

# Annual Report 2006

**TISCO** Bank

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## **Part 1**

### **Report From the Board of Directors**

In the year 2006, Thailand experienced dramatic changes in politic and economic. The political uncertainty, looming since the early of the year, ended up with coup de grace on September 19, 2006. The new government was established to oversee administration of the country. Adding to the political uncertainty, the economy faced recorded high oil price which led high inflation and high interest rate. However, the favorable external demand and higher commodity price in the world market led the Thai exports (in \$US) expanded by 17.4% and supported economic growth at the rate of 5.0%. At the end of year, a surprise 30% reserve requirement on capital inflows brought panic sale in the SET. As a result the SET Index finished at 679.84 points by end of year, well below market consensus, with declining in the average daily turnover.

With these unfavorable factors, together with intensifying competition following the announcement of the Financial Sector Master Plan permitting commercial banks to operate hire purchase, leasing, and factoring businesses, TISCO has been confronted with key challenges through the year. However, with TISCO effective risk management system and its ability to assess the situation and effectively adapt business strategies with changing clients, TISCO business continued to expand with the growth in hire purchase loans of as high as 20%, resulted in a strong increase of 25% in interest income. However, the intense competition for deposits among commercial banks through offering attractive products and high interest rates, the net interest income declined from high funding costs. Meanwhile, fee base income continued to grow with the expansion of hire purchase, brokerage, and asset management businesses resulting in net revenue maintained at the same level of last year. With operating expenses and increasing corporate income tax rate to the normal level, TISCO Group recorded a net profit of 1,546 million baht, down 13.7% from 2005.

Under a customer-centric business strategy which targets to offer full ranges of financial services to satisfy customers, TISCO continued to develop and introduce new financial products including SME loans, cash management service, and bancassurance. Moreover, in November 2006, TISCO has successfully joined the ATM pool network, which will serve as an important business platform for deposit taking from retail customers into the future. In addition, TISCO also emphasized cross-selling activities among different business lines to increase the use of TISCO services by existing customers which also produced a satisfactory result.

Despite the volatile stock market, TISCO Securities Company Limited (TISCO Securities) recorded higher average daily trading volumes and saw its market share rise to 3.22% from 2.97% in 2005. TISCO Securities was also voted as the "*Best Local Brokerage 2006*" for the third consecutive year by the Asiamoney Brokers' Poll for Thailand. Meanwhile, TISCO Asset Management Company Limited (TISCO Asset) also retained its position in the second-rank of the market in private and provident fund business.

TISCO Group is well aware of the significance of good corporate governance, TISCO Bank Public Company Limited (TISCO Bank) was honored with the award for "Distinction in Maintaining Excellent Corporate Governance Reports" at the SET Awards 2006, organized by the SET and Money and Banking magazine. Recently, the Thai Institute of Directors Association announced the Corporate Governance Report 2006 results of Thai listed companies, of which TISCO is scored "Very Good". TISCO Bank was also awarded best "Corporate Bond House (Thai Baht) 2006" from The Asset Asian Currency Bond Benchmark Survey 2006. The Asset Magazine conducted the survey of more than 300 institutional investors who directly used bond services in the Asian region to evaluate the quality of services, supply of bonds and bank relationship. In addition, TISCO Bank received "Best Dealer Compliance" award from the ThaiBMA Best Bond Awards 2006.

Going forward, TISCO will meet competitive challenges in various aspects. The Board and the management are well aware that, to overcome such challenges, TISCO must employ the right business model, the right structure, and the right people. Hire purchase, brokerage business, and asset management business will continue to be the core business under TISCO diversified business portfolio, leveraging on TISCO core competency in the niche market, while the organization structure will effectively be simplified with clear accountabilities to ensure responsiveness to business opportunities, and quality and timeliness of services to customers. On human resource management, the focus will be on putting the right man on the right job, including the recruitment of mid career professionals to fulfill the business needs, and staff empowerment through implementation of Balanced Scorecard and KPIs.

TISCO Group has also placed significant emphasis on Corporate Social Responsibility (CSR). With the aim of making this concept a part of the Bank's culture, it has developed and promoted CSR activities and encouraged employees to participate in worthy causes such as supporting education for young students and promoting social, environmental and cultural development. The Group mainly participates in CSR activities through TISCO Foundation, which emphasizes long-term projects to develop the potential of under-privileged members of society so that they might become better able to support themselves and their families on a sustainable basis. Each year, the TISCO Foundation hands out over 4,000 scholarships, of which more than 60% are in the form of long-term programs

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providing education to needy students. Through 25 years of its establishment, it has already handed out total scholarships worth 108 million baht. In addition, 6 million baht has been donated to support business start-ups and as medical assistance funds.

Currently, TISCO Group is in the process of establishing TISCO Financial Group under the Consolidated Supervision regulation announced by the Bank of Thailand with TISCO Bank as the parent company. This is due to the Bank of Thailand's decision to cease considering the application for holding company restructuring plan submitted since November 2005, which resulted from the Ministry of Finance declining to approve TISCO Corporation Public Company Limited's plan to hold shares in TISCO Bank. Instead, TISCO Financial Group will be created to enhance risk diversification and capital efficiency.

For 2007, TISCO Group will focus its efforts on business growth coupled with the development of high quality financial services, with emphasis on fund raising from retail customers through branch network expansion and ATM services. TISCO Group will also continue promoting its cross-selling strategy and developing new products and services to meet customer needs. Good corporate governance and transparency will be continually committed. Meanwhile, TISCO is well prepared for the adoption of new International Accounting Standard (IAS39) and Basel II regulations.

Finally, the board wishes to convey its gratitude to all of TISCO's clients and shareholders for their commitment and support, and would like to extend special thanks to management and staff for their dedication, diligence and contributions throughout the year.

Board of Directors

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## **Part 2**

### **The Company**

<b>Company Name</b>	:	TISCO Bank Public Company Limited (hereafter "TISCO Bank" or "the Bank")
<b>Type of Business</b>	:	Banking Business
<b>Address</b>	:	Fl.1, TISCO Tower, 48/2 North Sathorn Road, Silom, Bangrak, Bangkok 10500
<b>Registration Number</b>	:	0107539000171
<b>Home Page</b>	:	<a href="http://www.tisco.co.th">www.tisco.co.th</a>
<b>Telephone</b>	:	(66) 2633 6000
<b>Fax</b>	:	(66) 2633 6800
 <b>Reference:</b>		
Transfer Agent and Registrar	:	<b>Thailand Securities Depository Co., Ltd.</b> Capital Market Academy Building, 2/7 Moo 4, (North Park Project) Vibhavadi-Rangsit Road Tung Song Hong, Laksi, Bangkok 10210 Tel. 0 2596 9000 Fax. 0 2832 4994-6
Debenture Holder Representative	:	<b>Siam Commercial Bank Public Company Limited (Head Office)</b> 9 Rajadapisek Road, Ladyao, Jatujak, Bangkok 10900 Tel. 0 2544 1111 Fax. 0 2937 7748
Debenture Registrar	:	<b>TISCO Bank Public Company Limited</b> Fl.1, TISCO Tower, 48/2 North Sathorn Road, Silom, Bangrak, Bangkok 10500 Tel. 0 2633 6814 Fax. 0 2633 6818
Auditor	:	<b>Mr. Narong Puntawong</b> Certified Public Accountant (Thailand) Registration No.3315 Ernst & Young Office Limited 33 <sup>rd</sup> Floor, Lake Rajada Office Complex, 193/136-137 Rajadapisek Road, Bangkok 10110 Tel. 0 2264 0777 Fax. 0 2264 0789-90

## 1. Risk Factors

### Overview of Risk Management

TISCO Bank places great importance on effective risk management and controls. By establishing an overall risk management framework, including policy objectives for all risk-related transactions, the Bank is able to increase awareness, accountability and efficiency in enterprise-wide risk management as well as maintain best practice standards and high-quality corporate governance. In addition, the Bank aims to maximize sustainable risk-adjusted returns over the long run.

### Risk Management Policy

Overall risk management policy encompasses the following structures:

1. Consolidated and centralized risk management  
Risk management infrastructure is centralized by consolidating risk exposure from all subsidiaries through careful risk assessment and the establishment of appropriate risk guidelines and procedures.
2. Business line accountability, independent risk oversight  
Each business line is accountable for managing its own risks in the best interests of TISCO Bank while complying with risk management policies, guidelines, and procedures. Independent risk oversight and check-and-balance system have been established to ensure that risks are adequately monitored and controlled.
3. Comprehensive risk assessment  
Risk assessment is performed comprehensively in all key activities. Risk assessment methodologies may range from basic approaches such as expert judgments to more advanced approaches such as quantitative and statistical analysis, depending on the size and complexity of the risks involved. These assessments are in turn supplemented by fundamental risk analysis and stress testing of extreme risk events.
4. Capital management based on standardized risk tools  
Capital represents the ultimate interests of the shareholders. All risk exposures are quantified into a standardized risk measure called Value-at-Risk (VaR) which can relate risks to the amount of capital required to protect against them according to predefined risk limits. Risk capital enables management and business line managers to understand the level of risks being taken in a meaningful manner. Risks from different levels are integrated to produce an overall risk picture of the Bank, which is used for capital adequacy planning and strategic capital allocation both at the corporate and business unit level.
5. Adequate return for risk and risk-adjusted performance management  
To promote shareholder value creation, risk components are incorporated into business performance measurements with the objective of maximizing risk-adjusted returns for shareholders. Product pricing takes into account varying risks to ensure overall profitability. Business expansion is advocated in the areas where marginal risk-adjusted returns are in excess of the marginal risks.
6. Portfolio management, diversification and hedging  
Risk diversification is a key risk management principle in all business activities. Diversification is considered and adopted by management and business line managers both at the portfolio and transaction levels as an effective approach to reducing the aggregate level of risks in accordance with certain guidelines and limits.
7. Regulatory best practice  
TISCO Bank has adopted risk management policies and guidelines that comply with all regulations and best practice standards of the Bank of Thailand (BoT), the Securities and Exchange Commission (SEC) and other regulatory bodies.

### Risk Management Framework

In accordance with enterprise-wide risk management policies and objectives, an effective management process has been established for assessing and managing all firm-wide risk exposures at both the portfolio and transactional levels to ensure the financial soundness and safety of the Bank. Senior Management and relevant business advisory committees oversee the entire risk management framework and strategy for all business areas supported by planning and budgeting function. Risk Management Committee, supported by risk management functions, is set up to oversee that enterprise-wide risk management of the group is undertaken according to the same standard. Specific-area risk authorities are then established to manage in-depth, transaction-level risks in each particular area, such as the Credit Committee, Problem Loan Committee, Investment Committee, and Chief Credit Officer. These mechanisms are in turn supported by the Office of the Credit Committee and functions governing internal controls, compliance, and legal issues. Business

lines are fully accountable for managing their own risks within the policy guidelines established by the Risk Management Committee. The roles and responsibilities of the relevant committees and risk management authorities are described as follows:

- Executive Board

The board has assigned Executive Board the task of overseeing and monitoring risk management activities by reviewing and approving relevant policies and guidelines on an annual basis. This is achieved by setting risk limits and risk appetites, and ensuring the establishment of effective risk management systems and procedures in accordance with the standard practices of risk identification, assessment, monitoring and control, all of which are in line with the Audit Committee standards.

- Risk Management Committee

The Risk Management Committee has been delegated from the Board of Director in charge of the formulation and implementation of enterprise-wide risk strategies and action plans in connection with risk management policies and guidelines. Risk management functions support the Risk Management Committee in setting up and monitoring risk management policies and guidelines and performing enterprise-wide risk management activities through a risk research and reporting process.

- Specific-Area Risk Authorities

Specific-area risk authorities are set up to address in-depth risk management and controls at the transaction level. Key specific-area risk authorities include the Credit Committee, Problem Loan Committees, and Chief Credit Officer, which are in turn supported by the Office of the Credit Committee in overseeing credit approval and risk management. Board of Directors' oversight is conducted in all specific risk areas on a monthly basis.

## Risk Types

### 1.1 Credit Risk

Credit Risk is defined as the possibility of an obligor's failure to meet the terms of any contract with the Bank as agreed or by defaulting on a loan agreement. Credit risk, if it occurs without pledged assets, requires the Bank to maintain higher provisions for loan losses, which will then adversely affect net income and the Bank's capital.

