

Management Discussion and Analysis For the First Quarter ended March 31, 2013

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2013)

Movement of Money Market and Capital Market

During the first quarter of 2013, domestic economy continued its growth momentum from 2012 mainly driven by private consumption and investment coupled with government stimulus measures. Meanwhile, the recovery in export sector was unclear amidst global economic uncertainty, including fragile US recovery as well as unfolded Eurozone debt crisis. In addition, Thai Baht reached the strongest level since the economic crisis in 1997 driven by strong foreign fund inflow into debt and equity market.

The Bank of Thailand (BOT) maintained the policy rate at 2.75% since the fourth quarter of 2012. Meanwhile, average 3-month fixed deposit rates of Top 4 commercial banks increased from 1.84% at the end of 2012 to 1.91%, while the average minimum lending rate of Top 4 commercial banks remained stable at 7.00% since the end of 2012.

In capital market, the SET closed at 1,561.06 points, increased by 169.13 points (QoQ) and 364.29 (YoY) amidst bull market rally and strong market trading volume. The average daily turnover was 61,542.45 million baht, increased from 29,296.98 million baht (YoY).

Operating Results

The Management Discussion and Analysis compares operating performance for the first quarter of 2013 and first quarter of 2012

TISCO Financial Group Public Company Limited had net profit from operations on a standalone basis totaling 59.15 million baht, mainly contributed by fee 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 the first quarter of 2013, TISCO Group had net profit after minority interest of 1,153.50 million baht, increased by 316.84 million baht (37.9% YoY) contributed by an increase in total interest income of 30.9% (YoY) following the loan portfolio expansion of 7.4% (QoQ) and 37.1% (YoY), respectively. However, loan spread remained stable at 3.0% compared to the first quarter of 2012 partly due to a decrease of policy rate in late 2012. Furthermore, non-interest income from core business was 2,087.50 million baht, significantly increased by 779.89 million baht (59.6% YoY) contributed by growth in banking fee of 71.0% (YoY) following strong growth in loan and bancassurance businesses, as well as strong growth

in brokerage business whereby the brokerage fee increased by 104.0% (YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. together with an increased in total fee income from asset management business of 41.3% (YoY) mainly contributed by expansion of asset under management and improving capital market condition.

Basic Earnings per Share for of the first quarter of 2013 was at 1.58 baht per share, increased from 1.15 baht per share (YoY). Return on average equity (ROAE) was 24.6% compared with 20.0% (YoY).

Net Interest Income

Net interest income in this quarter was 2,103.35 million baht, increased by 537.74 million baht (34.3% YoY), while total interest income was 4,466.97 million baht, increased by 1,053.58 million baht (30.9% YoY), following a continuous expansion of loan portfolio. Meanwhile, interest expense increased by 515.84 million baht (27.9% YoY) to 2,363.62 million baht, following an expansion of deposit base combined with higher funding cost from contribution to FIDF and DPA.

Yield on loan decreased from 6.7% to 6.5% (YoY) following a decrease of policy rate in late 2012. Amidst intense competition in deposit market, TISCO Group had maintained effective cost management resulting in reduction of cost of fund from 3.7% to 3.5% (YoY). As the result, TISCO Group can sustained loan spread at 3.0% while net interest margin was at 2.8% which were at the same level as the first quarter of 2012.

TISCO Group reported net interest income after impairment loss of loans and debt securities totaled 1,163.26 million baht, decreased by 142.55 million baht (10.9% YoY). Impairment loss of loans and debt securities was 940.09 million baht, compared with 259.81 million baht in the first quarter of 2012, following loan portfolio expansion as well as additional set up of general provision following counter cyclical provision policy in order to protect against future volatility .

Non-interest Income

Non-interest income of TISCO Group's core businesses was recorded at 2,087.50 million baht, significantly improved by 779.89 million baht (59.6% YoY) following the growth in all businesses. Furthermore, the banking fee increased by 427.67 million baht (71.0% YoY) to 1,029.50 million baht following strong growth in loan and bancassurance businesses as well as the strong growth in brokerage business whereby the brokerage fee increased by 185.07 million baht (104.0% YoY) following higher average trading volume and market share of TISCO Securities Co., Ltd. together with fee an increased in total fee income from asset management business of 77.16 million baht (41.3% YoY) mainly contributed by expansion of asset under management and improving capital market condition. Moreover, TISCO Group record gain on sell of investment totaled 166.08 million baht in this quarter. As the result, total fee income increased from 1,293.32 million baht to 2,218.17 million baht (71.5% YoY).

