

## Management Discussion and Analysis For the First Quarter ended March 31, 2009

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2009)

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### TISCO Group Restructuring

Reference is made to the Holding Company Restructuring plan of TISCO group<sup>1</sup>, approved by the shareholders' Meeting on April 25, 2008. Upon the approval of the Bank of Thailand on November 13, 2008, TISCO Financial Group Public Company Limited. ("the Company"), a new parent company of TISCO group, has made the tender offer by issuing new securities of the Company for securities of TISCO Bank Public Company Limited ("The Bank"). At present, the restructuring plan has been completed, in which the Company has become the parent company of TISCO Group, holding 99.51% of total outstanding paid-up shares of the bank and acquired all stakeholding in subsidiary companies identical to shareholding structure of the Bank before restructuring and acquired related assets from subsidiaries companies according to plan. In addition, the Company held 49% of shares in TISCO Tokyo leasing Company Limited which its performance was consolidated in the Company's financial statement from the first quarter of 2009 onwards. The Company has become the listed company on the Stock Exchange of Thailand in place of the Bank from January 15, 2009 onwards.

In addition, As at March 2, 2009, TISCO group successfully acquired Primus Leasing Company Limited, a captive leasing company for vehicles under the Ford, Mazda and Volvo Brands, with total assets of around 7 billion baht. The acquisition marks another important milestone in business expansion for TISCO group, even amidst the troubled economic conditions in 2009. The business acquisition will result in TISCO becoming the sole partner in auto floor plans and leasing with the Ford group in Thailand. The Company acquired all of shares in Primus Leasing Company Limited, which its performance was consolidated in the Company's financial statement starting from the beginning of March 2009 onwards.

**The Management Discussion and Analysis compares operating performance for the first quarter of 2009, TISCO Financial Group Public Company Limited as the parent company, with those of the first quarter of 2008, with TISCO Bank Public Company Limited as the parent company. Meanwhile, financial position is a comparison between the financial positions as of March 31, 2009 and December 31, 2008.**

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<sup>1</sup> 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.

## Movement of Money Market and Capital Market

The SET index declined by 18.46 points from the end of the 2008, closed at 431.50 points following sluggish global capital market resulting from U.S. financial crisis. As a result of weak sentiment, Institution investors recorded consecutive net selling during the first quarter of 2009. Average daily turnover decreased by 4,011.40 million baht, to 8,659.71 million baht.

The government issued several economic stimulation plans in attempt to encourage spending and investment. One of the plan was to decrease the policy rate down from 2.0% to 1.5% in late February, 2009. Meanwhile, average 3-Month fixed deposit rates of Top 5 commercial banks decreased from 1.6% at the end of 2008 to 0.8% at the end of this quarter.

## 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 the first quarter of 2009, TISCO group recorded net profit before minority interest of 457.90 million baht, increased by 28.81 million baht (6.7% YoY) contributed by an increase in interest and dividend income of 19.3% following strong expansion in corporate and retail lending businesses of 18.9% together with an improvement in loan spread<sup>2</sup> from 4.0% to 4.2%. Non-interest income of Banking businesses increased by 20.5% (YoY) as contributed by the strong hire purchase loan growth. However, brokerage income decreased by 50.2% (YoY) following sluggish investment environment. As a result, total non-interest income slightly decreased by 6.7% (YoY).

Diluted earnings per share for the first-three-month period of 2009 were 0.56 baht, increased from 0.53 baht (YoY). Return on average equity (ROAE) was 15.5% compared with 13.7% (YoY).

## Net Interest and Dividend Income

Net interest and dividend income in this quarter was 1,245.10 million baht, increased by 201.17 million baht (19.3% YoY), interest and dividend income was 2,075.04 million baht, increased by 240.79 million baht (15.0% YoY). Meanwhile, interest expense decreased by 69.62 million baht (9.2% YoY), to 829.94 million baht.

TISCO group was able to increase loan spread to 4.2%, compared to 4.0% (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.

<sup>2</sup> After Commission and Direct Expenses from Hire Purchase Business

TISCO group reported net interest and dividend income after bad debts and doubtful account of 952.16 million baht, increased by 140.51 million baht (17.3% YoY). Bad debts and doubtful account was 292.94 million baht, which is considered as normal level in supporting future loan growth, compared to 232.28 million baht YoY.