- Credit Risk Management Framework

The Risk Management Committee is delegated to oversee credit risk management of the corporate portfolio. The committee is responsible for formulating credit risk strategies and establishing guidelines and limits, as well as advising other credit risk authorities and retaining accountability on related issues. It also monitors and reviews credit risks at the portfolio level and reports essential credit risk information to the Board.

Specific-Area credit risk authorities include the Credit Committee, Problem Loan Committee, and the Chief Credit Officer, which are established to oversee credit risk management and control at in-depth transaction level. The Credit Committee is responsible for reviewing and granting credit approvals to any single client proposed by lending officers. The Credit Committee may delegate its authority to designated persons for authorizing lower-risk transactions. The Chief Credit Officer, who is a member of the Credit Committee, is responsible for overseeing the board-approved credit granting authorities and procedures and has the right to veto any credit transaction. Problem Loan Committee was set up to monitor and follow up overdue payment and problem loan accounts. The committee provides criteria for classifying loans as problem loans in addition to developing problem loan guidelines and procedures in handling any single problem loan account.

Sound credit risk assessments are key risk practices at TISCO such as credit rating, delinquency analysis, concentration level and risk capital. All loan origination must operate under a sound credit granting process in which an effective credit rating system is employed in key business area. In retail lending area, quantitative-oriented approaches to credit grading are implemented, considering its homogenous high-volume characteristics, with emphasis on the use of extensive data mining and analysis. In corporate lending area, qualitative-oriented credit grading approaches shall be employed, taking into account its highly varying risk profiles, with well-defined standard.

Concentration risks are also essential in credit portfolio risk management. Appropriate guidelines on concentration risks are set up considering appropriate business practice and company risk capital capacity.

TISCO Bank uses credit risk management guidelines and limits that are comprehensively applied to all credit-related functions both at the portfolio and transaction levels. Credit risk factors are explained in detail as follows:

#### 1.1.1 Default Risk

Non-performing loans can be classified into substandard, doubtful, and doubtful to loss according to the definitions of the BoT. Due to an increase of commercial lending's NPLs, non-performing loans held by the Bank and its subsidiaries increased from 2,912.91

million Baht as of the end of 2005 to 3,449.27 million Baht as of December 31, 2006, representing 4.6 % of total loans and receivables, a slight increase from 4.5%. Additionally, an effect of the increased NPLs has already been taken into account of provision setting.

It may be seen that NPLs of the Bank and its subsidiaries increased, while a slight increase was shown in a percentage. Considering retail lending portfolios accounted for 75.4% of total loan portfolios, as a percentage of NPLs to the portfolios there was a decrease from 2.5% as of the end of 2005 to 2.2%. The details of NPL classified by types of business as of the end of 2005 and 2006 are shown in Section 12 : Financial Status and Performance.

Most of NPLs came from commercial real estate loans and hire purchase credit. While there was an increase in NPLs in the hire purchase portfolio, it constituted a decline in percentage of the NPLs to hire purchase portfolio from 1.9% to 1.8% in light of the rapid growth seen in that segment, which increased from 45,074.07 million Baht at the end of 2005 to 54,244.65 million Baht or 20.3%. Increased NPLs in the real estate portfolio were the result of intense competition together with low growth in demand when compared with expansive investment in the sector. However, a reserve allowance for covering loss from the increased real estate's NPLs has already been set.

As a safeguard against losses from existing and new NPLs, debt restructuring costs, and deterioration in collateral value, as of December 31, 2006 the Bank and its subsidiaries set aside a total reserve allowance for covering doubtful accounts and losses on debt restructuring of 2,793.63 million Baht. This could be further broken down into 2,485.81 million Baht for the Bank, and 307.82 million Baht for subsidiaries. The Bank and its subsidiaries' total reserve allowance as a percentage of all NPLs was 81.0%.

Out of the Bank's 2,485.81 million Baht in total allowances, 2,141.99 million Baht represented reserves required by the BoT. Given a conservative provisioning policy, the Bank's total reserves were 116.1% of BoT requirements. The excess provisioning amount will be used to absorb unexpected losses in the future, with the implication that if NPLs do not significantly increase, the requirement for reserve allowances should become stable at a normal level to sufficiently support business expansion.

Additionally, for the impact of provision setting following International Accounting Standard No. 39, which will be phased roll out from December 2006 to December 2007, the Bank and its subsidiaries have set aside excess provisions to support the effect adequately.

### **1.1.2 Concentration Risk**

As of December 31, 2006, hire purchase and commercial loans represented 72.7% and 19.5% of the total credit portfolio, respectively. The hire purchase portfolio, of which concentration was very low, had 54,244.65 million Baht outstanding. Top-10 borrower exposure stood at 178.61 million Baht or 0.3% of the total hire purchase portfolio, or equal to 0.2% of the total credit portfolio.

For the commercial loan portfolio, there was no substantial concentration in any specific industrial sector. The portfolio was diversified into three different sectors: manufacturing and commerce, 7,329.45 million Baht; real estate and construction, 4,808.79 million Baht; and public utilities and services, 2,337.48 million Baht. Lending to the above industrial sectors represented 50.3%, 33.0%, and 16.0% of the total commercial loan portfolio, and 9.8%, 6.4%, and 3.1% of the total credit portfolio, respectively. As top-10 borrower exposure accounted for 12.3% of the total credit portfolio, or 9,258.79 million Baht. There is slight concentration in corporate loan portfolio which has been managed under risk management procedure. However, commercial loan portfolios are almost fully collateralized. In loan approval process, appropriate proportion of collateral value and financing amount is maintained to ensure that risks were kept within a manageable level. Additionally, collateral values will be regularly appraised and effective loan drawdown procedure has been implemented. Portfolio credit quality was closely monitored.

### **1.1.3 Collateral Risk**

About 95.5% of the total lending portfolio was asset backed or with collateral. For the hire purchase portfolio, the underlying asset under the loan agreement itself is still owned by the Bank. In case the borrowers of hire purchase loans cannot meet the terms and conditions, the Bank can follow up and seize the underlying assets immediately. The process of repossession and asset liquidation can be completed within one month.

A major risk factor in the hire purchase business depends on the market value of used cars. A substantial decrease in the market value of a used vehicle results in credit loss, which directly affects the net income and capital of the Bank. Market prices for used cars depend on such diverse factors as market demand, type, brand and tax regulations.

However, judging by past records, the recovery rate for asset liquidation in the secondary market was somewhat high at 70-90% of the remaining net financing amount, which helped in absorbing losses from defaulted loans. The Bank has attempted to minimize credit risk by regularly updating its information regarding trends in the used car market, requiring high-value collateral, sufficient down payment, and favoring well-known brands in the secondary market.



For commercial and mortgage loans, most collateral extended as loan guarantees was in the form of real estate, of which the value could be deducted for the purposes of loan loss provisioning. Collateral values were appraised according to BoT regulations. The proportion of collateral value used in deducting the provisioning requirements for NPLs was 36.7% of the total outstanding NPLs.

Generally, the risk of real estate value changes depends on economic conditions. A recession in the Thai economy might result in lower values, which would require the Bank to reserve higher loan loss provisions. Moreover, the legal process of collateral acquisition through related laws and enforcement is both costly and time consuming. However, all pending cases are closely monitored on a regular basis.

#### **1.1.4 Property Risk from Foreclosed Assets**

Outstanding assets in the process of liquidation held by the Bank and its subsidiaries as of December 31, 2006 were worth 1,042.80 million Baht, or 1.2% of total assets. Allowances for impairment stood at 2.0% of total foreclosed assets.

### **1.2 Market Risk**

Market risk stems from adverse changes in securities prices and interest rates, which directly affect net income, capital, asset value, and liabilities of the Bank.

- **Market Risk Management Framework**

Risk Management Committee is responsible to oversee the portfolio risk management and control of market risks. The business lines are accountable to manage market risks in their portfolios within the guidelines and limits set by the Risk Management Committee. Specific-Purpose Risk Authorities have been established in high-risk areas to oversee all aspects of transaction-level risks, such as setting investment guidelines, authorizing investment transactions and trade counterparties etc.

Market exposures shall be grouped appropriately according to the nature and characteristics of risks involved. Suitable risk treatment framework shall be implemented to effectively manage each class of market exposures. Portfolio market risks of all assets and liabilities shall be assessed and quantified using the Value-at-Risk (VaR) concept employing methodologies and techniques appropriate to the nature of risks involved. Back-testing has been prudently performed to validate internal value-at-risk model. In addition, Stress testing in place as a supplement to VaR is performed under various extreme scenarios. The risk assessment and corresponding risk treatment has taken into account the transaction intent as well as the market liquidity of the securities.

Interest rate risk from banking book is analyzed on the basis of mismatch between the timing of interest rate re-pricing of assets and liabilities and its potential impacts on future net interest income of the bank under simulated scenarios.

Sophisticated market risk positions, such as derivatives securities, shall be handled with special attention. Derivative risks must be decomposed into basic risks and analyzed such that the inherent risk profile is clearly understood. Important market risk factors are provided as follows:

#### **1.2.1 Equity Price Volatility**

As of December 31, 2006, the equity portfolio stood at 3,314.71 million Baht, of which 2,594.03 million Baht was listed equity in current market value and 720.68 million Baht was non-listed equity in book value.

The Bank and its subsidiaries obtained a profit from equity investment of 455.38 million Baht. However, there was an unrealized loss of 191.04 million Baht in the available-for-sale portfolio, which have not been realized in the financial performance during the year.

- (1) **Listed Equity Risk**

Listed equity investment portfolio in available-for-sale book stood at 2,594.03 million Baht in which a change in its value would impact the equity through unrealized gains or losses. As of December 31, 2006, unrealized loss from available-for-sale investments equaled 191.04 million Baht.

TISCO Bank calculates VaR for risk assessment purposes and files reports to management in charge as well as to the Risk Management Committee on a daily basis. VaR is a maximum potential loss at a predefined confidence level and time horizon. Daily VaR at a 99% confidence level, as of December 31, 2006, was 80.19 million Baht, down from 107.22 million Baht as of December 31, 2005 as a direct result of equity portfolio liquidation and decreasing fluctuation in equity value during 2006. For effective risk management and control, trigger limits were set up to monitor the overall market risk profile according to internal guidelines, such as concentration trigger limit, stop-loss trigger limit, etc.

- (2) **Non-Listed Equity Risk**

Non-listed equity portfolio's book value stood at 720.68 million Baht, decreased from 802.43 million Baht in December 31, 2005. The decreased value was mainly the result of debt-to-equity conversions in debt restructuring and sales of non-listed equity

during the year. As of December 31, 2006, the outstanding allowance for investment impairment stood at 242.23 million Baht, decreasing 5.80 million Baht from the end of 2005.

Presently, our investment strategy is not to increase the size of the non-listed equity portfolio. The Bank is instead seeking opportunities to liquidate them, while at the same time closely monitoring portfolio quality on a regular basis.

### 1.2.2 Interest Rate Risk

Interest rate risk can be classified into two types; namely risk from interest-bearing assets and liabilities profile, and fixed-income risk.

#### (1) Risk from Interest-Bearing Assets and Liabilities Profile

Interest rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. A movement in the level of interest rates may lead to higher borrowing costs when compared to earnings, resulting in lower interest rate income, which in turn influences the Bank income and capital.

The Risk Management Committee also acts as the Assets and Liabilities Management Committee (ALCO), which is responsible for managing and maintaining interest rate risk at an appropriate level. The Bank and its subsidiaries' interest-bearing assets and liabilities structure, as of December 31, 2006, is provided in the following table.

(unit: million Baht)

Interest Bearing Assets and Liabilities	Changed within 1 month	Changed within 2-12 months	Changed within 1-2 years	Changed after 2 years	Total
Assets	15,013	25,565	17,654	20,050	78,282
Liabilities	14,117	47,396	5,246	207	66,966
Net Gap	896	(21,831)	12,408	19,843	11,316

According to the interest rate re-pricing mismatch structure, the Bank and its subsidiaries were exposed to a small interest rate rise. If interest rates increase by 100 basis points, one-year net interest income would drop 151.23 million Baht, compared to net income from interest and dividends of 2,806.07 million Baht in 2006.

#### (2) Fixed-Income Risk

Fixed-income risk is the result of a decrease in the value of fixed-income instruments when interest rates increase. As yields in the market go up, the value of fixed-income instruments decreases to maintain yields at the same level.

