

Management Discussion and Analysis For the Third Quarter ended September 30, 2010

(This report discusses principal changes in the unreviewed consolidated financial statement for the 3rd quarter ended September 30, 2010)

Movement of Money Market and Capital Market

In the third quarter of 2010, the SET index was continually increased following strong domestic economic recovery as well as improved political atmosphere. As a result, the SET index went up from 797.31 points as of the end of last quarter to 975.30 at the end of this quarter. The average daily turnover increased from 23,138.11 million baht to 35,755.66 million baht (QoQ) driven by reviving in local investor confidence and massive fund inflow of foreign investors during this quarter.

The Bank of Thailand (BOT) raised the policy rate from 1.25% at the end of last quarter to 1.5% and 1.75% during this quarter following economic expansion and upward inflationary pressure. Meanwhile, average 3-month fixed deposit rates and the average minimum lending rate of Top 5 commercial banks were changed to 0.95% and 6.08% increased from 0.69% and 5.94% at the end of last quarter, respectively.

Operating Results

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

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 47.67 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 third quarter of 2010, TISCO Group had the net profit before minority interest at 734.06 million baht, increased by 217.75 million baht (42.2% YoY). Compared to the last quarter, the net profit slightly decreased by 33.28 million baht (4.3%QoQ), contributed by a significant increase in net interest and dividend income of 15.2% following strong expansion in lending businesses. Meanwhile, loan spread was slightly decreased from 5.1% to 5.0%. Non-interest income was reported at 1,125.74 million baht, significantly increased by 393.49 million baht (53.7%YoY), mainly contributed by the growth in banking fee of 38.8% (YoY) following strong loan growth together with increasing in brokerage fee income for 35.6% (YoY) and fee income from asset management business increased by 19.9% (YoY), which was included an increase in variable performance and incentive fee following the improvement in capital market condition. Moreover, TISCO group also recorded significant gain from investment totaling 136.65 million baht,

compared with loss for 6.77 million baht in the third quarter of 2009 due to capital market improvement. Overall, net profit after minority interest for the third quarter of 2010 totaled 730.63 million baht.

As for performance of the first nine months of 2010, TISCO group reported a net profit of 2,205.78 million baht increased by 736.99 million baht or 50.2% compared with the net profit for the first nine months of 2009 amounting 1,468.79 million baht. Net interest and dividend income was increased by 24.3% following strong expansion in corporate and retail lending businesses together with an improvement in loan spread from 4.8% to 5.1%. In addition, non-interest income increased by 952.78 million baht (48.2% YoY), to 2,930.47 million baht for the first nine months of 2010, as contributed by significant growth in non-interest income from banking business for 46.8% (YoY). Moreover, the non-interest income also contributed by the sale of the stake in Siam City Bank PLC and the gain on properties foreclosed totaling 129.39 million baht. The brokerage income increased by 24.7% YoY and the gain from investment for the first nine months of 2010 was 193.82 million baht, comparing to loss for 10.28 million baht in the same period last year following the capital market improvement in the current year. However, the basic fee income from asset management business increased by 77.34 million baht or 21.3% YoY following the increase in asset under management.

Diluted earnings per share for the third quarter and the first nine months of 2010 were 1.00 baht and 3.03 baht respectively compared with those in the same period in 2009 of 0.71 baht and 1.90 baht respectively. The average return on equity (ROAE) for the third quarter and the first nine months of 2010 were 21.4% and 22.1% respectively comparing with those in the same period in 2009 of 17.5% and 16.6% respectively.

Net Interest and Dividend Income

Net interest and dividend income in this quarter was 1,841.28 million baht, increased by 242.86 million baht (15.2% YoY), interest and dividend income was 2,430.31 million baht, increased by 302.42 million baht (14.2% YoY). Meanwhile, interest expense decreased by 59.56 million baht (11.2% YoY), to 589.02 million baht, following the effect of downward interest rate environment since last year and strong growth in retail deposit base as well as current and saving accounts.

Loan spread was slightly decreased from 5.1% compared to 5.0% (YoY) due to the issuance of the long-term bill of exchanges together with an increase in cost of fund following market trend. TISCO group reported net interest and dividend income before bad debts and doubtful account of 2,967.02 million baht, increased by 636.35 million baht (27.3% YoY) compared with 2,330.67 million baht as at the same period of 2009 following the continuous growth in loan businesses.