### **Non-interest Income**

Non-interest income of Banking businesses increased by 59.01 million Baht (20.5% YoY), to 346.52 million baht as contributed by the strong hire purchase loan growth which increased by 18.9% (YoY). However, brokerage income decreased by 67.95 million baht (50.2% YoY) following sluggish investment environment. As a result, total non-interest income slightly decreased by 6.7% (YoY).

### **Non-interest Expenses**

Non-interest expenses for this quarter were 839.52 million baht, increased by 58.74 million baht (7.5% YoY). The increase was due to higher premises and equipment expenses from the investment in information technology and infrastructure in supporting increased business volume and service coverage. Currently, the Bank has 36 branches comparing to 28 branches as at the end of the first quarter of 2008.

### **Corporate Income Tax**

In the first quarter of 2008, the corporate income tax was 182.42 million baht, equivalent to the effective tax rate of 28.5%, compared to 28.0% YoY.

## **Financial Status**

### **Assets**

The TISCO group's total assets as of March 31, 2009 were 130,466.80 million baht, increased by 4,293.68 million baht (3.4% QoQ) following strong loan growth from 103,109.71 million baht to 107,336.07 million baht (4.1% QoQ). In addition, the investment increased by 3,539.93 (66.1% YoY), following the transfer of hire purchase portfolio from Primus Leasing Company Limited, amounting 4,877.12 million baht, which was recorded as investment according to the accounting standard.

### **Liabilities**

Total liabilities as of March 31, 2009 were 118,569.58 million baht, increased by 3,932.48 million baht (3.4% QoQ) following an increase in deposit portfolio for 2,049.91 million baht (2.0% QoQ) and increase in long-term borrowing for 1,652.90 million baht (33.7% QoQ) following the issuance of subordinated debenture amounting to 2,000 million baht which will be matured in 2019.

## Shareholders' Equity

Shareholder's equity as of March 31, 2009 was 11,897.22 million baht, and book value per share (BVPS) was 16.42 baht. TISCO group had paid-up shares amounting 724.61 million shares, comprising 541.18 million common shares and 183.43 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 120.72 million baht as of March 31, 2009.

## Business Segment Performance

### (1) Banking Business

#### Loans

Total consolidated loans and receivables were 107,336.07 million baht, up by 4,226.36 million baht (4.1% QoQ), following growth in corporate and retail loan. By including loan portfolio acquired from Primus Leasing Company Limited which was recorded in investment, the total loan portfolio would otherwise increase by 8.8% QoQ. The composition of loan portfolio was 75.0% of retail loans, 20.8% of corporate loans, and 4.3% of other loans.

**Retail lending** portfolio consisted of 98.0% car, motorcycle, and other hire purchase and 2.0% mortgage loans. The outstanding hire purchase loans equaled 78,866.97 million baht, rose by 1,579.86 million baht (2.0% QoQ). Car hire purchase new business volume amounted 9,341.40 million baht, decreased by 917.83 million baht (8.9% YoY). The domestic car sales in the first 2 months of 2009 reported at 66,446 units decreased from 94,679 units (29.8% YoY), resulting in car penetration rate of 13.7%, comparing with average penetration rate of 10.1% in 2007.

**Corporate lending** portfolio totaled 22,272.34 million baht, up by 2,784.27 million baht (14.3% QoQ), mainly due to an increase in loans to manufacturing and commerce, and public utilities and services.

#### Deposit

Total deposit totaled 102,640.95 million baht, increased by 2,049.91 million baht (2.0% QoQ). The portion of saving accounts and current accounts contributed to 15.8% of total deposits, increased from 11.5% (QoQ). Strong expansion in saving accounts and current accounts was resulted from the Bank's success in launching deposit products corresponded to client's needs.

