

Management Discussion and Analysis For the year ended December 31, 2012

(This report discusses principal changes in the unaudited consolidated financial statement for the year ended December 31, 2012)

Movement of Money Market and Capital Market

For the year 2012, domestic economy had continually improved from major flood crisis during the end of 2011 driven by strong recovery of domestic consumption and investment, especially domestic car production exhibited highest record in the history together with strong expansion of government's spending. Meanwhile, export sector was decelerated in tandem with global economic condition.

Moreover, the Bank of Thailand (BOT) adjusted the policy rate 2 times from 3.25% at the of 2011 to 3.00% in the first quarter of 2012. Subsequently, the policy rate was reduced to 2.75% in the forth quarter of 2012 to stimulate consumption as well as support the domestic economic recovery. Furthermore, average 3-month fixed deposit rates of Top 4 commercial banks decreased from 2.08% at the end of 2011 to 1.84 % at the end of 2012, while the average minimum lending rate of Top 4 commercial banks decreased from 7.25% at the end of 2011 to 7.00% at the end of 2012. In addition, the Bank of Thailand revised contribution rate on financial institution's funding (including state bank) in which the contribution will be paid to Financial institutions Development Fund (FIDF) and Deposit Protection Agency. The new contribution rate will be 0.47% p.a. on deposits base which covered by deposit protection act

In 2012, the capital market was highly volatile in which the investors concerned over the global economic uncertainty during the first half of 2012, especially Eurozone debt crisis as well as China economic slowdown. Nonetheless, the relaxing of global economic condition together with US central bank adopted economic stimulus measure during the second half of 2012 resulting in strong improvement of SET index whereby the index increased at 1,025.32 points to 1,391.93 points at the of the year. The average daily turnover improved from 28,066 million baht in 2011 to 31,084 million baht at the end of 2012.

Operating Results

The Management Discussion and Analysis compares operating performance and financial position of the year 2012 with those of the year 2011

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 2,144.87 million baht, mainly contributed by service fee income and dividend income from subsidiary companies within the group. 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.

In 2012, TISCO Group had a consolidated net profit after minority interest totaled 3,705.18 million baht, increased by 438.42 million baht (13.4% YoY) contributed by an increase in total interest income of 23.0% (YoY) following strong expansion in loan portfolio of 34.2% (YoY). However, loan spread declined to 3.0% compared to 3.7% (YoY) amid strong competition in deposit market to maintain deposit base together with higher cost of fund from increased contribution rate to FIDF and DPA. Non-interest income from core business was 6,129.24 million baht, increased by 1,828.38 million baht (42.5% YoY) contributed by growth in banking fee of 49.2% (YoY) following healthy growth in loan and bancassurance businesses, together with the growth in brokerage income of 15.9% (YoY) following an increase in market share of TISCO Securities Co., Ltd. Furthermore, total fee income of asset management business increased by 29.5% (YoY), due partly to significant increase in performance & incentive fees along with strong improvement of capital market.

Earnings per share for the year 2012 was 5.09 baht compared with 4.49 baht in 2011. Meanwhile, the return on average equity (ROAE) in 2012 was at 21.4% compared with 21.0% in 2011.

Net Interest Income

Net interest income in 2012 was 7,044.47 million baht, increased by 137.14 million baht (2.0% YoY), in which total interest income was 15,210.61 million baht, increased by 2,841.94 million baht (23.0% YoY), following an continual expansion in loan portfolio. Meanwhile, interest expense increased by 2,704.80 million baht (49.5% YoY) to 8,166.15 million baht following higher cost of fund.

However, yield on loan was slightly decreased from 6.9% to 6.6% (YoY). Meanwhile, TISCO Group's cost of fund increased from 3.1% to 3.6% driven by competition in deposit market to maintain deposit base together with higher cost of fund from increased contribution rate to FIDF and DPA from 0.1% to 0.3% (YoY). As a result, loan spread declined from 3.7% to 3.0% (YoY). In addition, net interest margin (NIM) was at 2.8% whereby NIM will be varied with the amount of excess liquidity in each period.