TISCO Bank and its subsidiaries' fixed-income portfolio as of December 31, 2006 stood at 1,078.49 million Baht, showing a slight decrease of 99.73 million Baht compared to the end of 2005. Average duration of the portfolio was 0.22 years. Fixed-income risk was relatively low as a result of the short-term investment period for the purpose of maintaining liquidity reserves according to the BoT's requirements.

### 1.3 Liquidity Risk

Liquidity risk is the possibility that the Bank might not be able to meet its obligations to repay debts when they come due, whether as a result of a failure in cash management or an inability to raise funds to meet demand in time. Liquidity risk comes from internal and external factors. Internal factors are maturity mismatches in the assets and liabilities profile which affect the level of liquid assets, while market liquidity and depositor confidence represent external factors affecting liquidity risk.

#### ▪ Liquidity Risk Management Framework

Funding risk management is overseen by the Risk Management Committee who delegates day-to-day management of liquidity position to the accountable business line, subject to independent oversight and compliance to the approved risk policies and regulatory requirements.

Key funding risk policies involve the management of cash flow maturity profiles, concentrations, liquidity reserves, and emergency contingency plan. Funding risk strategies shall take into account the liquidity status in the market and how unexpected changes would affect the company's risks. A manageable level of maturity mismatches of cash flows from assets and liabilities shall then be consistently maintained and regularly monitored, together with the level of liquidity reserve. Funding sources shall be well-planned to optimize risk/return while controlling excess concentrations in certain funding sources is crucially required. Contingency procedures for liquidity management in the times of unexpected financial crisis must be established and made ready for timely activation.

As of December 31, 2006, the value of liquid assets comprised of cash at 210.22 million Baht compared to 203.95 million Baht in December 31, 2005, net transactions with banks and money market at 1,024.24 million Baht compared to 1,505.41 million Baht as of December 31, 2005 and net current investment at 774.66 million Baht compared to 826.59 million Baht in December 31, 2005.

Currently, liquidity risk from the maturity mismatch is moderate, once adjustments for the historical behavior of creditors and debtors such as loan defaults or rollovers are taken into account. An important liquidity ratio which is a loan to deposit ratio stood at 184.0%, a slight decline from last year at 185.6%.

In order to provide more alternatives in investments for the public and the Bank's depositors as well as to enhance flexibility and variety of funding structure management, in December 31, 2006, the Bank reported the outstanding short-term debentures of 3,084.47 million Baht with a maturity between 3-9 months, including bill of exchange amounted of 15,289 million Baht.

#### **1.4 Operational Risk**

Operational risk comes in the form of operational losses caused by the failure or inadequacy of internal processes, people, systems, non-compliance to laws and regulations or external factors. These include both financial and non-financial damages to the Bank, by potentially affecting its reputation and future business opportunities.

- Operational Risk Management Framework

Since the Bank and its subsidiaries undertake a wide variety of business and financial activities, operational risks are different for each operation. Consequently, operational risks are managed and controlled through prudent control processes and a well-structured organization with an integrated check-and-balance system. Additionally, the Bank is committed to creating accountability and awareness to all staffs on operational risk management.

The Risk Management Committee oversees and periodically assesses a firm-wide framework for operational risk management. At each business level, the Chief Governance Officer is accountable for managing the operational risks of each business line, within an established risk policies and guidelines. All internal control processes are examined by the Audit Committee, which directly reports to the Board of Directors. Along with the Basel II requirement and the BoT regulation, the Bank has started in collecting necessary data of operational losses for further risk assessment, in accordance with the best practice guidelines of the BoT and the Basel Committee on Banking Supervision.

Additionally, the Bank has been prepared for operational risk of extreme event that could disrupt normal business operations. The Bank has been establishing the business continuity plan of all key operations along with existing IT Disaster Recovery plan to control and ensure that necessary operational are always available to the group-wide business continuity management team.

On the other hand, the Bank established new business guideline aimed to examine inherent risk of new business and ensure that the incremental risk shall be justified. In term of operational risk in each process the internal control department shall ensure that prudent control processes are in place and appropriate for the risk incurred.

#### **1.5 Strategic Risk**

Strategic Risk is a form of uncertainty stemming from the possibility that the Bank might make an adverse business decision, or improper implementation of a decision in relation to the external business and regulatory environment that may affect the Bank's earnings and capital.

- Strategic Risk Management Framework

The Executive Board and Senior Management directly oversee strategic risks of TISCO, with the policy to employ effective sound practices in strategic management that enable it to respond effectively to changes in the business environment and unexpected external events. Vision and mission statements reflect company's core direction and how our business is conducted, around which all strategies and policies are formulated. Sufficient processes have been set up to carry out effective corporate strategy formulation, business planning, resource management, performance management, and other essential decision support systems. Strategic audit process is then performed at the board level by non-management directors as the ultimate line of protection.

In organization and business practice, the principles and practices of good corporate governance have been adopted to protect the rights and interests of all stakeholders. The corporate governance framework has included corporate governance policy and strong systems of internal controls, which are subject to regular independent assessment and review.

The Bank manages strategic risk by setting up 3-year strategic plans to provide a clear business direction together with operating budgets. The plans are reviewed on an annual rolling basis and used to compare actual performance on a monthly basis.

### **1.5.1 Risk from Economic Conditions and Business Competition**

Although the Bank diversifies its businesses in areas of high potential, most of them are influenced by changes in economic conditions. For hire purchase businesses, growth and credit quality are directly affected by the state of the economy, levels of competition and growth in public consumption. Strong economic growth results in faster growth in asset size and revenues of the Bank, and vice-versa. Strong market share and competitive advantage, however, make the Bank less vulnerable to negative economic factors.

As our major investments are in the stock market, the economic outlook, capital market performance and investor sentiment is crucial to the Bank's financial performance. In a bullish economy, equity prices tend to increase significantly, resulting in improved the Bank profit and capital. Conversely, unexpected events, such as terrorist attacks and natural disasters may cause a substantial drop in equity values, adversely affecting the Bank's financial performance. While the brokerage and underwriting business also depends on the condition of the stock market, most income is derived from trading volumes, with the result that the impact of price levels may not be substantial. In effect, the Bank has adopted a variable cost structure in the brokerage business, which minimizes the impact of unfavorable market conditions.

The asset management business is dependent only to a minor degree on economic conditions as fee income is based on the net asset value of funds under management. Profit and loss from investments does not directly affect the Bank's financial results. However, higher competition on pricing structure is a major risk factor in this business.

### **1.5.2 Risk from Capital Adequacy**

As of December 31, 2006, the Bank's capital adequacy ratio stood at 13.42%, well above the BoT requirement of 8.5%. As an internal risk measurement of capital adequacy, the risk-based capital requirement stood at 6,467.23 million Baht, accounting for only 48.4% of the total capital base of 12,682.86 million Baht. Additionally, the Bank maintained provisions against potential loan losses 16.1% higher than BoT requirements.

Based on capital adequacy of Basel II requirements which will be implemented at the end of 2008, as assessed, the Bank has strong capital to support the new requirement. Considerably, after Basel II is implemented, the Bank will benefit from the new capital requirement since the required capital for retail loans will be lower than that under the current capital requirement and the risk from capital adequacy will also decline.

### **1.5.3 Risk from Subsidiaries' Financial Performance**

Net income from subsidiaries accounts for 39.3% of total net income, which significantly affects the overall Bank's income. Net income from subsidiaries can be broken down into three streams: 12.2% from brokerage, 0.1% from investment banking, and 5.6% from asset management.

While subsidiary businesses are influenced by market activity and overall economic conditions, the impact of risk from securities and asset management businesses will have a significant effect only on Bank profitability, without having a severe impact on capital as the major focus is on services rather than lending or investment.

Internal control and risk management of subsidiaries is centralized, with the Bank applying a universal set of standards and guidelines for all. The Bank sends its representatives to serve as directors at subsidiaries for at least half of the total directors. In this way, the Bank participates in establishing important business policies. Furthermore, the annual business plans of subsidiaries require approval by the Bank.

## **1.6 Other Risks**

### **1.6.1 Risk Concerning the Rights from Holding Securities**

As of December 31, 2006, the Bank's paid-up shares was divided into 541,277,120 common shares and 185,127,630 preferred shares. Preferred shareholders will receive rights and interest privileges beyond those of common shareholders as detailed below.

Preferred shares can be converted into common shares on a 1:1 basis and have the same rights and benefits as those of common shareholders except:

- (1) Preferred shareholders will receive a dividend of 1 Baht per share prior to common shareholders. In addition, the Bank may pay dividends to preferred shareholders without making payment to common shareholders.
- (2) Preferred shareholders have the first right to claims, in the case of bankruptcy, prior to common shareholders.
- (3) Preferred shareholders have the right to reduce capital after the common shareholders in the event of a capital decrease to eliminate retained losses.

The above rights of preferred shares will expire on June 30, 2009. More detailed information is presented in Section 8 : Capital Structure.

## 2. Overview of TISCO Business

### 2.1 History and major developments

TISCO Bank was upgraded from TISCO Finance Public Company Limited (the Company), which in turn was co-founded in 1969 by three firms: (1) Banker Trust New York Corporation, with a holding of 60%; (2) Bancom Development Corporation, 20%; and (3) Kasikornbank, 20%. In 1969 the Company's finance and securities operations provided the first investment banking service in Thailand. Major shareholders changed in 1972, when Dai Ichi Kangyo Bank Ltd, (later called Mizuho Corporate Bank Ltd) bought out Bancom Development Corporation. In 1974, the Company established a subsidiary called Thai Securities Company Limited (TSC) to provide securities brokerage services. The Company was listed on the SET in 1983. In 1996, TSC was merged with the Company, putting securities operations under the management of a single company. The new company was named TISCO Finance and Securities Public Company Limited. In 1998, responding to new rules issued by the BoT, the two businesses and licenses were separated to create two companies: TISCO Finance Public Company Limited, which operates financial services, and TISCO Securities Company Limited which handles securities.

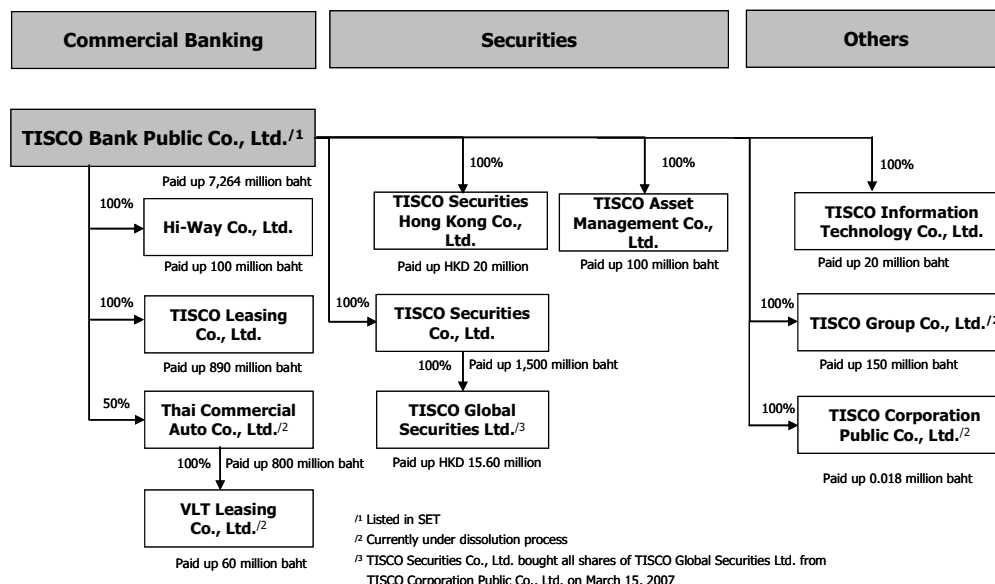
In 1999, the Ministry of Finance approved participation of the Company in the Tier 1 Capital Program, for which 600 million preferred shares of the Company worth a total of 6,000 million Baht were issued at 10 Baht each. Of the total, 300 million preferred shares worth a total of 3,000 million Baht were sold to the Ministry of Finance, and the remaining 300 million shares worth another 3,000 million Baht were sold to investors. This operation reduced the proportion of Banker's Trust shareholding from 52% to 7.44%, while raising the Finance Ministry's shareholding to 42.84%. Meanwhile, the Ministry of Finance issued 3-year warrants to investors, with an option to purchase its preferred shares. Upon maturity of these warrants on May 31, 2002, a warrant exercise reduced the Ministry of Finance's holding to 319,000 shares or 0.05%.