#### Non-Performing Loans (NPLs) and Loan Loss Provision

Despite sluggish economy, TISCO Group has prudently managed non-performing loans (NPLs) and decreased the percentage of NPLs to total loans ratio with effective risk management tools and stringent practice of loan collection, debt restructuring and write-off process. In which, the percentage of

total NPLs to total loans ratio was reported at 2.8% as of March 31, 2009, comparing to 2.9% as of the end of 2008. Additionally, the percentage of NPLs of retail loan and corporate loan was 2.3% and 3.0%, respectively with total NPLs of 3,036.64 million baht which increased by 1.7% or 52.22 million baht during the period. ( NPLs of the Bank was 2,633.02 million baht and there was NPLs of 403.62 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 March 31, 2009, loan loss reserve of TISCO group was 1,852.70 million baht or 61.0% of NPLs. In which, the total loan loss reserve of the Bank was 1,613.26 million baht with specific reserve for classified loan of 1,382.71 million baht and general reserve of 230.55 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,325.43 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

## **(2) Securities Business**

At the end of the first quarter, the SET index ended at 431.50 points, decreased from 449.96 points at the end of previous year, with average daily turnover of 8,659.71 million baht, decreased from 18,846.24 million baht (YoY) following bearish capital market as affected by global capital market conditions.

Average daily turnover of TISCO Securities Co., Ltd. was 423.77 million baht, increased by 50.84% (YoY), from 861.97 million baht (YoY). Average market share increased from 2.3% to 2.4% (YoY), mainly due to a increase in market share of foreign institutional investor sector and retail investors. However, the market share of local institutional investor decreased since TISCO Securities Co.,Ltd did not have proprietary trading while several securities companies had done so in attempt to increase the revenue during sluggish capital market condition.

Brokerage commission income decreased to 67.38 million baht from 135.32 million baht (50.2 YoY). Meanwhile, TISCO brokerage volume comprised of 24.8% of foreign institutions, 27.4% of local institutions, and 47.8% of retail customers.

Fee income from investment banking business decreased by 8.02 million baht (45.1% YoY), from 17.77 million baht in the first quarter of 2008 to 9.75 million baht in this quarter, following the sluggish investment environment during the period.

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

In the first quarter of 2009, asset management industry slightly improved by 44,729.23 million baht (2.3%) from December 31, 2008 since the investment in funds provided an alternative investment during the downward trend of market interest rate. Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2009 was 4.6%, ranking 8th in the market. The market share of provident fund and private fund was 12.4% and 14.0%, ranking 5<sup>th</sup> and 3<sup>rd</sup> in the market respectively. For mutual fund, the market share was 1.0%, ranking 14th in the market.

In the first quarter of 2009, The assets under management at the end of March 2009 was 93,574.74 million baht, decreased by 13,410.43 million baht (12.5% QoQ) due to lower asset under management in provident 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 the first quarter of 2008 following the strategy to pursue on the high-fee funds. The basic fee was 108.68 million baht, increased by 0.1% (YoY), while the performance and incentive fee declined by 6.71 million baht (5.8% YoY) following sluggish capital market environment.

The composition of total asset under management was 62.0% of provident fund, 22.4% of private fund, and 15.7% of mutual fund. In addition, mutual fund business successfully launched variety of funds that corresponded to investor's needs in respond to the improvement of asset management industry such as TISCO Special Plus #6 - #10, TISCO Asia Pacific ex Japan Trigger 15% fund #3 - #4, TISCO Special Saving Fund, and TISCO Oil Fund.

In addition, TISCO Asset Management Co., Ltd. recorded an achievement in FIF investment, namely TISCO Asia Pacific ex Japan Trigger 15%#3 fund, in which the fund successfully generated the target returns within 3 months.

## **Risk Management**

In the first quarter of 2009, the integrated risk capital mainly comprising of credit risk capital increased by 228.67 million baht from the last quarter to 5,450.12 million Baht owing to increasing credit risk from portfolio expansion. However, the capital surplus remained strong at 5,471.82 million baht or 50.1% compared with total capital of 10,921.93 million baht, reflecting a continuously robust capital position to support future business expansion.

Compared to the last quarter of 2008, the market risk capital slightly decreased by 50.82 million baht from 1,833.94 million baht to 1,783.11 million baht, primarily resulted from improving interest rate gap. Meanwhile, the credit risk capital rose by 299.67 million baht to 3,046.44 million baht following the expansion of overall portfolio and the acquisition of Primus Leasing Co.,Ltd. The retail credit risk increased during the quarter by 113.37 million baht or 5.2% from 2,181.30 million baht to 2,294.67 million baht comparing with retail loan growth at 8.4%, owing to the acquisition of high quality hire purchase loans from Primus leasing and the non-performing loan of hire purchase portfolio slightly dropped from 2.2% to 2.1%.

The interest rate risk decreased due to improving in interest rate gap as a result of issuing 10 year subordinated debenture at amount of 2,000 million baht. Despite a narrowing 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 10 months.