Non-interest Income

Non-interest income for the third quarter of 2010 was 1,125.74 million baht, increased by 393.49 million baht (53.7% YoY), mainly due to the increase in non-interest income of banking business for 155.82 million baht (38.8% YoY), as contributed by loan growth. Moreover, the brokerage fee income increased for 55.87 million baht or 35.6% (YoY) and the basic fee income from asset management business also increased by 22.57 million baht (16.9% YoY) following the increase in asset under management. In addition,

TISCO group recorded significant gain from investment totaling 136.65 million baht, compared with loss for 6.77 million baht in the third quarter of 2009.

Non-interest Expenses

Non-interest expenses for this quarter were 1,266.26 million baht which was at the same level of the last quarter. In addition, the cost-to-income ratio improved from 54.2% in the third quarter of 2009 to 42.7% in this quarter.

General Reserve Expenses

In the third quarter of 2010, the asset quality significantly improved with NPL ratio decreased from 2.0% as of the end of last quarter to 1.9% at the end of this quarter. However, to protect against future volatility and systematic risk, TISCO Group set up provision for bad debts and doubtful accounts for the third quarter of 2010 totaling 598.65 million baht which accounted for 1.8% of total average loan portfolio. Consequently, TISCO Group recorded increase in general reserve of 459.70 million baht in this quarter, compared to the reserve required according to the best estimate of expected credit losses from the portfolio over the next 12 months. As of September 30, 2010, TISCO Group had general reserve totaling 1,956.10 million baht.

Corporate Income Tax

In the third quarter of 2010, the corporate income tax was 368.05 million baht, equivalent to the effective tax rate of 33.4%, compared to 31.1% YoY.

Financial Status

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

Assets

TISCO Group's total assets as of September 30, 2010 were 156,406.93 million baht, increased by 8,930.74 million baht (6.1% QoQ) following strong loan growth from 128,001.43 million baht to 139,865.01 million baht (9.3% QoQ), mainly from the strong growth in loan businesses.

Liabilities

Total liabilities as of September 30, 2010 increased by 8,059.50 million bath (6.0%QoQ), from 134,223.94 to 142,283.44 million baht. The main increase was from the increase in long-term borrowings by 6,173.76 million baht (74.6% QoQ) following additional long-term fund raising in the upward interest rate cycle. Moreover, the liabilities mix comprised of 80.3% total deposit including short-term borrowing, 5.3% interbank and money market items, 10.2% long-term borrowings, and 4.3% other liabilities.

Shareholders' Equity

Shareholder's equity as of September 30, 2010 was 14,123.48 million baht, increased by 871.23 million baht (6.6% QoQ) following the continual profit expansion. Book value per share (BVPS) as of September 30, 2010 was 19.40 baht, down from 18.21 baht (QoQ). In the third quarter of 2010, the company had paid-up shares amounting 727.83 million shares, comprising 727.79 million common shares and 0.04 million preference shares.

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

Total consolidated loans and receivables as of September 30, 2010 were 139,865.01 million baht, up by 11,863.58 million baht (9.3% QoQ), and increased by 26,632.03 million baht or 23.5% compared with the end of year 2009, following growth in loan businesses. The composition of loan portfolio was 73.1% of retail loans, 14.8% of corporate loans, 5.1% of SME loans and 7.0% of other loans.

Retail lending portfolio consisted of 98.6% car, motorcycle, and other hire purchase and 1.4% mortgage loans. The outstanding hire purchase loans equaled 100,869.38 million baht, rose by 4,534.57 million baht (4.7% QoQ) following the successful in captive leasing business for Fords, Mazda, and Chevrolet. Car hire purchase new business volume amounted 14,287.17 million baht, increased by 4,409.24 million baht (44.6% YoY), while the domestic car sales in the first eight months of 2010 reported at 488,088 units increased from 317,836 units (53.6% YoY), resulting in car penetration rate of 12.0% which was at the same level of penetration rate in 2009.

Corporate lending portfolio totaled 20,759.20 million baht, significantly increased by 5,107.45 million baht (32.6% QoQ), mainly due to an increase in loans to manufacturing & commerce and real estate and construction.

SME lending portfolio totaled 7,098.00 million baht, up by 1,722.00 million baht (32.0% QoQ), mainly due to the loan to car dealer and logistics business.