In accordance with the Financial Sector Master Plan, the Company was granted approval from the Ministry of Finance for upgrading to a full service bank on October 22, 2004, with the added condition that full banking services must be provided within 1 year. The Bank was officially granted the Commercial Banking Business license on June 23, 2005 and changed its name to TISCO Bank Public Company Limited. TISCO Bank commenced its banking business operation on July 1, 2005 and upgraded 14 provincial loan offices to be the Bank's branches.

Currently, TISCO Group is in the process of establishing TISCO Financial Group under the Consolidated Supervision regulation announced by the Bank of Thailand with TISCO Bank as the parent company. This is due to the Bank of Thailand's decision to cease considering the application for holding company restructuring plan submitted since November 2005, which resulted from the Ministry of Finance declining to approve TISCO Corporation Public Company Limited's plan to hold shares in TISCO Bank. Instead, TISCO Financial Group will be created to enhance risk diversification and capital efficiency. The dividend policy, business strategies and operations will be similar to those under the holding company structure.

### 2.2 Businesses of the Bank and subsidiaries

The group's businesses can be divided into two main categories: commercial banking business and securities business which offer various kinds of financial services in order to satisfy customers' need. As of December 31, 2006, the group's structure is shown below:



## 2.3 Revenue structure

The revenue structure of the Bank and its subsidiaries is as follows.

(unit: million Baht)

	2004		2005		2006	
	Amount	%	Amount	%	Amount	%
<b>Interest and dividend Income</b>						
- TISCO Bank Plc.	3,057	56.8	3,505	65.6	4,484	85.4
- Hi-Way Co., Ltd.	518	9.6	739	13.8	881	16.8
- Thai Commercial Auto Co., Ltd.	168	3.1	145	2.7	110	2.1
- TISCO Leasing Co., Ltd.	115	2.1	125	2.3	133	2.5
- Other Subsidiaries	56	1.0	54	1.0	97	1.8
<b>Total Interest and Dividend Income</b>	<b>3,913</b>	<b>72.7</b>	<b>4,567</b>	<b>85.4</b>	<b>5,705</b>	<b>108.7</b>
Total Expenses on Borrowings	1,083	20.1	1,464	27.4	2,899	55.2
<b>Net Interest and Dividend Income</b>	<b>2,830</b>	<b>52.6</b>	<b>3,103</b>	<b>58.0</b>	<b>2,806</b>	<b>53.4</b>
Bad debts and doubtful accounts (Reversal)	175	3.2	(186)	(3.5)	(222)	(4.2)
<b>Net interest and dividend income after bad debt and doubtful accounts</b>	<b>2,656</b>	<b>49.3</b>	<b>3,289</b>	<b>61.5</b>	<b>3,028</b>	<b>57.7</b>
<b>Non-interest Income</b>						
- TISCO Securities Co., Ltd.	1,214	22.5	644	12.0	656	12.5
- TISCO Bank Plc.	1,107	20.6	924	17.3	1,103	21.0
- TISCO Asset Management Co., Ltd.	229	4.2	271	5.1	296	5.6
- Other Subsidiaries	180	3.3	218	4.1	167	3.2
<b>Total Non-interest Income</b>	<b>2,729</b>	<b>50.7</b>	<b>2,057</b>	<b>38.5</b>	<b>2,222</b>	<b>42.3</b>
<b>Total interest and dividend income after bad debt and doubtful accounts and Non-interest income</b>	<b>5,385</b>	<b>100.0</b>	<b>5,347</b>	<b>100.0</b>	<b>5,250</b>	<b>100.0</b>

## 2.4 TISCO Group Business Strategy

TISCO group's general business strategy and planning guidelines for the next three years to cover overall business operations are already in place. However, these strategies and plans will be regularly revised to incorporate changes in the business environment

### Vision, Mission and Values for business operations

To align the goals and direction of business units to match those of TISCO group, the Bank has put in writing clearly defined statements outlining its Vision, Mission and Values. Vision encompasses the ultimate goal of TISCO group, whereas Mission outlines instructions and procedures to be strictly followed in the course of all business operations. Values are intrinsic attributes that management and staff apply in achieving goals and objectives.

Our Vision, "To be the Customer's First Choice", also represents our ultimate measure of success as a leading financial institution.

Our Mission: "We are a constantly learning organization that strongly adheres to the highest standards of professionalism and good corporate governance. We are committed to providing competitive and innovative financial solutions that ensure complete customer satisfaction. We are also dedicated to investing in our people and providing them with every opportunity for career development."

Our Values are the essence of the service we offer to our customers and qualities we cultivate and seek in our people. Through induction, training, and comprehensive corporate guidelines, these values are transferred into TISCO group culture and shape our professional attitude. TISCO group values consist of:

1. Customer Priority : Customers are our primary focus. Their needs are our priority. TISCO group derives a professional and practical solution that fulfills our customers' requirements.
2. Integrity : Customers are assured of our unyielding commitment to ethical conduct, which is projected in all aspects of our undertakings. Dependable and constant in our actions, we endorse our values through our actions.
3. Reliability : We raise the quality of client relationship by infusing excellence and integrity into all our dealings. Clients are offered the knowledge base and experience of our integrated resources. The measure of client progress and satisfaction is our base for evaluation.
4. Mastery : Serving our customers by constantly and progressively improving our abilities through a sustained passion for knowledge. Our people are trained to demonstrate exceptional skills and show the ability to lead others.

### **Strategic Plan and Strategy Map**

External business environments such as the economy, domestic and international politics play an important part in developing our 3-year business plan. Not only are external factors incorporated into strategic plan revision, but internal factors are also included, such as our strengths, weaknesses, opportunities, threats, critical success factors and priority issues. The management will take all of these issues into consideration to determine a Corporate Theme. The Corporate Strategy Map, in accordance with the Corporate Theme, will then be crafted along with Vision and Mission.

To implement strategic planning successfully, the Bank has adopted Balanced Scorecard with the aim of achieving balance in strategic planning from four perspectives: financial, customer, internal process and learning. Key Performance Indicators will be determined for all business areas, and linked to performance management to gauge employee performance so that staff may be awarded fair compensation based on merit.

### **Strategic action for the organization**

To achieve the organization's goals, within the Vision and Mission framework, the Bank has determined strategic actions as follows:

1. The Bank will provide the best total solutions for clients in order to satisfy their needs by transforming the organization to become Customer centric, with cross-selling implemented to offer the best services and products.
2. The Bank will enhance distribution channels and the marketing team as well as continually identify new business opportunities in niche markets in order to reach our clients more fully. In addition, the Bank will offer services and products based on our clients' needs.
3. The Bank will emphasize product development by analyzing client demand to offer a variety of services and products as well as developing bank infrastructure, which will increase efficiency in operating bank businesses.
4. The Bank will focus on improving information technology, information infrastructure and personnel development in order to improve operations processes and fully utilize the banking platform.



### 3. Business Operations by Area

TISCO Bank and its subsidiaries operate two main businesses: commercial banking and securities.

**Commercial banking business:** TISCO group offers financial services under its Commercial Banking Business license. Banking services are offered through the Bank's headquarters, its subsidiaries, and 16 branches in every regions of Thailand. In Bangkok, the Bank branches are Rattana Thibet and sub-branch at New Phetchburi Road. In the North, the Bank branches are in Chiang Mai, Phitsanuloke, and Nakhon Sawan. Covering the Northeast are branches in Nakorn Ratchasima, Khon Kaen, Udon Thani and Ubon Ratchathani. In the East, they are located in Chonburi, and Chantaburi. The Central region is served by the Bank's branches in Ratchaburi and Saraburi, while the South is host to the Bank's branches in Phuket, Songkhla and Suratthani.

**Securities business:** TISCO group provides securities services under its Securities and Asset Management licenses. These businesses are serviced through the headquarters of subsidiaries and five branches in Bangkok (Emporium), Chiang Mai, Nakorn Pathom, Nakorn Ratchasima, Udon Thani and through the headquarter of a foreign subsidiary in Hong Kong.

#### 3.1 Area of Services

Presently, TISCO Bank transforms its organization to be client-centric. Under this approach, the Bank divides its service operations into five business areas, four for front operations namely (1) Retail and SME Banking, (2) Private Clients and Asset Management, (3) Corporate and Investment Banking, and (4) Corporate Investment with Corporate Center serves as a supporting area. Detail for each business area is as follows:

##### 1. Retail and SME Banking

Retail and SME Banking provides three service types as follows:

###### 1.1 Retail and SME Loans

Retail finance and SME Loans is conducted by offering loan services to retail customers, both individuals and small and medium-sized enterprises (SME), which have specific loan purposes for either personal consumption or business operations. This segment can be classified by loan purpose as follows:

- **Hire-Purchase Financing**

Hire-purchase financing allows borrowers to buy assets under hire-purchase terms. The buyer makes a down payment at the predetermined proportion of asset value and pays equal installment amounts over the contract period. The ownership of assets is then transferred to the buyer after all installments are paid. Contract periods run from one to six years. A fixed interest rate is charged in line with the market rate on the contract date.

The Bank and its subsidiaries provide hire-purchase loans for all types and models of new and used automobiles. This includes passenger cars, multipurpose vehicles, motorcycles, and commercial vehicles such as sedans, trucks, and trailers. In addition, hire-purchase financing is also offered on loans for buying machinery and equipment for commercial purposes such as printing machines, computers and film-developing equipment.

Hire-purchase, as one of the Bank's major businesses, has experienced continuous growth for years. It recorded 20.3% growth as of December 31, 2006, with 54,244.65 million Baht in loans in the hire-purchase portfolio, up from 45,074.07 million Baht at the end of 2005.

Hire Purchase	December 31, 2005 (million Baht)	December 31, 2006 (million Baht)	Growth rate (%)
Car	42,511.20	51,309.47	20.7
Motorcycle	2,562.86	2,935.18	14.5
<b>Total</b>	<b>45,074.07</b>	<b>54,244.65</b>	<b>20.3</b>

The Bank's strategy is to continue expanding hire-purchase financing to benefit from strong market demand by offering a variety of high quality services, rather than low pricing. However, the interest rates charged are competitive and the maximum payment period is in compliance with the BoT rules.

- **Consumer Loans**

The Bank provides consumer loans according to market needs with a strong focus on acceptable risk-adjusted return on capital. The consumer loan segment has two main categories as follows:



**Mortgage Loans** are used to buy residential property, including multipurpose loans, which use property as collateral to support the client's liquidity. The repayment terms vary from between three to 30 years with full collateral, with interest rates either floating or fixed in the first one-to-three years and then floated.

Mortgage loans as of December 31, 2006 decreased 7.8% from 2,174.82 million Baht in 2005 to 2,004.88 million Baht.

**All-financial Loans** consist of multipurpose lending for individuals such as personal loans, loans against car registration, loans for insurance premiums, and loans for provident fund members. The repayment period is varied from between 6 to 30 months depending on cash flow and the client's earning ability.

Consumption loans decreased 4.4% from 3,994.84 million Baht in 2005 to 3,818.06 million Baht in December 31, 2006 as illustrated in the following table:

**Table shows details of retail loans**

Retail Finance	December 31, 2005		December 31, 2006		Change (%)
	Amount (million Baht)	%	Amount (million Baht)	%	
Hire purchase loans	45,074.07	88.0	54,244.65	90.3	20.3
Mortgage loans	2,174.82	4.2	2,004.88	3.3	(7.8)
Consumption loans	3,994.84	7.8	3,818.06	6.4	(4.4)
<b>Total</b>	<b>51,243.72</b>	<b>100.0</b>	<b>60,067.58</b>	<b>100.0</b>	<b>17.2</b>

**Customer and Distribution Channels**

Targeted customers of the hire-purchase business are individuals with annuity income or salary and good repayment records. The service channels operate from the headquarters of the Bank and subsidiaries, 15 full branches, and 1 sub branch in all regions. The car hire-purchase business in the TISCO group is operated by TISCO Bank, TISCO Leasing Co., Ltd., Thai Commercial Auto Co., Ltd., and VLT Leasing Co., Ltd. Motorcycle hire-purchase is operated by Hi-Way Co., Ltd. Another main channel is through agents.