TISCO Group reported net interest income after impairment loss of loans and debt securities for the third quarter of 2012 of 5,122.22 million baht, decreased by 502.03 million baht (8.9% YoY). Meanwhile, impairment loss of loans and debt securities was reported at 1,922.24 million baht increased by 49.8% (YoY) from 1,283.07 million baht (YoY) following strong loan portfolio growth of 34.2% in 2012. Accordingly, TISCO Group set up loan loss reserve over next 12 months based on expected credit losses of loan portfolio, resulting in higher provision expenses following strong loan growth in this year.

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 6,129.24 million baht increased by 1,828.38 million baht (42.5% YoY) following an increase in banking fee of 1,400.95 million baht (49.2% YoY), to 4,246.38 million baht following the continual growth of loan and bancassurance businesses. Meanwhile, brokerage income increased by 107.99 million baht (15.9% YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. Total fee income from asset management business increased by 194.76 million baht (29.5% YoY) due partly to significant increase in incentive fee of

TISCO FINANCIAL GROUP PUBLIC COMPANY LIMITED

provident fund business. In addition, gain on investment and foreign exchange transaction increased by 210.61 million baht (272.9% YoY). As the result, total non-interest income was at 6,417.02 million baht, increased by 2,038.99 million baht (46.6% YoY)

Non-interest Expenses

Non-interest expenses in 2012 were 6,446.66 million baht, increased by 1,512.10 million baht (30.6% YoY). The increase was due to higher marketing expenses associated with higher business volume and revenue. In 2012, the cost to income ratio was at 43.5% compared to 41.7% (YoY)

Corporate Income Tax

The corporate income tax in 2012 was 1,080.76 million baht, equivalent to the effective tax rate of 22.4%, compared to 32.2% (YoY) following the adjusted corporate tax from 30% to 23% according to the government policy.

Financial Status

The Management Discussion and Analysis on operating results on financial status is a comparison between the financial positions as of December 31, 2012 and December 31, 2011.

Assets

Total assets as of December 31, 2012 were 290,496.94 million baht, increased by 31.6% (YoY) due mainly to higher loan portfolio from 185,013.62 million baht to 248,315.68 million baht (34.2% YoY). Meanwhile, the investment increased from 3,706.26 million baht to 7,026.52 million baht (89.3% YoY).

Liabilities

Total liabilities as of December 31, 2012 were 272,116.69 million baht, increased by 33.1% (YoY) led by an increase in total deposits of 36.9% (YoY). The liabilities mix comprised of 85.8% total deposit including bill of exchange, 5.1% interbank and money market items, 5.2% debentures, and 3.9% other liabilities.

Shareholders' Equity

Shareholder's equity as of December 31, 2012 was 18,380.14 million baht, increased by 2,068.66 million baht (12.7% YoY) following continual increase in profit. The book value per share (BVPS) as of December 31, 2012 was 25.25 baht per share, increased from 22.41 baht per share (YoY). In the end of 2012, TISCO Group had paid-up shares amounting 727.91 million shares, comprising of 727.88 million common shares and 33,858 preferred shares.

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

Total consolidated loans and receivables at the end of December 31, 2012 were 248,315.68 million baht, up by 63,302.05 million baht (34.2% YoY) following growth in all businesses. The composition of loan portfolio was 70.5 % of retail loans, 17.3 % of corporate loans, 10.4 % of SME loans and 1.8% of other loans.

Retail lending portfolio totaled 175,168.34 million baht, increased by 30.7% (YoY). Retail lending portfolio consisted of 93.5% car, motorcycle, and other hire purchase loans, 5.7% consumer loan and 0.8% mortgage loans. The outstanding hire purchase loans totaled 163,697.12 million baht, increased by 38,781.23 million baht (31.0% YoY) partly due to the success of hire purchase business expansion into captive brands of Ford, Mazda, and Chevrolet. Car hire purchase new business volume amounted 87,412 million baht, increased by 24,523 million baht (39.0% YoY) from 2011, while the domestic car sales in the first 11-month of 2012 reported at 1,291,659 units, increased 74.7% YoY resulting from the pent-up car demand during the last quarter of 2011 as the automobile production was halted by flood crisis together with government's excise tax rebate scheme from first-time car buyer. The car penetration rate for the first 11-month was reported at 8.3%, decreased from 11.0% at the end of 2011. Moreover, consumer loans amounted 10,015.63 million baht increased by 2,265.62 million baht (29.2% YoY) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 42,993.75 million baht, increased by 10,645.02 million baht (32.9% YoY) mainly due to an increase in loan to public utilities and services business.