Other loan portfolio totaled 9,749.29 million baht, increased by 554.80 million baht (6.0% QoQ), 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 758.96 million baht (19.7% QoQ), from 3,859.87 million baht to 4,618.84 million baht.

Deposits

Total deposit totaled 114,306.60 million baht, increased by 295.19 million baht (0.3% QoQ). Meanwhile, the portion of saving accounts and current accounts of total deposits remained high at 34.6% in this quarter. In addition, the portion of retail deposit with deposit amount less than 10 million baht to total funding in terms of clients remained high at 27.6% as of the end of this quarter, compared to 21.9% as of the end of 2009.

Non-Performing Loans (NPLs) and Loan Loss Provision

TISCO Group has prudently managed non-performing loans (NPLs) with effective risk management tools and stringent practice of loan collection, debt restructuring and write-off process. NPL ratio was reported at 1.9% as of September 30, 2010, decreased from 2.0% as of June 30, 2010. Additionally, NPL ratio of retail loan was at 1.5%, NPL ratio of SME loan was at 1.7% and NPL of corporate and SME loans was at 2.7%. In addition, the total NPLs was 2,645.67 million baht which increased by 0.2%QoQ or 4.57 million baht during the period. (NPLs of the Bank was 2,335.82 million baht and there was NPLs of 309.85 million baht from other subsidiaries).

TISCO Group has applied Collective Approach for loan loss provisioning to the car hire-purchase portfolio following the Basel II framework. The loan loss reserve was derived from the best estimate of expected credit losses from the portfolio over the next 12 months, based historical loss data incorporating with adjustment for the recent market situation. As of September 30, 2010, loan loss reserve of TISCO Group was 3,674.53 million baht or 138.9% of NPLs. Total loan loss reserve of the Bank was 3,367.48 million baht with specific reserve for classified loan of 1,426.38 million baht and general reserve of 1,956.10 million baht. Total reserve was higher than the minimum loan loss reserve required by the Bank of Thailand at 1,404.89 million baht, reflecting the prudent provisioning policy to mitigate potential risk.

(2) Securities Business

In the third quarter of 2010, the SET index was continually improved following the strong recovery of domestic economy. Average daily turnover for the third quarter of 2010 of TISCO Securities Co., Ltd. was 1,640.93 million baht, increased by 60.3% (YoY) following the increase in trading volume. TISCO Securities' average market share was slightly decreased from the third of 2009 from 2.45% to 2.37% in this quarter, mainly due to the decrease in market share of foreign institutional and retail sector. However, the brokerage fee increased by 55.87 million baht to 212.77 million baht (35.6%YoY) in this quarter. In addition, TISCO brokerage volume in this quarter comprised of 16.4% of foreign institutions, 32.3% of local institutions, and 51.3% of retail customers.

The fee income from investment banking business for the first nine months of 2010 was 161.51 million baht, compared with 29.06 million baht at same period of last year. The significant increase was mainly from the advisory fee to the Financial Institutions Development Fund (FIDF) for the sale of the stake in Siam City Bank PLC in June 2010.

(3) Asset Management Business

As of August 31, 2010, asset management industry increased from June 30, 2010 by 82,940.65 million baht (3.4% QoQ). TISCO's assets under management as of 30 September 2010 were 138,625.49 million baht, increased by 4,176.32 million baht (3.1% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2010 was 5.4%, ranking 6th in the market. The market share of provident fund was 14.1%, ranking 3rd in the market. The market share of private fund was 15.9%, ranking 2nd in the marketing. For mutual fund, the market share was 1.0%, ranking 14th in the market.

Basic fee income from asset management for the first nine months of 2010 totaled 156.20 million baht, increased by 22.57 million baht (16.9% YoY) following an increase in asset under management and the variety of funds launched which were conform with the market condition. Moreover, the variable performance and incentive fee increased significantly following improvement in capital market during the year. As a result, the total fee income from asset under management increased from 186.43 million baht in the third quarter of 2009 to 222.36 million baht in this quarter. The composition of total asset under management was 57.5% of provident fund, 29.8% of private fund, and 12.7% of mutual fund.

Risk Management

As of September 30, 2010, TISCO Group's core capital based on Internal Rating Based Approach (IRB) stood at 11,836.88 million Baht comprising of Tier-I and adjustment from reserve. The integrated risk capital decreased by 221.21 million Baht or 3.8% from the second quarter to 5,570.33 million Baht due mainly to the decrease in market risk capital. As a result, the core capital surplus was remarkably strong at 6,266.55 million Baht or 52.9%.