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 projected regulatory capital adequacy ratio (BIS ratio) based on Basel II stood at 12.54% following a continuous expansion in loan position while Tier-I projected capital adequacy ratio stood at 10.16%. 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 111.65%, greatly higher than the minimum required ratio by the SEC of 7.0%.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	1Q08		1Q09		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	268.74	16.7	317.21	17.9	18.0
Interest on interbank and money market items.	64.74	4.0	68.68	3.9	6.1
Hire purchase and financial lease income	1,381.64	85.8	1,555.66	87.8	12.6
Investments	89.13	5.5	133.49	7.5	49.8
<b>Total interest and dividend income</b>	<b>1,804.25</b>	<b>112.1</b>	<b>2,075.04</b>	<b>117.1</b>	<b>15.0</b>
Interest expenses	(760.3)	(47.2)	(829.9)	(46.8)	9.2
<b>Net interest and dividend income</b>	<b>1,043.93</b>	<b>64.9</b>	<b>1,245.10</b>	<b>70.2</b>	<b>19.3</b>
Non-interest income					
Brokerage Fees	135.32	8.4	67.38	3.8	(50.2)
Gain on securities	9.02	0.6	(5.2)	(0.3)	(158.0)
Fees and services income	340.57	21.2	330.56	18.6	(2.9)
Others	80.57	5.0	134.98	7.6	67.5
<b>Total non-interest income</b>	<b>565.49</b>	<b>35.1</b>	<b>527.68</b>	<b>29.8</b>	<b>(6.7)</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>1,609.42</b>	<b>100.0</b>	<b>1,772.78</b>	<b>100.0</b>	<b>10.2</b>
Bad debt and doubtful accounts	(232.28)		(292.94)		
Bad debt written back revenue	-		-		
<b>Total income – net of bad debts and doubtful accounts</b>	<b>1,377.14</b>		<b>1,479.84</b>		
Non-interest expenses	(780.78)		(839.52)		
<b>Profit before income tax and minority interest</b>	<b>596.36</b>		<b>640.32</b>		
Corporate income tax	(167.27)		(182.42)		
<b>Profit before minority interest</b>	<b>429.09</b>		<b>457.90</b>		
Minority interest in net earnings in subsidiary company	0.00		(3.93)		
<b>Net Profit</b>	<b>429.09</b>		<b>453.97</b>		

**Table2: Interest Spread**

%	1Q08	4Q08	1Q09
Yield on Loans	7.5	7.2	7.2
Cost of fund	3.5	3.7	3.0
<b>Loan spread</b>	<b>4.0</b>	<b>3.5</b>	<b>4.2</b>



**Table 3: Assets Breakdown**

Assets	December 31, 2008		March 31, 2009		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	595.57	0.5	491.03	0.4	(17.6)
Interbank and Money Market Items	13,590.97	10.8	10,094.26	7.7	(25.7)
Securities purchased under resale agreements	0.00	0.0	0.00	0.0	0.0
Fixed income	2,712.75	2.2	1,760.15	1.3	(35.1)
Equity	2,642.72	2.1	7,135.25	5.5	170.0
Corporate Loans	19,488.07	15.4	22,272.34	17.1	14.3
Retail Loans	78,993.14	62.6	80,489.62	61.7	1.9
Other Loans	4,628.50	3.7	4,574.11	3.5	(1.2)
Allowance for doubtful accounts and for loss on debt restructuring	(1,854.53)	(1.5)	(1,852.70)	(1.4)	(0.1)
Other Assets	<b>5,375.94</b>	<b>4.3</b>	<b>5,502.75</b>	<b>4.2</b>	<b>2.4</b>
<b>Total – The Company and Subsidiaries</b>	<b>126,173.13</b>	<b>100.0</b>	<b>130,466.80</b>	<b>100.0</b>	<b>3.4</b>

**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2008		March 31, 2009		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	100,591.04	87.7	102,640.95	86.6	2.0
Interbank and money market items	5,727.88	5.0	5,717.12	4.8	(0.2)
Long-term borrowings	4,899.30	4.3	6,552.20	5.5	33.7
Others	3,418.88	3.0	3,659.31	3.1	7.0
<b>Total – The Company and Subsidiaries</b>	<b>114,637.10</b>	<b>100.0</b>	<b>118,569.58</b>	<b>100.0</b>	<b>3.4</b>