For consumption loans, the Bank targets existing hire-purchase clients with good performance and adequate earning ability.

**1.2 Retail Deposit**

As the bank upgrade on July 1, 2005, the Bank provides deposit services, mainly consisting of current deposits, savings deposits and fixed deposits. The services include financial-related products such as cashier cheques, bill payments and money transfers through its headquarter and branches channels. Currently, the Bank's deposit policy is to expand customer base by focusing on retail customer and short-term deposit in order to decrease cost of fund (Breakdown of TISCO Group's deposits types is shown in Section 12 : Financial Status and Performance)

**1.3 Bancassurance**

TISCO Bank has been granted Insurance Broker License since October 2005 from Department of Insurance, the Ministry of Commerce. The Bank operates as a life and non-life assurance broker, which provides life insurance, health insurance, loan protection, motor insurance, fire insurance, and miscellaneous insurance such as personal accident insurance, travel abroad insurance, cancer insurance, etc. To increase competitive advantage, the Bank signed an agreement with Ayudhya Allianz C.P. Life Public Company Limited, a well-known insurance company, to develop strategic alliance in operating bancassurance businesses.

**2. Private Clients and Asset Management**

Private Clients and Asset Management provide three service types as follows:

**2.1 Private Banking**

Private Banking is responsible for high net worth clients who are ready to invest a minimum of 10 million Baht. The services offered include bank deposits, cash management services, professional financial and investment advisory as well as management services.

## 2.2 Private Sales Brokerage

TISCO Securities offers brokerage services to retail clients both domestic and international through head office in Bangkok and five branches, including an office at the Emporium shopping center and upcountry locations in Chiang Mai, Nakhon Pathom, Nakhon Ratchasima, and Udon Thani, and TISCO Securities Hong Kong as an international channel.

TISCO Securities' service foundation is built on quality of service, integrity, and client satisfaction. The Company provides trading channels through the Internet, in which clients place orders themselves, and through marketing services in which investors place trading orders with their designated marketing officers.

TISCO Securities's market share by individual customer as of December 31, 2006 was 1.1%, decreased from 1.3% at the end of 2005, due to lower trading volume. Aligning with institutional brokerage segment, the strategy for Private Sales Brokerage is also aimed at expanding the market aggressively, and enhancing the quality of securities research. TISCO Securities regularly organized seminars for customer to update information about financial market and capital market.

### Table shows information on TISCO securities business

(unit: million Baht)

Information of TISCO Securities Business	2004	2005	2006
<b>Trading values categorized by Individual Customer</b>	<b>175,315.11</b>	<b>106,076.00</b>	<b>90,880.00</b>
<b>Trading values classified by types of transactions</b>			
- Cash Account			
Place orders via internet	30,995.11	25,712.89	17,847.45
Place orders via marketers	144,320.00	80,364.65	73,032.35
<b>Market Share – Company<sup>/1</sup></b>	<b>3.5</b>	<b>3.0</b>	<b>3.2</b>
<b>Market Share – Individual Customer<sup>/1</sup></b>	<b>1.7</b>	<b>1.3</b>	<b>1.1</b>

<sup>/1</sup> SET and MAI

Source: TISCO Securities

## 2.3 Asset Management

TISCO Asset operates provident funds, private funds, and mutual funds management as permitted under its mutual fund and private fund management licenses granted by the Ministry of Finance.

### • Provident funds

TISCO Asset's provident fund management license covers advisory services for setting up provident funds, and registrar and advisory services for provident fund committees. Fund investments may cover a wide range of instruments, in line with consent from the respective provident fund committees.

Under management by the Company as of December 31, 2006 were 56 provident funds representing 1,882 companies and 322,056 members with a net asset value of 53,016.04 million Baht, accounting for a market share of 13.7% and second-ranked in the overall market based on net asset value. The breakdown of TISCO Asset's provident fund types is shown below:

(unit : million Baht)

TISCO Asset provident fund	2004	2005	2006
Single fund	10,024.55	11,172.46	10,551.45
Pooled fund	15,475.58	17,989.11	21,593.30
State Enterprise Fund	16,972.15	21,728.58	20,871.29
<b>Total</b>	<b>42,471.28</b>	<b>50,889.15</b>	<b>53,016.04</b>

### • Private funds

TISCO Asset provides private fund management services for individuals and juristic persons taking into account the client's risk-return profile in offering a wide range of investment alternatives including equity, fixed income, and mutual funds. Clients receive reports which summarize fund performance on a regular basis.

As at December 31, 2006, there were 138 private funds with net asset value of 24,392.49 million Baht, representing a market share of 16.6%, putting the Company in 2<sup>nd</sup> place in the overall private fund market. The breakdown of TISCO Asset's private fund types is shown below:

(unit : million Baht)

TISCO Asset private fund	2004	2005	2006
Juristic person	16,940.52	18,111.02	21,223.80
Individual	1,517.64	2,732.46	3,169.70
<b>Total</b>	<b>18,458.16</b>	<b>20,843.48</b>	<b>24,392.50</b>

- **Mutual funds**

TISCO Asset provides mutual fund management services under license. Mutual fund units are sold to the general public with due consideration given to finding the right investment type suitable for each investor's needs. TISCO Asset focuses on efficient investment based on continuous research and risk management. It reports fund performance to the public regularly.

Mutual funds under management by the Company as of December 31, 2006, numbered 28, with net asset value of 7,328.23 million Baht. The breakdown of mutual fund types at is shown below:

(unit : million Baht)

Mutual Fund	2004	2005	2006
Open-ended fund	6,361.80	10,134.55	7,169.19
Close-ended fund	412.91	262.75	159.04
<b>Total</b>	<b>6,774.71</b>	<b>10,397.31</b>	<b>7,328.23</b>

#### **Distribution Channels**

In general, TISCO Asset uses direct sales to distribute unit trusts for all fund types, but for mutual funds the Company has additional channels consisting of agents from banks, finance and securities companies, as stated in their prospectus. In August 2006, TISCO Asset increased distribution channel through internet trading.

### **3. Corporate and Investment Banking**

Corporate and Investment Banking provides three service types as follows:

#### **3.1 Corporate Lending**

Commercial finance facilities are provided to medium and large corporate clients for commercial purposes, including loans and related services such as guarantees, aval, loan arrangement services and loan restructuring. Commercial lending is classified by the following service types:

- **Working Capital Loans**

Working capital loans fill the need for business liquidity and cash flow, especially for industry and seasonal businesses, by facilitating loans for buying raw materials and inventory, and loans for accounts payable repayments. They are revolving loans, with repayment terms set for within one year. The terms and conditions of such loans are subject to credit review annually.

- **Project and Term Loans**

Project and term loans fill the need created by medium or long-term business development projects which have a specific purpose. The funding project, as the ultimate source of funds for loan repayment, must show verifiable progress. This segment mainly consists of term loans which have a repayment schedule in line with the timeline, progress and cash flow of the project. The Bank's policy is to support industry and manufacturing in all business areas, especially ones that support national development. Project and term loans are generally offered for building factories, offices or business expansion, property developments, infrastructure construction, project bids or buying industrial machinery.

- **Other Commercial Loans**

Other than the two above-mentioned types, the Bank also provides credit for other commercial purposes such as loans against deposits or liquid assets with short or medium terms using liquidity assets as collateral. This segment includes loans for investment, which are medium or long-term funds which investors use to buy assets, such as property, which they then use as collateral, with the terms and conditions of the loan set according to the earning ability of that asset.

- **Guarantee and Aval Services**

The Bank provides guarantees and aval services for our client's business partners by issuing project bidding bonds, performance bonds and purchase guarantee letters to manufacturers. Terms of letters of guarantee are flexible and made to suit the beneficiary's needs.

- **Loan Consultancy and Related Services**

The Bank provides full-service loan consultation services in such areas as financial structuring and debt restructuring, and is also a syndicated loan arranger, facility agent and security agent.

- **Custodian Services**

The Bank provides custodian services for assets and securities, securities processing and settlements, and also performs the fiduciary duty of acting as custodian for assets held by clients, such as investors, private funds and provident funds.

As of December 31, 2006, the Bank and its subsidiaries had a commercial lending portfolio of 14,573.64 million Baht, which accounted for 19.5% of total loans. This indicated a 14.7% increase from 2005's year-end figure of 12,704.69 million Baht.

Type of Business	December 31, 2005		December 31, 2006		Change (%)
	Amount (million Baht)	%	Amount (million Baht)	%	
Manufacturing and commerce	6,779.39	10.6	7,329.45	9.8	8.1
Real estate and construction	4,148.82	6.5	4,808.79	6.4	15.9
Public utilities and services	1,655.62	2.6	2,337.48	3.1	41.2
Agriculture and mining	120.86	0.2	97.91	0.1	(19.0)
<b>Commercial Lending</b>	<b>12,704.69</b>	<b>19.9</b>	<b>14,573.64</b>	<b>19.5</b>	<b>14.7</b>
Hire purchase	45,074.07	70.5	54,244.65	72.7	20.3
Housing	2,174.82	3.4	2,004.88	2.7	(7.8)
<b>Retail Lending</b>	<b>47,248.89</b>	<b>73.9</b>	<b>56,249.53</b>	<b>75.4</b>	<b>19.0</b>
<b>Others</b>	<b>3,994.84</b>	<b>6.2</b>	<b>3,818.06</b>	<b>5.1</b>	<b>(4.4)</b>
<b>Total - The Bank and Subsidiaries</b>	<b>63,948.41</b>	<b>100.0</b>	<b>74,641.23</b>	<b>100.0</b>	<b>16.7</b>

#### **Customer and Distribution Channels**

Targeted customers are mainly those in the current customer base who have established long-term relationships with the Bank, and new customers from industries that support national development or are in sectors with strong government backing, such as vehicles and parts, agriculture and food processing, transportation and logistics, and petrochemicals. In addition, future infrastructure projects, such as those in the energy, property development, and construction sectors, are within our scope of interest.

Apart from the headquarters in Bangkok and branches upcountry, the Bank also provides its services through direct sales by marketing officers and client visits. In addition, advertising and public relations via newspapers and the Internet are used to promote the Bank awareness.

### 3.2 Investment Banking

TISCO Securities was approved by the SEC to provide financial advisory services and granted an underwriting license from the Ministry of Finance. With its notable expertise based on competent staff with in-depth industry knowledge and a wealth of experience in equity and debt markets, both domestically and internationally, TISCO Securities provides financial advisory services including public offerings, mergers and acquisitions, financial restructuring, feasibility studies and corporate valuation.

In 2006, TISCO Securities performed as an underwriter for the share offering of Bangkok Metro Plc. and as a financial advisor for automobile company to conduct feasibility study according to its investment project. Furthermore, TISCO Securities advised the merger and acquisition of the company in textile and car dealer sector. TISCO Securities also successfully served as a financial advisor for design and interior company and engineering consultant company regarding the corporate valuation service.

Currently, the Company has been appointed as a financial advisor of CPPC plc. and automobile company for Initial Public Offerings and the listing of shares on the SET, including a financial advisor of listed finance related company on its capital raising.

### 3.3 Institutional Brokerage

TISCO Securities, as a member number two on the SET, offers brokerage services to institutional clients through our head office in Bangkok. Apart from this, TISCO Securities Hong Kong, which is a member of the Hong Kong Stock Exchange, is authorized to provide brokerage and financial advisory services for institutional investors in 11 countries, including Hong Kong, Thailand, China, Taiwan, Singapore, Malaysia, Indonesia, Korea, Japan, the Philippines, and the United States of America.

