans	4,231.56	4.3	4,628.50	3.7	9.4
Allowance for doubtful accounts and for loss on debt restructuring	(2,805.96)	(2.8)	(1,854.53)	(1.5)	(33.9)
Other Assets	5,668.02	5.7	5,375.94	4.3	(5.2)
Total – The Company and Subsidiaries	98,953.09	100.0	126,173.13	100.0	27.5

Table 4: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2007		December 31, 2008		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	68,458.96	79.1	100,591.04	87.7	46.9
Interbank and money market items	5,852.19	6.8	5,727.88	5.0	(2.1)
Long-term borrowings	8,005.05	9.2	4,899.30	4.3	(38.8)
Others	4,263.29	4.9	3,418.88	3.0	(19.8)
Total – The Company and Subsidiaries	86,579.49	100.0	114,637.10	100.0	32.4

Table 5: Loans and Receivables Breakdown

Type of Business	December 31, 2007		December 31, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,821.51	9.1	7,342.21	7.1	(6.1)
Real estate and construction	5,041.33	5.8	8,807.72	8.5	74.7
Public utilities and services	2,648.16	3.1	3,212.80	3.1	21.3
Agriculture and mining	105.55	0.1	125.35	0.1	18.8
Commercial Lending	15,616.55	18.1	19,488.07	18.9	24.8
Hire purchase	64,684.40	74.8	77,287.11	75.0	19.5
Housing	1,887.89	2.2	1,706.03	1.7	(9.6)
Retail Lending	66,572.29	77.0	78,993.14	76.6	18.7
<i>Others</i>	4,231.56	4.9	4,628.50	4.5	9.4
Total – The Company and Subsidiaries	86,420.41	100.0	103,109.71	100.0	19.3

Table 6: Deposits Structure

Type of Deposits	December 31, 2007		December 31, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,089.34	3.1	6,414.46	6.4	207.0
Saving accounts	2,157.76	3.2	5,140.40	5.1	138.2
Fixed accounts	28,089.72	41.0	4,043.74	4.0	(85.6)
Negotiate certificate deposit	994.30	1.5	43,221.62	43.0	4,246.9
Promissory notes and Bill of exchange	2,383.05	3.5	2.40	0.0	(99.9)
Short-term borrowings	32,744.79	47.8	41,768.42	41.5	27.6
Total deposits	68,458.96	100.0	100,591.04	100.0	46.9

Table 7: NPL Breakdown by Area

Type of Business	December 31, 2007			December 31, 2008			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	5.6	435.13	11.6	1.4	102.22	3.4	(76.5)
Real estate and construction	14.2	717.70	19.1	4.9	435.09	14.6	(39.4)
Public utilities and services	1.2	32.33	0.9	2.1	68.93	2.3	113.2
Agriculture and mining	0.3	0.35	0.0	0.2	0.25	0.0	(30.0)
Commercial Lending	7.6	1,185.51	31.6	3.1	606.49	20.3	(48.8)
Hire purchase	2.2	1,413.36	37.7	2.2	1,719.79	57.6	21.7
Housing	12.1	229.07	6.1	11.0	187.94	6.3	(18.0)
Retail Lending	2.5	1,642.43	43.8	2.4	1,907.73	63.9	16.2
Others	16.4	923.46	24.6	8.9	470.19	15.8	(49.1)
Total – The Company and Subsidiaries	4.3	3,751.41	100.0	2.9	2,984.42	100.0	(20.4)

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2007		December 31, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	62,702.81	58.2	68,524.87	64.1	9.3
Private Fund	30,416.85	28.2	23,848.51	22.3	(21.6)
Mutual Fund	14,593.65	13.5	14,611.79	13.7	0.1
Total	107,713.31	100.0	106,985.17	100.0	(0.7)

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	
	2007	2008	2007	2008
Assets	1.41	1.35	312.28	473.35
Liabilities	0.52	0.34	(520.50)	(709.93)
Net Gap	0.89	1.01	(208.22)	(236.58)

Note : * Exclude saving and current account