Commercial lending portfolio totaled 25,780.61 million baht, up by 12,152.20 million baht (89.2% YoY), mainly due to an increase in loan to manufacturing and commerce sector.

Other loan portfolio totaled 4,372.98 million baht, decreased by 630.94 million baht (12.6% YoY).

Deposits

Total deposits totaled 233,518.69 million baht, increased by 62,969.00 million baht (36.9% YoY). As of December 31, 2012, TISCO Group had excess liquidity approximately 21,482 million baht, combining with the BoT required liquidity of 14,202 million baht (including bill of exchange), resulting in liquidity ratio of 14.2% which was well over the required liquidity by BoT of 6.0%. Meanwhile, the portion of saving accounts and current accounts of total deposits was at 13.2%.

Non-Performing Loans (NPLs) and Loan Loss Provision

In 2012, TISCO Group's NPL ratio was at 1.2%, decreased from 1.4% in 2011 resulting from effective non-performing loan management and closely monitoring of loan portfolio. Additionally, NPL ratio of retail loan, corporate loan, and commercial loan were 1.4%, 0.9% and 0.2%, respectively with total NPLs of 3,098.76 million baht, increased by 487.03 million baht (18.6% YoY) compared with the previous year resulting from strong loan portfolio expansion as well as some effects from long holidays period during the end of 2012. In addition, NPLs of the Bank were 2,774.06 million baht and 324.69 million baht from other subsidiaries.

Despite NPL ratio was declined in this year, the loan portfolio was significantly increased by 34.2% (YoY) (retail loan increased by 30.7% YoY). TISCO Group set up loan loss reserve over next 12 months based on expected credit losses of loan portfolio, resulting in higher provision expenses following strong loan growth in this year. The impairment loss of loans and debt securities totaled 1,922.24 million baht, compared to 1,283.07 million baht (YoY).

Loan loss reserve of TISCO Group was 5,121.52 million baht or 165.3% of NPLs. Total loan loss reserve of the Bank was 4,687.64 million baht which was well above the minimum required reserve by the Bank of Thailand of 2,648.08 million baht, reflecting the prudent provisioning policy to mitigate potential risks. In addition, specific reserve for classified loan stood at 2,676.22 million baht and excess reserve of 2,016.43 million baht.

(2) Securities Business

In 2012, TISCO Securities' average daily turnover was 1,666.69 million baht, increased by 26.6% from 1,316.82 million baht (YoY). Average market share increased from 2.31% to 2.62% (YoY). Meanwhile, brokerage fee increased from 678.18 million baht to 786.17 million baht (15.9% YoY). Furthermore, brokerage volume consists of 21.0% local institution investors, 32.6 % foreign institution investors and 46.4% retail customers. In addition, investment banking fee increased by 125.1 million baht to 159.5 million baht in 2012, partly due to an increase of financial advisory and underwriting fee for VGI Global Media Plc. as well as PTT Exploration and Production Plc. In addition, TISCO Securities and Deutsche Bank Group have jointly established a new company called "Deutsche TISCO Investment Advisory Company Limited" to provide world-class equity research and strategic investment advisory service for domestic and foreign institutional investors, in which the company has officially commenced the business in December 2012.

(3) Asset Management Business

As of November 30, 2012, asset management industry increased from December 31, 2011 by 532,454.10 million baht (18.7% YoY). TISCO's assets under management as of December 31, 2012 were 151,462.63 million baht, increased by 15,509.47 million baht (11.4% YoY). Total market share of TISCO Asset Management Co., Ltd. as of November 30, 2012 was 4.4%, ranking 7th in the market. The market share of provident fund was 13.7%, ranking 3rd while the market share of private fund was 10.3%, ranking 4th in the market. For mutual fund, the market share was 1.0%, ranking 14th in the market. For the year

2012, the asset management fee totaled 854.35 million baht, increased by 194.76 million baht (29.5% YoY) whereby the performance & incentive fees were 180.25 million baht, significantly increase from the previous year mainly following the strong improvement of capital market. The composition of total asset under management was 62.8 % of provident fund, 21.2 % of private fund, and 16.0% of mutual fund.