TISCO Securities's market share by institution customer as of December 31, 2006 was 2.1% increased from the end of 2005. Institution customer market share was from domestic 0.9% and foreign 1.2%. However, its strategy is aimed at expanding the market aggressively, and enhancing the quality of securities research so that it is broadly accepted by investors, which was recognized by the Best Local Brokerage Award from Asia Money Brokers Poll 2006 for the third consecutive year. This Poll is rated by more than 1,600 institutional investors of which the winner is awarded for the best execution of service and highest quality of securities research. Moreover, TISCO Securities signed a strategic alliance contract with Deutsche Securities Asia Ltd. which consequently will create mutually benefit for both TISCO's and Deutsche Securities' clients

**Table shows information on TISCO securities business**

(unit: million Baht)

Information of TISCO Securities Business	2004	2005	2006
<b>Trading values categorized by Institutions Customer</b>	<b>180,228.97</b>	<b>134,424.46</b>	<b>165,321.21</b>
- Domestic	78,811.97	63,280.15	68,528.21
- Foreign	101,417.00	71,144.30	96,792.99
<b>Trading values classified by types of transactions</b>			
- Cash Account			
Place orders via internet	2,738.89	4,910.11	3,392.55
Place orders via marketers	177,490.08	129,514.35	161,928.65
<b>Market Share – Company<sup>1</sup></b>	<b>3.5</b>	<b>3.0</b>	<b>3.2</b>
<b>Market Share – Institutions Customer<sup>1</sup></b>	<b>1.8</b>	<b>1.7</b>	<b>2.1</b>
- Domestic Institutions	0.8	0.8	0.9
- Foreign Institutions	1.0	0.9	1.2

<sup>1</sup> SET and MAI

Source: TISCO Securities

### 4. Corporate Investment

Treasury department is responsible for asset and liability management activities, including the procuring of funding sources from local and foreign financial institutions, and investing and trading bonds in order to maximize returns under the corporate guidelines and risk policy and in compliance with all related rules and regulations. It also manages liquidity according to the BoT regulations.

The Bank invests in both short-term and long-term debt instruments. In addition, the Bank invests in equity securities in both listed and non-listed companies. The investment policy is to invest long term in good fundamental securities at a reasonable price for both dividend income and capital gains.

The investment portfolio of debt and equity instruments as of December 31, 2006, was 4,393.20 million Baht, down 15.6% from 5,205.37 million Baht in 2005.

TISCO Securities handles the securities trading business and trades equity securities for company accounts, with the main objective being trading gains. However, securities trading volume was insignificant because TISCO Securities has maintained its investment policy of long-term returns rather than short-term trading gains.

However, TISCO Securities actively performs securities trading when the stock market is favorable for making short-term profits. TISCO Securities only invests in proven good performers and fundamental securities to decrease market risk.

## 5. Corporate Center

To increase efficiency for TISCO Group operation, a supporting area is established to handle central operation for the whole TISCO Group, including Risk & Financial Control, Banking Operation, Product & Service Development, Cashiering & Bulk Processing, Corporate Secretariat & Investor Relations, Human Resources & Organization Development, Corporate Marketing & Communication, and Corporate Service.

### 3.2 Market and Competition

#### 3.2.1 Commercial Banking Business

##### 1) Market

###### Deposits

In 2006, deposit grew by 64.6% from the previous year. This was mainly the result of rising interest rate environment. The interest rates have increased since the second quarter of 2005. At the end of 2006, average 3-month deposit interest rate at the top five large banks edged up to 3.95% from 2.40% at the end of year 2005.

**Table showing movement of average interest rates of Thai commercial banks**

	2004	2005	2006
Minimum Lending Rate (MLR) <sup>1</sup>	5.625	6.550	7.750
3-month fixed deposit rate <sup>1</sup>	1.00	2.40	3.95

(unit: % per year)

<sup>1</sup> Average interest rate at the end of each period of five large banks, i.e. Bangkok Bank, Siam Commercial Bank, Krung Thai Bank, Kasikornbank and Bank of Ayudhya

###### Loans

Car hire-purchase business expanded in line with automobile industry growth. Industry-wide new car sales grew 12.3% from 626,026 cars in 2004 to 703,261 cars in 2005, and drop by 2.9% to 682,693 cars in 2006. The proportion of new passenger car sales to commercial car sales in 2006 was 28.5% to 71.5%.

**Table showing car sales in Thailand during 1999-2006**

Unit : cars	1999	2000	2001	2002	2003	2004	2005	2006
Passenger cars	66,858	83,106	104,502	126,353	179,005	209,110	193,617	194,269
Commercial cars	151,472	179,083	192,550	283,009	354,171	416,916	509,644	488,424
<b>Total</b>	<b>218,330</b>	<b>262,189</b>	<b>297,052</b>	<b>409,362</b>	<b>533,176</b>	<b>626,026</b>	<b>703,261</b>	<b>682,693</b>

Source : Automobile Institute

In 2006, the Bank and its subsidiaries' penetration rate increased to 8.5% from 7.0% in 2005. However, TISCO group maintained its leading position in the top three of the market. Meanwhile, continuous growth in car sales and credit volume is expected in 2007.

##### 2) Competition

In 2006, the loan financing industry was still in a state of heavy competition, especially with regard to terms. Major competitors are large commercial banks which enjoy funding cost advantages. However, the competition is less severe than the year before due to rising lending interest rates. In addition, the rising interest rate environment is still the major factor for loan growth.

For commercial finance, the Bank's strategy focused on improving loan quality and reducing NPLs by accelerating the loan restructuring process and preparing for expected market growth in the following year. Amid the high market competition, the Bank has focused more on quality than quantity and expanding its customer base on account of its over 38 years of business experience, efficient operations and management systems, and high quality services that can respond to varying customer needs in order to maintain long-term relationships.

Competitors in hire-purchase financing number approximately 10 companies which can be divided into two major groups: 1) leasing companies and financial institutions and 2) subsidiary companies of car manufacturers and car dealers (captive finance). At present, hire-purchase competition is even tougher than before. While most players expand their customer base by applying a low-pricing policy, the Bank focuses on providing efficient and high standards of service, and maintaining long-term relationships with agents and dealers. It will decrease prices as necessary to maintain its client base.

Although there are more commercial bank players being allowed to conduct hire-purchase operations under the Bank of Thailand's financial master plan in 2004, the Bank expects the number of newcomers to be insignificant because most commercial banks presently operate hire-purchase business through subsidiary companies. However, the Bank is highly confident that it can maintain its status as one of the top three in the market given the long-term experience of the Bank and its subsidiaries, good connections with dealers, effective cost and risk management and an extensive customer database.

### 3.2.2 Securities Business

#### 1) Market

The SET Index in 2006 dropped to 679.84 from 713.73 points at the end of 2005 with average daily turnover decreased from 16,454.04 million Baht to 16,280.91 million Baht. There were many internal and external factors that affected the economy market and investor confidence, including oil prices, inflationary pressures, southern unrest, and political uncertainty.

**Table showing stock market conditions**

	2004	2005	2006
SET index (points)	668.10	713.73	679.84
Market capitalization (million Baht)	4,521,894	5,105,113	5,078,704
Trading value (million Baht)	5,024,399	4,031,241	3,956,262
Average daily turnover (million Baht)	20,508	16,454	16,280
Dividend payout ratio (%)	2.75	3.37	4.23
Price to earnings ratio (times)	9.40	9.40	8.10
Number of listed companies on the SET	439	468	476

Source: The Stock Exchange of Thailand

The asset management market as of December 31, 2006 saw the net asset value of mutual funds increase 34.9% to 1,040,478.25 million Baht. Private funds increased 3.4% to 147,327.78 million Baht, and provident funds increased 11.8% to 386,656.94 million Baht. The details of market funds at year-end for 2004, 2005, and 2006 are as follows:

(unit : million Baht)

Funds	2004	2005	2006
Mutual Funds	484,992.57	771,150.14	1,040,478.25
Private Funds	134,090.60	142,546.99	147,327.78
Provident Funds	305,462.27	345,895.94	386,656.94

Source: TISCO Asset Management

#### 2) Competition

With 41 securities brokers in the market, each player has to be very competitive to maintain and expand its market share. The more diversified market share shows that there are newcomers continuously appearing. However, pricing competition is limited by the minimum charge rate set by the regulator, so the new competition patterns are instead focused on variety and quality of services. Most of our clients are fundamental investors rather than speculators.

In 2006, there were only 12 listed companies in the equity market, reduced from 36 listed companies in 2005 due to the variance in equity market and instability in Thai politic. Although, the number of new listed company decreases, the total offering size increased from 29,790.30 million Baht in 2005 to 36,786.90 million Baht in 2006. The increase was contributed by the huge offering size of 2 large companies i.e. G Steal Plc. and Rayong Refinery Plc. For the competition in investment banking sector, there were 70 financial advisor companies approved by the SEC as of 8 January, 2007. The increase of players in the market intensify the competition as reflecting in the quality of team, experience in business, service excellence, initiatives of new financial instruments, and strong customer relationship.

There are 31 competitors in the asset management industry, comprised of asset management companies, commercial banks, securities companies, and insurance companies. However, TISCO Asset remains upbeat on its business outlook, due to its extensive experience, competitive ability and goodwill derived from the TISCO group's philosophy of maximizing customer satisfaction. TISCO Asset's core strategy is to emphasize providing the highest returns at the appropriate risk level to its clients, while maintaining high standards of good corporate governance.

### 3.3 Resources

#### 3.3.1 Banking Business

##### 1) Source of Funds

Apart from the Bank's capital, most of the Bank's and its subsidiaries' funds are sourced from deposits, the interbank and money markets and short and long-term borrowing. The details of sources of funds are as follows:

(unit : million Baht)

Source of Funds	2004	2005	2006
Total Deposits	39,287.80	34,450.80	40,567.86
Interbank and Money Market Items	4,307.27	6,415.25	2,156.98
Total Borrowings	6,986.28	17,490.54	26,081.98
Other Liabilities	3,133.79	3,844.51	3,291.74
<b>Total Source of Funds from Liabilities</b>	<b>53,715.14</b>	<b>62,201.10</b>	<b>72,098.56</b>
Capital	12,580.90	13,081.67	12,682.86
<b>Total Source of Funds</b>	<b>66,296.04</b>	<b>75,282.76</b>	<b>84,781.42</b>

Funds obtained from deposits as of December 31, 2006 was 40,567.86 million Baht, which represented 60.9% of total deposits and borrowings.

##### 2) Lending

- **Credit granting policy**

###### **Commercial loans**

The Bank has a policy to emphasize prudent growth in commercial and retail lending. In each new credit approval, the Bank thoroughly considers the borrower's business potential, opportunities, ability to repay, collateral, and also the rate of return that justifies the risk of each borrower. The Bank focuses on expanding business into markets with acceptable risks/returns in which it has sufficient expertise. The Bank performs analysis and key risk characteristics prior to entering new markets.

The collateral policies vary, depending on the type of credit. Prudent collateral policies are employed with effective procedures to stabilize collateral values under the specified conditions and to minimize potential losses. However, the Bank may selectively grant loans without collateral to certain borrowers considered to have high creditworthiness on a case-by-case basis. For the appraisal of collateral values, the Bank has a policy to have the collateral appraised by an independent appraiser or the internal asset appraisal unit before any loan can be drawn. The Bank's Appraisal Committee is responsible for approving the appraisal value proposed by the internal unit and independent appraisers under the company's guidelines in compliance with the regulations of the BoT.

The Bank has established prudence procedures for all credit approvals to ensure high credit quality while maintaining customer satisfaction. Approved credits are reviewed and controlled in compliance with overall credit policies.

The maximum credit terms are set according to the regulations of the BoT. The Bank has constructed a pricing policy aligned with current market conditions and credit exposure as well as the cost of funds without any price undercutting strategy.



**Retail loans**

The hire-purchase business covers a large portion of the retail credit portfolio. The Bank has a policy to aggressively expand its hire-purchase business in this market with justified risk-adjusted returns. In 2006, the growth of automobile hire-purchase was impressive. Although there were effects from high oil prices and aggressive newcomers, the Bank has a policy to competitively expand while still maintaining good loan quality and market share.

In addition, the Bank has established a standard approval process for the hire-purchase portfolio by implementing a credit-scoring system which has been developed from an internal database to effectively control and shorten the loan approval process.

Credit policies have been regularly reviewed to reflect the current market situation and support credit expansion. Meanwhile, the Bank has a policy to maintain good credit quality compared to competitors without resorting to a price-undercutting policy. In this respect, the focus on enhancing quality of service and good business relationships is a vital competitive tool. For the collateral policy, hire-purchase assets are supported by adequate secondary markets and appropriate insurance strategies.

For mortgage loans, the approved credits do not exceed 90% of the collateral value with terms and conditions varying with the types of collateral, while other retail loans without collateral require higher interest rates to offset the higher risk being assumed.

- **Credit Approval Limits and Authorities**

The Credit Committee is responsible for overseeing the credit approval process under the credit policies and guidelines set forth by the Executive Board.