Comparing to the second quarter of 2010, the credit risk capital rose by 305.95 million baht to 3,626.80 million baht following the portfolio expansion during the quarter with a decrease of non-performing loan in retail lending business from 1.6% to 1.5%. In addition, as the core business in retail lending, the retail loan portfolio continually expanded from 97,779.18 million baht at the end of second quarter to 102,258.52 million Baht at the of this quarter (4.6%QoQ). Meanwhile, the market risk capital in the third quarter decreased by 547.87 million baht from 1,635.59 million baht to 1,087.72 million baht, resulting from a decrease in interest rate in banking book following a decrease of duration gap together with a decrease of listed-equity risk capital corresponding to an increase in stock market during the quarter.

The overall interest rate risk in banking book increased following the portfolio expansion. However, as the assets duration declined from 1.58 years at the end of the previous quarter to 1.52 years, the liabilities duration, excluding saving and current accounts which are less sensitive to the interest rate movement, increased from 0.81 year to 0.97 year mainly due to longer maturity of deposit and borrowing profiles. Therefore, the duration gap of assets and liabilities decreased from 0.77 year to 0.55 year which was still manageable.

In terms of regulatory capital requirement of the Bank and Securities Company, the positions are still in strong and sufficient levels to cushion for the expansion of asset in the future. At the end of third quarter, the projected regulatory capital adequacy ratio based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 15.36% remaining higher than the 8.50% required by the Bank of Thailand. While projected Tier-I and Tier-II capital adequacy ratio before an adjustment of capital floor stood at 12.58% and 6.84%, 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 76.10%, higher than the minimum required ratio by the SEC of 7.00%.

Table 1: Consolidated Revenue Structure

Type of Revenue	3Q09		3Q10		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	300.67	12.9	437.26	14.7	45.4
Interest on interbank and money market items.	22.52	1.0	47.86	1.6	112.5
Hire purchase and financial lease income	1,632.96	70.1	1,826.37	61.6	11.8
Investments	171.73	7.4	118.82	4.0	(30.8)
Total interest and dividend income	2,127.88	91.3	2,430.31	81.9	14.2
Interest expenses	(529.5)	(22.7)	(589.0)	(19.9)	11.2
Net interest and dividend income	1,598.42	68.6	1,841.28	62.1	15.2
Non-interest income					
Brokerage Fees	156.90	6.7	212.77	7.2	35.6
Gain on securities	(6.77)	(0.3)	136.7	4.6	(2,118.9)
Fees and services income	302.17	13.0	585.64	19.7	93.8
Others	279.95	12.0	190.68	6.4	(31.9)
Total non-interest income	732.25	31.4	1,125.74	37.9	53.7
Total income before bad debts and doubtful accounts	2,330.67	100.0	2,967.02	100.0	27.3
Bad debt and doubtful accounts	(317.60)		(598.65)		
Bad debt written back revenue	-		-		
Total income – net of bad debts and doubtful accounts	2,013.07		2,368.37		
Non-interest expenses	(1,263.59)		(1,266.26)		
Profit before income tax and minority interest	749.48		1,102.11		
Corporate income tax	(233.17)		(368.05)		
Profit before minority interest	516.31		734.06		
Minority interest in net earnings in subsidiary company	(3.64)		(3.43)		
Net Profit	512.68		730.63		

Table2: Interest Spread

%	2008	2009	3Q09	2Q10	3Q10	9M09	9M10
Yield on Loans	7.3	7.0	7.0	6.9	6.8	7.0	6.8
Cost of fund	3.5	1.7	1.8	1.6	1.8	2.3	1.7
Loan spread	3.7	5.3	5.1	5.3	5.0	4.8	5.1

Table 3: Assets Breakdown

Assets	June 30, 2010		September 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	654.87	0.4	770.01	0.5	17.6
Interbank and Money Market Items	8,086.75	5.5	7,173.93	4.6	(11.3)
Securities purchased under resale agreements	0.00	0.0	0.00	0.0	0.0
Fixed income	4,140.34	2.8	2,382.49	1.5	(42.5)
Equity	4,544.74	3.1	4,111.53	2.6	(9.5)
Corporate Loans	15,651.75	10.6	20,759.20	13.3	32.6
Retail Loans	97,779.18	66.3	102,258.52	65.4	4.6
SME Loans	5,376.00	3.65	7,098.00	4.81	32.03
Other Loans	9,194.49	6.2	9,749.29	6.2	6.0
Allowance for doubtful accounts and for loss on debt restructuring	(3,154.05)	(2.1)	(3,674.53)	(2.3)	16.5
Other Assets	5,202.11	3.5	5,778.48	3.7	11.1
Total – The Company and Subsidiaries	147,476.19	100.0	156,406.93	100.0	6.1