Non-interest Expenses

Non-interest expenses for this quarter were 1,452.08 million baht, increased by 300.20 million baht (26.1% YoY) mainly driven by variable expenses associated with revenue growth in which strongly expanded in this quarter. In addition, the cost to income ratio was decreased to 37.6% compared with 46.0% in the first quarter of 2012 following the prudent cost control policy whereby the fixed expenses was increased at the lower rate when compared to the revenue growth.

Corporate Income Tax

In the first quarter of 2013, the corporate income tax was 283.74 million baht, equivalent to the effective tax rate of 19.3%, compared to 22.7% (YoY) following the adjusted corporate tax from 23% to 20% 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 March 31, 2013 and December 31, 2012.

Assets

As of March 31, 2013, TISCO Group's total assets were 319,010.42 million baht increased by 28,513.48 million baht (9.8% QoQ) due mainly to strong loan growth from 248,315.68 million baht to 266,785.02 million baht (7.4% QoQ).

Liabilities

As of March 31, 2013, total liabilities were 299,482.24 million baht, increased by 27,365.55 million baht (10.1% QoQ) mainly due to the increase in deposit of 12.2% (YoY). The liabilities mix comprised of 87.5% total deposit including bill of exchange, 5.5% interbank and money market items, 2.9% debentures, and 4.1% other liabilities.

Shareholders' Equity

As of March 31, 2013, shareholders' equity was 19,528.18 million baht, increased by 1,147.92 million baht (6.2% QoQ) following an increase in retained earnings in the first quarter of 2013. As a result, book value per share (BVPS) as of March 31, 2013 was 26.83 baht per share, increased from 25.25 baht per share (QoQ). In the first quarter of 2013, TISCO Group had paid-up shares amounting 727.91 million shares, comprising of 727.88 million common shares and 33,858 preference shares.

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

Total consolidated loans and receivables were 266,785.02 million baht, up by 18,469.34 million baht (7.4% QoQ), following growth in loan portfolio following strong loan growth in all businesses. The composition of loan portfolio was 70.9% of retail loans, 16.8% of corporate loans, 11.1% of commercial loans and 1.2% of other loans.

Retail lending portfolio totaled 189,057.72 million baht, consisted of 93.2% car, motorcycle, and other hire purchase, 6.0% consumer loans and 0.8% mortgage loans. The outstanding hire purchase loans totaled 176,184.00 million baht, rose by 13,320.61 million baht (8.2% QoQ). The domestic car sales in the first 2-month of 2013 reported at 255,727 units, increased from 168,393 units (51.9% YoY). The car penetration rate for the first 2-month was reported at 10.0%. Moreover, consumption loans amounted 11,419.87 million baht increased by 708.16 million baht (6.6% QoQ) following an increase in TISCO Auto Cash loan.

Corporate lending portfolio totaled 44,767.96 million baht, increased by 1,774.21 million baht (4.1% QoQ) due partly to an increase in loan to public utilities and services business.

Commercial lending portfolio totaled 29,670.84 million baht, increased by 3,890.23 million baht (15.1% QoQ), following a increase in loan to manufacturing and commerce, especially loan to car dealer.

Other loan portfolio totaled 3,288.50 million baht, decreased by 1,222.13 million baht (27.1% QoQ).

Deposits¹

Total deposits totaled 261,974.42 million baht, increased by 28,455.74 million baht (12.2% QoQ). At the end of the first quarter of 2013, TISCO Group had excess liquidity amounting to approximately 29,381 million baht, combining with the BoT required liquidity of 16,060 million baht (including bill of exchange), resulting in liquidity ratio of 17.0% 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 11.0%.