In addition, credit approval policies have been clearly stated in terms of credit limits and delegation of authority. All corporate loan transactions must be reviewed and approved by the Credit Committee while loan facilities considered material and large in size must be approved by the Executive Board.

For the retail credit portfolio, which naturally covers small transaction sizes, the credit approval process and delegation of authority varies according to the level of credit limit as controlled by overall credit policies. Large retail credits must be approved by the Credit Committee or the Executive Board after reviewing the types and purposes of loans on a case-by-case basis.

The Bank has also implemented a credit-scoring system to assist the loan approval process in which customer characteristics, loan terms and conditions are taken into consideration for the computation of credit scores.

- **Credit Risk Management**

The Risk Management Committee, comprised of senior management from key business lines, has been delegated the authority to set up policies, guidelines and procedures for overall credit risk management. Meanwhile, the Credit Committee and Chief Credit Officer, who are in charge of the loan approval processes of each credit transaction, set up guidelines for the delegation of approval authority at different levels for different types of facilities. The Problem Loan Committee is set up to monitor and follow up on problem loans and set up appropriate provisions for potential loan losses.

To ensure independence in carrying out the credit approval process and reporting to the Risk Management Committee, credit quality control functions are clearly separated from marketing functions. Moreover, credit review functions assigned by the Internal Control function and the Audit Committee are responsible for reviewing ongoing credit approval processes and ensuring transparency in overall credit granting procedures.

A credit grading system has been adopted in credit risk assessment for both corporate and retail credit portfolios. In accordance with the implementation of the Internal Ratings Based approach (IRB) under the new guidelines of the Basel Committee for banking supervision, historical payment information based on credit rating is being developed and tested to ensure system validity and provide more efficiency in capital utilization.

In controlling risks from credit concentration, the Bank has set up a concentration limit which defines the maximum credit exposure for each individual borrower or borrowing group. Moreover, concentration in a single sector is also controlled within an acceptable level, and considered in combination with the sector exposure of equity investment. Furthermore, the Bank complies with the regulations of BoT concerning single lending limits.

- **Credit Collection**

The Bank regularly performs credit reviews of the loan portfolio and monitors problem accounts. The Credit Committee closely co-ordinates with credit departments, and follows up accounts with potential problems promptly after a missing repayment is reported. Also, Problem Loan Committee meetings are arranged to review the status of borrowers, set up debt collection schedules and

follow-up procedures, pursue legal action, and set aside provisions for loan losses. In the follow-up procedures, the credit officer reports to the Problem Loan Committee on all restructuring cases on a regular basis.

For the retail credit portfolio, the Bank strives to continuously improve the strategies and procedures for debt collection and follow-up, in line with economic conditions and related laws and regulations, particularly with regard to notification from the Office of Consumer Protection. The main collection and follow-up process includes collection, follow-up and asset repossession, legal process and enforcement.

- **Debt restructuring**

The objective of debt restructuring is to resolve problem loans, which are affected by economic downturns or the borrower's financial difficulties. Under the Bank's procedures on debt restructuring, there are various methods such as relaxing of payment conditions, debt-to-assets conversion, debt-to-financial-instruments conversion, and debt-to-equity conversion.

Debt restructuring can be conducted with every type of borrower, either defaulted or non-defaulted. The corporate lending function is responsible for the debt restructuring process, including the decision to select borrowers for restructuring. The delegated officers will evaluate the borrower's credit qualities and related financial and operating environments, and perform projections on repayment possibilities.

For debt restructuring cases related to, both directly and indirectly, Bank directors, persons related to Bank directors or the management, the borrower's status, repayment ability and cash flow status must be evaluated by an independent financial institution or third party with no conflict of interest with the bank and the borrower. Under the regulations of the Bank of Thailand, all restructured loans are reclassified, provisioned, and recalculated for impairment loss.

### 3) Capital Adequacy

The Bank has a policy to maintain capital that is adequate to safeguard against company risks in the long run, taking into account long-term solvency within economic uncertainties and the adequacy of regulatory capital-to-risk asset ratios as required by law. Currently, the Bank of Thailand sets the capital adequacy ratio for banks registered in Thailand at 8.50%, where Tier-I Capital must be maintained at a level equal to at least 4.25% of risk assets.

The year-end Capital Adequacy Ratio for 2004, 2005 and 2006 have been maintained above the regulatory requirements with details as follows:

(unit: percentage)

Capital Adequacy Ratio as of December 31	2005	2006	Regulatory Requirement
Tier-I Capital to Risk Assets	14.25	12.73	4.25
Total Capital to Risk Assets	15.85	13.42	8.50

It can be clearly seen that the capital base of the Bank remains strong with the Capital Adequacy Ratio exceeding the requirements of the BoT and fairly sufficient to support the forthcoming regulations concerning debt reclassification and provisions.

### 4) Liquidity Management Policy

The Risk Management Committee is responsible for monitoring and determining assets-to-liabilities direction and funding structure in detail. The Committee also establishes various liquidity limits to serve as early warning triggers such as liquid assets, contractual maturity mismatches, funding concentration and daily deposit/withdrawal levels. Furthermore, a liquidity contingency plan has been established for outlining clear procedures and responsibilities in detail for liquidity management in times of crisis.

Meanwhile, the Treasury function is responsible for daily liquidity management and preparation for securing sources and the use of funds as required. The Treasury function is also responsible for managing the Bank's liquidity position to comply with internal guidelines and the regulatory requirements of the BoT under the notification on prescription and maintenance of liquid assets by commercial banking as follows:

- The Bank shall maintain liquid assets on average of no less than 6% of the total of all types of deposits and total foreign borrowings, which shall mature within one year.
- The liquid assets must consist of deposits with the BoT of no less than 0.5%, unencumbered securities of no less than 4.5%, and deposits at commercial banks residing in Thailand.

### 5) Asset Classification, Provisions and Write-offs

The Bank defines asset classifications according to the notification of the Bank of Thailand regarding worthless or irrecoverable assets and doubtful assets that may be worthless or irrecoverable as follows:

(1) Assets classified as Loss are claims where there is no possibility of repayment due to death, disappearance, bankruptcy or dissolved business, or losses from debt restructuring according to the rules and regulations of the Bank of Thailand.

(2) Assets classified as Doubtful-to-Loss are assets or claims whose entire value is expected to be irrevocable, such as debt claimed on the principal and interest overdue more than 12 months from the payment date.

(3) Assets classified as Doubtful are assets or claims that are unlikely to be repaid in full, such as debtors with payments overdue more than 6 months from the contractual payment date.

(4) Assets classified as Sub-Standard are defined as assets or claims with difficulties of repayment or that do not generate a reasonable income, such as debtor-owing interest and/or principal payments for a cumulative period of over three months from the contractual due date.

(5) Assets classified as Special Mention are assets or claims whose value is deteriorating, such as debtor-owing interest and/or principal payments for a cumulative period of over one month from the contractual due date.

(6) Assets classified as Pass are assets or claims which are not classified as Loss, Doubtful to Loss, Doubtful, Sub-Standard, or Special Mention.

The Bank has a conservative provisioning policy. As of December 31, 2006, the Bank's reserves were 2,485.81 million Baht, or 116.1% of those required by the BoT. Our asset classification policies are in compliance with those set by the Bank of Thailand and the Securities and Exchange Commission as presented in Section 5 : Operating Assets in 5.2.

### 3.3.2 Securities Business

#### 1) Source of funds

The sources of funds are mainly from equity, operational cash flow and loans from financial institutions for working capital purposes.

#### 2) Credit approval and authorization

TISCO Securities has a credit approval policy to screen qualified customers as well as to provide customers with a good understanding of securities trading. The credit line for a particular customer will be based on the customer's financial status and collateral. The Executive Board of Directors has granted credit approval authority to the Credit Committee. The Credit Committee approves high volume credit lines by itself and has granted lesser authority to management responsible for approving general credit lines complying with the Credit Committee's guidelines and policy.

#### 3) Margin trading accounts

All clients of securities brokerages are cash accounts.

#### 4) Securities research

TISCO Securities boasts a securities research department with a remarkably competitive edge. To expand its individual and institutional customer base, TISCO Securities has continuously developed both the coverage and quality of its research. As a result, TISCO Securities was chosen for two awards at the 2003 SET Award by the SET. These included the Best Brokerage Service-Retail Clients Award, which is given to the securities broker providing the best quality of securities brokerage services for retail investors, and the Best Research House Award, which goes to the securities broker providing the best quality of securities research.

At the 2004 SET Awards, TISCO Securities again won the Best Research House-Retail Clients Award along with the award for Best Brokerage Service-Retail Clients. The former is awarded to the securities broker providing the largest coverage and highest quality of securities research, with a special emphasis on customer satisfaction and the usefulness of the advice for investment decision-making, while the latter prize is based on customer satisfaction in investment advisory services, the effectiveness of securities trading systems, attention to investor education and development, good governance and compliance with the SET rules and regulations.

Moreover, TISCO Securities won the Best Local Brokerage from Asia Money Brokers Poll 2006 for the third consecutive year. This Poll is rated by more than 1,600 institutional investors, the winner is awarded for the best execution of service and highest quality of securities research.

**5) Investment Policy**

For listed equity, TISCO Securities has a policy to invest in businesses with strong fundamentals by considering liquidity, risk and return on securities and the diversification of its portfolio. As for non-listed equity, the Company has no policy to enlarge this portfolio, but will exploit market opportunities for selling the existing securities at the highest price. For debentures, TISCO Securities holds them only for liquidity reserve purposes. For unit trusts, the company holds them as a long-term investment depending on fund performance. There is no policy to invest in derivative instruments.

Investment policy complies with the guidelines and policies of the Risk Management Committee, which consists of key executives. This committee determines the investment policy, size of investment portfolio, maximum limits for daily securities trading, and the loss limit.

**6) Capital Adequacy Ability**

The Net Capital Rule (NCR) ratio of TISCO Securities as of December 31, 2006 is 181.18%, well above the 7.0% regulatory requirement of the SEC.

As of December 31, 2006, the liquidity capital of TISCO Securities Hong Kong was HK\$10.32 million higher than the minimum regulatory requirement of HK\$3.00 million, according to Financial Resources Rules.

## 4. Research and Development

In the year 2006, TISCO Bank and subsidiaries had improved in many research and development focusing on the structure and fundamental product of banking sector and also the risk management based on the international standard, and increased the efficiency of working standard in order to response the customer's need.

### 4.1 Services & Products

After fully operated in Banking from July 1, 2005 which serviced in Loans, Deposits and Money Transfer, TISCO Bank had surveyed the customer's satisfaction, customer's needs and other opinions in order to improve the service quality and product variety which will fulfill the customer's requirement especially the deposit section. TISCO Bank has focused on the retail banking sector mainly in the regional and also begin to offer the life insurance and being the agent for other insurance business which available in all branches around the country.

For our customer's convenience to do the transaction with TISCO Bank and subsidiaries, the improvement in services and channel of distribution were mainly considered as the first priority such as the direct debit services, the buying and selling services for asset management, the financial advisory for customer to understand TISCO's services which will support the Cross-selling project for all TISCO officers, enhancing the transaction and business volume in retail banking and wholesale banking including the institutional customer.

After joined the National ITMX network, the ATM Pool service was available for customer and also the Automatic Customer Service Center, Internet Banking service. The transaction via internet service was available in the buying and selling service for asset management, the electronic statement for deposit account, the detail of hire purchase. The next plan will be the branch channel and other electronic services which will be launch in year 2007 whereby early 2007, TISCO has successfully provided bill payment service for hi-purchase clients at post offices throughout the country (Pay at Post).

Other Banking services which TISCO had offered to customer were the SME's section, Cash Management

### 4.2 Risk Management

Currently, the Bank's risk management unit has developed and invested in several key systems in preparing for the new capital requirements under the Basel II – IRB approach. Overall credit rating and credit scoring systems including both application scoring and behavioral scoring have been enhanced to comply with the Basel II regulation. During the past year, the information system and loan origination system has been improved to support new regulation.

Currently, the Bank is developing business continuity plan of all key activities. In the coming year, the Bank shall emphasize on operational risk management development where development of control self-assessment and key risk indicators will enhanced overall operational risk assessment of the group.

Additionally, in preparation for IAS39, the Bank has estimated expected loss of hire purchase portfolio based on historical experience to support new provisioning rule of non-performing loan under collective approach. In which, this estimation shall be inline with Loss Given Default (LGD) parameter estimation requirement under Basel II-IRB.