Table 4: Liabilities Breakdown by Area

Type of Borrowings	June 30, 2010		September 30, 2010		Change %
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	114,011.41	84.9	114,306.60	80.3	0.3
Interbank and money market items	6,752.23	5.0	7,473.45	5.3	10.7
Long-term borrowings	8,275.97	6.2	14,449.73	10.2	74.6
Others	5,184.32	3.9	6,053.66	4.3	16.8
Total – The Company and Subsidiaries	134,223.94	100.0	142,283.44	100.0	6.0

Table 5: Loans and Receivables Breakdown

Type of Business	June 30, 2010		September 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	5,855.81	4.6	9,447.52	6.8	61.3
Real estate and construction	6,617.23	5.2	8,051.54	5.8	21.7
Public utilities and services	3,057.77	2.4	3,127.34	2.2	2.3
Agriculture and mining	120.94	0.1	132.80	0.1	9.8
Commercial Lending	15,651.75	12.2	20,759.20	14.8	32.6
SME Loans	5,376.00	4.2	7,098.00	5.1	32.0
Hire purchase	96,334.81	75.3	100,869.38	72.1	4.7
Housing	1,444.38	1.1	1,389.15	1.0	(3.8)
Retail Lending	97,779.18	76.4	102,258.52	73.1	4.6
Others	9,194.49	7.2	9,749.29	7.0	6.0
Total – The Company and Subsidiaries	128,001.43	100.0	139,865.01	100.0	9.3

Table 6: Deposits Structure

Type of Deposits	June 30, 2010		September 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	8,594.74	7.5	6,271.53	5.5	(27.0)
Saving accounts	34,943.17	30.6	33,306.91	29.1	(4.7)
Fixed accounts	1,216.67	1.1	1,089.47	1.0	(10.5)
Negotiate certificate deposit	22,014.80	19.3	17,800.98	15.6	(19.1)
Promissory notes and Bill of exchange	2.38	0.0	2.38	0.0	0.0
Short-term borrowings	47,239.65	41.4	55,835.33	48.8	18.2
Total deposits	114,011.41	100.0	114,306.60	100.0	0.3

Table 7: NPL Breakdown by Area

Type of Business	June 30, 2010			September 30, 2010			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	1.9	114.09	4.3	1.1	107.96	4.1	(5.4)
Real estate and construction	5.7	376.74	14.3	4.5	365.00	13.8	(3.1)
Public utilities and services	3.1	95.04	3.6	2.8	86.96	3.3	(8.5)
Agriculture and mining	4.2	5.08	0.2	1.6	2.13	0.1	(58.1)
Total NPL - Commercial Lending	3.8	590.95	22.4	2.7	562.04	21.2	(4.9)
NPL-SME Lending	1.3	68.95	2.6	1.7	120.65	4.6	75.0
Hire purchase	1.5	1,414.40	53.6	1.4	1,411.90	53.4	(0.2)
Housing	9.6	138.60	5.2	8.6	119.24	4.5	(14.0)
Total NPL - Retail	1.6	1,553.00	58.8	1.5	1,531.14	57.9	(1.4)
Others	4.1	428.19	16.2	3.8	431.84	16.3	0.9
Total NPL – The Company and Subsidiaries	2.0	2,641.10	100.0	1.9	2,645.67	100.0	0.2

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	June 30, 2010		September 30, 2010		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	75,930.26	56.5	79,749.45	57.5	5.0
Private Fund	42,014.32	31.2	41,259.39	29.8	(1.8)
Mutual Fund	16,504.59	12.3	17,616.65	12.7	6.7
Total	134,449.17	100.0	138,625.49	100.0	3.1

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	
	June 30, 2010	September 30, 2010	June 30, 2010	September 30, 2010
Assets	1.58	1.52	427.04	455.38
Liabilities	0.81	0.97	(591.48)	(613.60)
Net Gap	0.77	0.55	(164.44)	(158.22)

Note : * Exclude saving and current account