Non-Performing Loans (NPLs) and Loan Loss Provision

In the first quarter of 2013, NPL ratio stood at 1.2% - 1.3%. NPL ratio of retail loan, corporate loan, and commercial loan were 1.5%, 0.9%, and 0.2% respectively. Total NPLs reported at 3,404.02 million baht, increased by 305.26 million baht (9.9% QoQ), comprising of 2,988.69 million baht of the Bank NPLs and 415.33 million baht of other subsidiaries NPLs. In addition, NPL was increased along with loan portfolio

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

growth as well as the slightly increase in proportion of used car and consumption loans following the business plan.

TISCO Group set up provision for impairment loss of loans and debt securities totaling 940.09 million baht, compared to 259.81 million baht (YoY), comprising of general provision expenses totaled 575.35 million baht, accounted for 0.9 of average loan portfolio and excess provision expenses totaled 364.74 million baht which was set up following the counter cyclical provision policy in order to protect against future volatility. Moreover, the set up of counter cyclical provision was considered coupling with business result in each quarter.

As of March 31, 2013, loan loss reserve of TISCO Group was 5,684.98 million baht or 167.0% of NPLs. Total loan loss reserve of the Bank was 5,247.90 million baht which was higher than the minimum loan loss reserve required by the Bank of Thailand at 2,835.11 million baht, reflecting the prudent provisioning policy to mitigate potential risk. In addition, total reserve was comprised of minimum required reserve of 2,866.73 million baht and excess reserve of 2,381.17 million baht.

(2) Securities Business

At the end of the first quarter of 2013, the SET index continually increased driven by strong foreign fund inflow. Average daily turnover through TISCO Securities was 3,375.03 million baht, increased by 156.5% (YoY) from 1,315.86 million baht in the first quarter of 2012. TISCO Securities' average market share was improved from 2.2% to 2.6% (YoY), mainly due to the increase in market share of local institution sector from 6.1% to 8.2% and foreign institution sector from 3.1% to 4.2%. This was partly contributed by professional investment advisory service and securities research of Deutsche TISCO Investment Advisory Co., Ltd. Moreover, Brokerage fee was 362.95 million baht, up by 104.0% (YoY) from 177.88 million baht in same period of 2012. TISCO brokerage volume in 2013 comprised of 24.1% of local institutions, 28.6% of foreign institutions, and 47.3% of retail customers. In addition, fee income from investment banking business was 6.29 million baht, decreased by 6.34 million baht (50.2% YoY), compared to 12.63 million baht (YoY)

(3) Asset Management Business

As of February 28, 2013, industry asset under management increased from December 31, 2012 by 170,823.08 million baht (4.9% QoQ). TISCO's assets under management as of March 31, 2013 were 156,922.78 million baht, increased by 4,198.43 million baht (2.7% QoQ). Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2013 was 4.3%, ranking 8th in the market. The market share of provident fund was 13.2%, ranking 3th in the market. The market share of private fund was 9.9%, ranking 4th in the market. For mutual fund, the market share was 1.0%, ranking 14th in the market.

In first quarter of 2013, total fee income from asset management totaled 264.11 million baht, increased by 77.16 million baht (41.2% YoY), whereas, variable incentive fee was 40.51 million baht, increased by 57.5% (YoY) following an increase in asset under management and variety of funds launched

corresponding to market demands. The composition of total asset under management was 61.1% provident fund, 21.6% private fund, and 17.3% mutual fund.

Risk Management

As of March 31, 2013, TISCO Group's internal capital stood at 17,166.10 million Baht comprising of Tier-I capital and available reserve adjustment. The integrated risk capital increased by 258.30 million Baht from the end of 2012 to 10,835.03 million Baht resulting from continuous business expansion during the quarter. In addition, the capital surplus remained strong at 6,331.07 million Baht or 36.88% of total internal capital. However, TISCO Group has improved assumption for present risk assessment, in which the risk value adjustment was applied for both current period and for the end of 2012.

Comparing to the end of 2011, the credit risk capital was 9,064.84 million baht, increasing by 298.98 million baht or 3.4% following the portfolio expansion in overall lending segment by 7.4% during the quarter. The non-performing loan of TISCO Group stood at 1.2% - 1.3%.