Risk Management

As of December 31, 2012, TISCO Group's internal capital stood at 16,796.49 million baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 2,589.20 million Baht from the end of 2011 to 13,154.57 million baht resulting from continuous business growth during 2012. In addition, the capital surplus remained strong at 3,641.92 million Baht or 21.7% of total internal capital.

Comparing to the end of 2011, the credit risk capital was 9,814.56 million baht, increasing by 2,225.19 million baht or 29.3% following the portfolio expansion in overall lending segment by 34.2% during the period. The non-performing loan of TISCO Group decreased from 1.4% at the end of 2011 to 1.2% at the end of 2012, partly resulting from the recovery of customers who was affected from flooding in the end of 2011 as well as bad debt write off during the year.

The market risk capital increased by 178.36 million baht from 1,636.12 million baht to 1,814.48 million baht, resulting from an increase in risk capital of interest rate in banking book. The overall interest rate risk in banking book increased following the portfolio expansion and increasing duration gap. The assets duration decreased from 1.53 years to 1.48 years resulting from increasing in lending portfolio with lower duration, while the liabilities duration excluding saving and current accounts, which are less sensitive to the interest rate movement, decreased from 0.65 year to 0.54 year. Therefore, the duration gap of assets and liabilities increased, but was still in a manageable level, from 0.88 year to 0.94 year.

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 2011, the projected regulatory capital adequacy ratio, based on IRB approach (BIS ratio) after an adjustment of capital floor stood at 12.93%, 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 9.01% and 3.92%, respectively, in which 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 52.40%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	2011		2012		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest income					
Interest on loans	3,221.33	29.1	4,477.68	34.0	39.0
Interest on interbank and money market items	627.80	5.7	730.84	5.5	16.4
Hire purchase and financial lease income	8,294.57	74.9	9,827.13	74.5	18.5
Investments	224.97	2.0	174.96	1.3	(22.2)
Total interest income	12,368.67	111.7	15,210.61	115.4	23.0
Interest expenses	(5,461.34)	(49.3)	(8,166.15)	(61.9)	49.5
Net interest income	6,907.33	62.4	7,044.47	53.4	2.0
Fee Income					
Fee Income	3,066.99	27.7	4,407.55	33.4	43.7
Fee Expenses	(212.82)	(1.9)	(278.92)	(2.1)	31.1
Net Fee Income	2,854.17	25.8	4,128.63	31.3	44.7
Gain on investment and foreign exchange transaction	77.2	0.7	287.78	2.2	272.9
Other Income	1,233.87	11.1	1,721.69	13.1	39.5
Net Operating Income	11,072.54	100.0	13,182.57	100.0	19.1
Non-interest expenses	(4,934.56)		(6,446.66)		
Impairment loss of loans and debt securities	(1,283.07)		(1,922.24)		
Profit before income tax and minority interest	4,854.91		4,813.67		
Corporate income tax	(1,561.91)		(1,080.66)		
Profit before minority interest	3,293.00		3,732.01		13.4
Minority interest in net earnings in subsidiary company	(26.24)		(27.83)		
Net Profit	3,266.76		3,705.18		

Table2: Interest Spread

%	2011	2012
Yield on loans	6.9	6.6
Cost of Fund	3.1	3.6
Loan Spread	3.7	3.0

Table 3: Assets Breakdown

Assets	December 31, 2011		December 31, 2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	903.45	0.4	1,046.33	0.4	15.8
Interbank and Money Market Items	30,722.35	13.9	31,196.28	10.7	1.5
Derivative Asset	45.37	0.0	41.86	0.0	0.0
Fixed income	2,364.15	1.1	4,775.53	1.6	102.0
Equity	1,342.11	0.6	2,239.99	0.8	66.9
Corporate Loans	32,348.73	14.7	42,993.75	14.8	32.9
Retail Loans	134,032.57	60.7	175,168.34	79.4	30.7
Commercial Loans	13,628.40	6.2	25,780.61	8.9	89.2
Other Loans	5,003.92	2.3	4,372.98	1.5	(12.6)
Allowance for doubtful accounts and for loss on debt restructuring	(4,420.35)	(2.0)	(5,121.52)	(1.8)	15.9
Other Assets	4,746.88	2.2	8,002.79	2.8	68.6
Total – The Company and Subsidiaries	220,717.57	100.0	290,496.94	100.0	31.6