**Table 5: Loans and Receivables Breakdown**

Type of Business	December 31, 2008		March 31, 2009		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,342.21	7.1	10,054.02	9.4	36.9
Real estate and construction	8,807.72	8.5	8,658.74	8.1	(1.7)
Public utilities and services	3,212.80	3.1	3,436.27	3.2	7.0
Agriculture and mining	125.35	0.1	123.31	0.1	(1.6)
<b>Commercial Lending</b>	<b>19,488.07</b>	<b>18.9</b>	<b>22,272.34</b>	<b>20.8</b>	<b>14.3</b>
Hire purchase	77,287.11	75.0	78,866.97	73.5	2.0
Housing	1,706.03	1.7	1,622.65	1.5	(4.9)
<b>Retail Lending</b>	<b>78,993.14</b>	<b>76.6</b>	<b>80,489.62</b>	<b>75.0</b>	<b>1.9</b>
<b>Others</b>	<b>4,628.50</b>	<b>4.5</b>	<b>4,574.11</b>	<b>4.3</b>	<b>(1.2)</b>
<b>Total – The Company and Subsidiaries</b>	<b>103,109.71</b>	<b>100.0</b>	<b>107,336.07</b>	<b>100.0</b>	<b>4.1</b>

**Table 6: Deposits Structure**

Type of Deposits	December 31, 2008		March 31, 2009		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	6,414.46	6.4	7,634.73	7.4	19.0
Saving accounts	5,140.40	5.1	8,586.23	8.4	67.0
Fixed accounts	4,043.74	4.0	3,264.05	3.2	(19.3)
Negotiate certificate deposit	43,221.62	43.0	44,326.22	43.2	2.6
Promissory notes and Bill of exchange	2.40	0.0	2.38	0.0	0.0
Short-term borrowings	41,768.42	41.5	38,827.34	37.8	(7.0)
<b>Total deposits</b>	<b>100,591.04</b>	<b>100.0</b>	<b>102,640.95</b>	<b>100.0</b>	<b>2.0</b>

**Table 7: NPL Breakdown by Area**

Type of Business	December 31, 2008			March 31, 2009			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.4	102.22	3.4	1.4	140.67	4.6	37.6
Real estate and construction	4.9	435.09	14.6	5.1	437.43	14.4	0.5
Public utilities and services	2.1	68.93	2.3	2.8	94.77	3.1	37.5
Agriculture and mining	0.2	0.25	0.0	0.9	1.11	0.0	350.9
<b>Commercial Lending</b>	<b>3.1</b>	<b>606.49</b>	<b>20.3</b>	<b>3.0</b>	<b>673.98</b>	<b>22.2</b>	<b>11.1</b>
Hire purchase	2.2	1,719.79	57.6	2.1	1,692.52	55.7	(1.6)
Housing	11.0	187.94	6.3	11.8	192.16	6.3	2.2
<b>Retail Lending</b>	<b>2.4</b>	<b>1,907.73</b>	<b>63.9</b>	<b>2.3</b>	<b>1,884.68</b>	<b>62.1</b>	<b>(1.2)</b>
<b>Others</b>	<b>10.2</b>	<b>470.19</b>	<b>15.8</b>	<b>10.4</b>	<b>477.98</b>	<b>15.7</b>	<b>1.7</b>
<b>Total – The Company and Subsidiaries</b>	<b>2.9</b>	<b>2,984.42</b>	<b>100.0</b>	<b>2.8</b>	<b>3,036.64</b>	<b>100.0</b>	<b>1.7</b>

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

Type of Fund	December 31, 2008		March 31, 2009		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	68,524.87	64.1	58,005.56	62.0	(15.4)
Private Fund	23,848.51	22.3	20,923.13	22.4	(12.3)
Mutual Fund	14,611.79	13.7	14,646.05	15.7	0.2
<b>Total</b>	<b>106,985.17</b>	<b>100.0</b>	<b>93,574.74</b>	<b>100.0</b>	<b>(12.5)</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 increase	
	4Q08	1Q09	4Q08	1Q09
	Assets	1.35	1.37	473.35
Liabilities	0.52	0.55	(709.93)	(689.71)
Net Gap	0.83	0.82	(236.58)	(238.02)

Note : \* Exclude saving and current account