The market risk capital decreased by 40.68 million baht from 266.79 million baht to 226.11 million baht, resulting from a decline in possession of market risk assets. The overall interest rate risk in banking book has increased from the increasing duration gap. The assets duration increased from 1.48 years to 1.54 years resulting from increasing in lending portfolio with long duration. Therefore, the duration gap of assets and liabilities increased, but was still in a manageable level, from 0.94 year to 1.07 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 March 2013, the projected regulatory capital adequacy ratio, including net profit of 2012, based on IRB approach (BIS ratio) stood at 13.01%, 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 8.42% and 4.59%, respectively, in which Tier-I capital adequacy ratio also remained higher than the minimum requirement at 6%. Regarding to dividend payment and issuance of Transferable Subscription Rights (TSRs), TISCO Group expects an increase of BIS ratio and Tier-I capital adequacy ratio by 1.0% - 1.2% by the end of second quarter 2013. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. stood at 61.48%, which was higher than the minimum required ratio by the SEC of 7.0%.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q12		1Q13		Change % YoY
	Amount (Bt. million)	%	Amount (Bt. Million)	%	
Interest income					
Interest on loans	932.80	37.3	1,344.67	34.8	44.2
Interest on interbank and money market items	187.28	7.5	215.24	5.6	14.9
Hire purchase and financial lease income	2,252.24	90.0	2,865.38	74.1	27.2
Investments	41.06	1.6	41.67	1.1	1.5
Total interest income	3,413.39	136.4	4,466.97	115.6	30.9
Interest expenses	(1,847.77)	73.8	(2,363.62)	61.2	27.9
Net interest income	1,565.61	62.6	2,103.35	54.4	34.3
Fee income					
Fee income	970.78	38.8	1,639.19	42.4	68.9
Fee expenses	(59.84)	(2.4)	(66.31)	(1.7)	10.8
Net fee income	910.93	36.4	1,572.89	40.7	72.7
Gain on investment and foreign exchange transaction	(14.28)	(0.6)	130.67	3.4	n.a.
Other operating income	336.83	13.5	448.31	11.6	33.1
Total operating income	2,799.09	111.8	4,255.21	110.1	52.0
Expenses to business promotion relating to the business	(296.26)	(11.8)	(390.53)	(10.1)	
Total net operating income	2,502.83	100.0	3,864.68	100.0	54.4
Non-interest expenses	(1,151.88)		(1,452.08)		
Bad debt and doubtful account and impairment loss of debt securities	(259.81)		(940.09)		
Profit before income tax and minority interest	1,091.15		1,472.52		35.0
Corporate income tax	(248.17)		(283.74)		
Profit before minority interest	842.98		1,188.78		41.0
Minority interest in net earnings in subsidiary company	(6.32)		(35.28)		
Net profit	836.66		1,153.50		37.9

Table2: Interest Spread

%	2012	1Q12	4Q12	1Q13
Yield on Loans	6.6	6.7	6.7	6.5
Cost of fund	3.6	3.6	3.6	3.5
Loan spread	3.0	3.1	3.1	3.0

Table 3: Assets Breakdown

Assets	December 31, 2012		March 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Cash	1,046.33	0.4	1,014.62	0.3	(3.0)
Interbank and Money Market Items	31,196.28	10.7	41,625.20	13.0	33.4
Derivative Asset	41.86	0.0	70.68	0.0	0.0
Fixed income	4,775.53	1.6	4,746.76	1.5	(0.6)
Equity	2,239.99	0.8	1,956.69	0.6	(12.6)
Corporate Loans	42,993.75	14.8	44,767.96	14.0	4.1
Retail Loans	175,030.69	60.3	189,057.72	65.1	8.0
Commercial Loans	25,780.61	8.9	29,670.84	9.3	15.1
Other Loans	4,510.63	1.6	3,288.50	1.0	(27.1)
Allowance for doubtful accounts and for loss on debt restructuring	(5,121.52)	(1.8)	(5,684.98)	(1.8)	11.0
Other Assets	8,002.79	2.8	8,496.42	2.7	6.2
Total – The Company and Subsidiaries	290,496.94	100.0	319,010.42	100.0	9.8