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2011		December 31, 2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	16,368.35	8.8	17,226.31	6.9	5.2
Real estate and construction	8,789.92	4.8	10,203.97	4.1	16.1
Public utilities and services	6,862.20	3.7	14,888.26	6.0	117.0
Agriculture and mining	328.26	0.2	675.20	0.3	105.7
Corporate Loans	32,348.73	17.5	42,993.75	17.3	32.9
Commercial Loans	13,628.40	7.4	25,780.61	10.4	89.2
Hire purchase	124,915.88	67.5	163,697.12	65.9	31.0
Mortgage	1,366.69	0.7	1,455.60	0.6	6.5
Consumer	7,750.00	4.2	10,015.63	4.0	29.2
Retail Loans	134,032.57	72.4	175,168.34	70.5	30.7
Others	5,003.92	2.7	4,372.98	1.8	(12.6)
Total – The Company and Subsidiaries	185,013.62	100.0	248,315.68	100.0	34.2

Table 5: NPL Breakdown

Type of Business	December 31, 2011			December 31, 2012			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.4	71.50	2.7	0.5	77.85	2.5	8.9
Real estate and construction	3.3	288.63	11.1	2.7	274.27	8.9	(5.0)
Public utilities and services	0.5	30.99	1.2	0.2	30.87	1.0	(0.4)
Agriculture and mining	0.7	2.34	0.1	0.9	5.95	0.2	154.6
Total NPL - Corporate Loans	1.2	393.46	15.1	0.9	388.94	12.6	(1.1)
NPL-Commercial Loans	0.8	114.13	4.4	0.2	48.36	1.6	(57.6)
Hire purchase	1.5	1,886.41	72.2	1.5	2,411.67	77.8	27.8
Mortgage	7.6	103.87	4.0	7.3	105.65	3.4	1.7
Total NPL - Retail Loans	1.5	1,990.28	76.2	1.4	2,517.33	81.2	26.5
Others	2.3	113.87	4.4	3.3	144.13	4.7	26.6
Total NPL – The Company and Subsidiaries	1.4	2,611.73	100.0	1.2	3,098.76	100.0	18.6

Table 6: Liabilities Breakdown

Liabilities	December 31,2011		December 31,2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Total deposits	170,549.69	83.4	233,518.69	85.8	36.9
Interbank and money market items	14,478.65	7.1	13,970.61	5.1	(3.5)
Debenture	7,076.00	3.5	14,071.20	5.2	98.9
Long-term borrowings	5,749.90	2.8	110.70	0.0	(98.1)
Others	6,551.73	3.2	10,445.49	3.8	59.4
Total – The Company and Subsidiaries	204,405.98	100.0	272,116.69	100.0	33.1

Table 7: Deposits Structure

Type of Deposits	December 31,2011		December 31,2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,423.09	2.0	2,762.37	1.2	(19.3)
Saving accounts	17,082.94	10.0	28,140.15	12.1	64.7
Fixed accounts	2,049.15	1.2	15,385.04	6.6	650.8
Certificate deposit & Negotiate certificate deposit	15,423.82	9.0	173,535.78	74.3	1,025.1
Short-term borrowings	132,570.70	77.7	13,695.35	5.9	(89.7)
Total deposits	170,549.69	100.0	233,518.69	100.0	36.9

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31,2011		December 31,2012		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	85,028.35	62.5	95,164.65	62.8	11.9
Private Fund	36,814.50	27.1	32,058.63	21.2	(12.9)
Mutual Fund	14,110.31	10.4	24,239.36	16.0	71.8
Total	135,953.16	100.0	151,462.63	100.0	11.4

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 (Million Baht)	
	December 31,2011	December 31, 2012	December 31,2011	December 31, 2012
Assets	1.53	1.48	800.90	987.76
Liabilities*	0.65	0.54	(1,136.04)	(1,706.15)
Net Gap	0.88	0.94	(335.13)	(718.38)

Note : * Exclude saving and current account