Table 4: Loans and Receivables Breakdown

Type of Business	December 31, 2012		March 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Manufacturing and commerce	17,226.31	6.9	17,567.44	6.6	2.0
Real estate and construction	10,203.97	4.1	9,161.29	3.4	(10.2)
Public utilities and services	14,888.26	6.0	17,300.04	6.5	16.2
Agriculture and mining	675.20	0.3	739.19	0.3	9.5
Corporate Loans	42,993.75	17.3	44,767.96	16.8	4.1
Commercial Loans	25,780.61	10.4	29,670.84	11.1	15.1
Hire purchase	162,863.39	65.6	176,184.00	66.0	8.2
Mortgage	1,455.60	0.6	1,453.84	0.5	(0.1)
Consumer	10,711.71	4.3	11,419.87	4.3	6.6
Retail Loans	175,030.69	70.5	189,057.72	70.9	8.0
Others	4,510.63	1.8	3,288.50	1.2	(27.1)
Total – The Company and Subsidiaries	248,315.68	100.0	266,785.02	100.0	7.4

Table 5: NPL Breakdown by Area

Type of Business	December 31, 2012			March 31, 2013			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	0.5	77.85	2.5	0.5	96.52	2.8	24.0
Real estate and construction	2.7	274.27	8.9	3.0	278.51	8.2	1.5
Public utilities and services	0.2	30.87	1.0	0.2	36.44	1.1	18.0
Agriculture and mining	0.9	5.95	0.2	1.2	8.95	0.3	50.4
Total NPL - Corporate Loans	0.9	388.94	12.6	0.9	420.42	12.4	8.1
NPL-Commercial Loans	0.2	48.56	1.6	0.2	48.34	1.4	(0.5)
Hire purchase	1.5	2,401.24	77.5	1.5	2,663.25	78.2	10.9
Mortgage	7.3	105.65	3.4	7.0	101.89	3.0	(3.6)
Consumer	0.9	97.81	3.2	1.1	122.90	3.6	25.6
Total NPL - Retail Loans	1.5	2,604.71	84.1	1.5	2,888.04	84.8	10.9
Others	1.3	56.55	1.8	1.4	47.22	1.4	(16.5)
Total NPL – The Company and Subsidiaries	1.2	3,098.76	100.0	1.3	3,404.02	100.0	9.9

Table 6: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2012		March 31, 2013		Change %
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Deposits	233,518.69	85.8	261,974.42	87.5	12.2
Interbank and money market items	13,970.61	5.1	16,454.85	5.5	17.8
Debentures	14,071.20	5.2	8,746.90	2.9	(37.8)
Long-term borrowings	110.70	0.0	108.70	0.0	(1.8)
Others	10,445.49	3.8	12,197.37	4.1	16.8
Total – The Company and Subsidiaries	272,116.69	100.0	299,482.24	100.0	10.1

Table 7: Deposits Structure

Type of Deposits	December 31, 2012		March 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Current accounts	2,762.37	1.2	2,123.36	0.8	(23.1)
Saving accounts	28,140.15	12.1	26,850.85	10.2	(4.6)
Fixed accounts	15,385.04	6.6	25,556.39	9.8	66.1
Negotiate certificate deposit	173,535.78	74.3	194,383.84	74.2	12.0
Short-term borrowings	13,695.35	5.9	13,059.98	5.0	(4.6)
Total deposits	233,518.69	100.0	261,974.42	100.0	12.2

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2012		March 31, 2013		% Change
	Amount	%	Amount	%	
	(Bt. million)		(Bt. million)		
Provident Fund	95,316.27	62.4	96,303.22	61.4	1.0
Private Fund	33,155.36	21.7	34,475.97	22.0	4.0
Mutual Fund	24,252.71	15.9	26,143.59	16.7	7.8
Total	152,724.34	100.0	156,922.78	100.0	2.7

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 (Bt. million)	
	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013
	Assets	1.48	1.54	987.76
Liabilities*	0.54	0.46	(1,706.15)	(1,991.15)
Net Gap	0.94	1.07	(718.38)	(676.56)

Note : * Exclude saving and current account