### 4.3 Operation

TISCO Bank had emphasized to improve the operation system and procedure especially in the year 2006, the expansion of Product and Development and Process Improvement which cover the planning and monitoring the effectiveness and efficiency of operation process. In the first step, the improvement the effectiveness in each business unit is the important things to take advantage in the business.

The evaluation process still under the theory of Balanced Scorecard, Key Performance Indicator (KPI) and Performance Management which correlate to TISCO Branding Image. The improvement and development in those theories will ensure that TISCO will follow the guideline and strategy mapping as communicated to customer about the mission and vision: Mastery, Integrity, Reliability and Customer Priority.

## 5. Operating Assets

### 5.1 Major Fixed Assets

#### Land, premises, and equipment – Net

Land, premises, and equipment to the Bank and its subsidiaries as of December 31, 2004-2006 are as follows: These assets are free from any obligations.

(unit: million Baht)

Type of Assets	2004	2005	2006
<b>Land and buildings</b>			
1. Office of TISCO Bank Plc. at TISCO Tower North Sathorn Road, Bangkok	797	834	885
2. Office for subsidiaries at TISCO Tower North Sathorn Road, Bangkok	447	397	377
3. Brokerage branch – Chiang Mai at Hillside Plaza & Condotel, Huay Kaew Road,	5	5	4
4. Brokerage branch – Nakhon Pathom 386,388 Petchkasem Road, Tambon Prapatone, Nakhon Pathom	9	8	8
<b>Total land and buildings (net)</b>	<b>1,258</b>	<b>1,244</b>	<b>1,274</b>
Office improvements	29	67	95
Office furniture and improvements	106	163	158
Others	48	85	76
<b>Total (net)</b>	<b>1,441</b>	<b>1,559</b>	<b>1,603</b>

#### Long-term contract

##### 1. Contract

The following table shows rental expenses incurred by the Bank's subsidiaries and branches in 2006 under the current land and building rental contract for office purposes, excluding rental fees paid by firms to others within the TISCO group, along with rental obligations due in 2007.

	2006	2007
<b>Domestic offices and branches</b>	12,378,355 Baht	14,204,514 Baht
<b>Office at Hong Kong</b> (TISCO Securities Hong Kong Ltd.)	797,800 HK\$	785,412 HK\$

<sup>1</sup> excluding rental contract for new branches in 2007

##### 2. Rental contracts between the Bank and subsidiaries

Office suite rental agreements between the Bank and its subsidiaries located at TISCO Tower are based on 1-3 year contracts at normal market prices. These contracts are illustrated as follows:

Type of Assets	Renter	Owner	Area (sq.m.)
TISCO Tower Office	TISCO Securities Co., Ltd	TISCO Leasing Co., Ltd	5,081.65
TISCO Tower Office	TISCO Information Technology Co., Ltd	TISCO Leasing Co., Ltd	1,985.56
TISCO Tower Office	TISCO Asset Management Co., Ltd	TISCO Bank Plc.	378.53
TISCO Tower Office	Thai Commercial Auto Co., Ltd	TISCO Leasing Co., Ltd	7.81
TISCO Tower Office	TISCO VLT Leasing Co., Ltd	TISCO Leasing Co., Ltd	7.81

## 5.2 Loans

### Classification of assets under BoT guidelines

Asset classification in TISCO group consists of loans and receivables, investments in securities and property foreclosed. Our asset classification policies are in compliance with those set by the BoT and the SEC. The details of asset classification as of December 31, 2006, are shown below:

(unit: million Baht)

	Loans and receivables	Investments	Property foreclosed	Others	Total
Pass	63,000	-	-	-	63,000
Special mention	2,935	-	-	-	2,935
Substandard	407	-	-	-	407
Doubtful	131	-	-	2	133
Bad debts	2,408	778	16	7	3,209
<b>Total</b>	<b>68,881</b>	<b>778</b>	<b>16</b>	<b>9</b>	<b>69,684</b>

### Provision for Loan Loss Policy

The Bank and its subsidiaries' provisioning policy for bad debt allowances or losses from debt restructuring are in accordance with the regulations of the BoT and the SEC.

The provisioning requirements for bad debt allowances under the BoT regulations can be summarized as follows:

1. Assets classified as Loss shall be written off.
2. Assets classified as Doubtful to Loss require a provision of 100%.
3. Assets classified as Doubtful require a minimum provision of 50%.
4. Assets classified as Sub-Standard require a minimum provision of 20%.
5. Assets classified as Special Mention require a minimum provision of 2%.
6. Assets classified as Pass require a minimum provision of 1%.

Under the announcement by the BoT, provisioning regulations following International Accounting Standard No.39 (IAS39) require assets classified as Sub-Standard, Doubtful, and Doubtful to loss to set a minimum provision in accordance with a 100% of the different between asset's carrying amount and present value of estimated future cash flow or the present value of estimated future cash flow from collaterals. Considering the same credit risk profile, provisions can be set to portfolio of non-performing loan based on collective approach as an alternative of case-by-case basis. The phases rolled out for applying IAS 39 are as follows:

- Assets under litigation processes are required to set a provision since the second accounting period of 2006.
- Assets classified as Doubtful to Loss and Doubtful are required to set a provision since the first accounting period of 2007.
- Assets classified as Sub-Standard are required to set a provision since the second accounting period of 2007.

Since the end of 2006 onward, the Bank has already applied a provisioning policy based on IAS39. Apart from this, the Bank also has a policy of examining and raising the allowances used as general provisioning measures against suspected bad loans, in order to cushion against unexpected loan losses in the future. Setting of general provisions is based on the economic conditions at the time, and is considered on a case-by-case basis.

According to TISCO Bank's policy, the Bank's provisions for loan loss reserves as of December 31, 2006, were 2,485.81 million Baht, or 116.1% of the minimum requirement for loan loss reserves according to Bank of Thailand rules. Considerably, the effect of provision setting from IAS39 has been partially taken into account.

### Provision of Asset Impairment Policy

The Bank will reserve provisioning in cases of asset impairment by considering impairment indicators based on generally accepted accounting principles (GAAP) and by estimating the receivable value of the assets.

### Policy of revenue recognition on interest income

The Bank has a more conservative policy for recognition of interest income than the requirements of the BoT. The Bank stops accruing income for loans on which interest payments are overdue by more than 1 month for commercial loans, and 3 months for retail loans, whether or not there is collateral. Furthermore, the Bank will reverse all recorded accrued interest on such loans.

Income recognition of such loans will be reinstated to accrual basis only when the total overdue amount is received.

The Bank and its subsidiaries recognize interest income from restructured loans, in corporate lending business only, on a cash basis. Income recognition will be restated to accrual basis only when receiving approval from the Problem Loan Committee, and assurance of borrower status regarding the capacity to repay principal and interest normally.

### **5.3 Investment in Securities**

Details of investment in securities are shown in Notes to Financial Statements, 3.4 Investments in securities.

#### **Securities Investment Policy**

Securities investment policy is described in Section 3 : 'Business Operations by Area, in 3.3.2 (5).

#### **Risk Management of Investment Portfolio**

The Bank diversifies its investments in order to avoid high concentrations in single securities. Appropriate investment opportunities are emphasized to ensure a proper risk-return trade-off. In addition, the Bank has set up an integrated risk management system to aggregate all investment risks, where the issues of capital adequacy and the prospect of risk-return from each investment are incorporated to enable timely portfolio adjustment if required.

Details of risk management are listed in Section 1: Risk Factors.

#### **Allowance for Impairment of Securities**

The Bank sets allowances for impairment of securities according to accounting standards. Investments in securities held for trading purposes are determined at fair value. Gains or losses arising from changes in the value of securities are included in determining earnings. Investments in available-for-sale securities, both held for short-term and long-term investment, are determined at fair value. Changes in the value of the securities are shown as separate items in shareholders' equity until the securities are sold, after which they are included in determining earnings.

The fair value of marketable securities is based on the latest bid price of the last working day of the period as quoted on the SET. The fair value of government bonds, state enterprise securities and private debt instruments is determined by using the formula quoted by the BoT, which is based on the yield rate quoted by the Thai Bond Dealing Center or other financial institutions. The fair value of unit trusts is determined based on their net asset value.

In the event the Bank and its subsidiaries reclassify their investments in securities, the investments are adjusted to reflect their fair value on the reclassification date. Differences between the carrying amount of the investments and their fair value on that date are included in determining earnings or recorded as a surplus (or deficit) from changes in the value of investments in shareholder equity, depending on the type of investment which is reclassified.

### **5.4 Policies on investment in associates and subsidiaries**

The details on investment in associates and subsidiaries are presented in Notes to Financial Statements, 3.4 Investments in securities and 3.5 Investment in subsidiary companies

The Bank has a policy of investing in businesses that support the group's competitive capability, with due consideration of business and industry trends, the competitive environment, and the ability to generate long-term profits. The Bank also puts a special emphasis on prudent risk control.

The Bank manages its subsidiaries by implementing a group management policy covering management, risk management, compliance and internal controls governing the Bank and its subsidiaries, and placing a majority of its own representatives comprising a minimum of 50% on each subsidiary's board. The Bank's representatives are then able to actively participate in the formulation of important business policies. The annual business plan of the Bank and its subsidiaries are combined as a corporate plan to support core strategy and long-term goals of the group. Infrastructure and resources are effectively utilized to support businesses of the group. Also, the annual business plans of subsidiaries are subject to approval by the Bank. For associate companies, the Bank assigns representatives to be directors on their boards. The number of the Bank's representative directors in such cases depends upon the proportion of the stake held by the Bank.



## 6. Future Projects

### 6.1 Group Restructuring

Reference is made to the application for holding company restructuring of TISCO Group, with TISCO Corporation as a holding company and the parent company, which was submitted to the Bank of Thailand ("BoT") on November 11, 2005. The application was later endorsed by the BoT and passed on to the Ministry of Finance for final approval on February 7, 2006.

On January 18, 2007, the BoT has issued the letter No. TorPorTor. ForKorThor. (21) 84/2550 regarding the Application for Setting up of TISCO Financial Group and Provisional Waiver Request on Related Matters to TISCO Bank, informing that the Ministry of Finance has ceased to approve TISCO Corporation to hold shares in TISCO Bank and that the BoT shall subsequently suspended consideration of the application.

According to the holding company restructuring plan, TISCO Corporation shall both be a newly established holding company and the parent company holding shares in TISCO Bank, TISCO Securities, and TISCO Asset and other subsidiaries companies. Main objective of the restructuring is to create risk diversification, capital efficiency, and business opportunity. Given that the restructuring plan is no longer considered by the BoT, TISCO Bank will restore the former structure of being the parent company holding shares in all subsidiaries companies. TISCO Bank will alternatively re-submit the application for setting up TISCO Financial Group under the Consolidated Supervision Regulation.

Regarding the submission of the application, financial group will be set up in light of risk diversification and capital efficiency as initially planned. To conclude, the dividend policy, business strategies and operations will be similar to those under the holding company structure.

### 6.2 Business Channel Expansion

In 2007, Bank expects to open 10-15 branches nationwide, in order to extend coverage and enhance service quality. New branch opening will be situated in strategic location, which enables Bank to strongly expand its customer base and increase business volume for both saving and loan products. Moreover, Bank has placed a great concern in providing high quality service through well-trained and professional staff, in which Bank believes that this will ensure the future success under current business environment.

In addition to new branch opening, Bank has successfully joined ATM pool in 2006 and continued to extend service capabilities together with expansion in number of ATM terminals all over the country.

## **7. Legal Disputes**

As of December 31, 2006, the Bank and its subsidiaries had 10 unresolved cases from its regular business operations, comprised of 9 civil and 1 criminal cases involving an estimated total amount of 151 million baht, which is less than five percent of its shareholders' equity. No cases were incurred from irregular business operations. Of all cases, three cases were incurred from management of debt collections for Sukhumvit Asset Management Co., Ltd. in which the Bank has an indemnification for any damages suffered by it (if any), and three cases already dismissed by the Court of First Instance and/or the Appeal Court. However, the plaintiff may still appeal to the Appeal Court or Dika Court. Those six cases have an estimated total value of 141 million baht. For the remaining four cases, there is one case that the Bank has appealed to the Appeal Court on the order of the Court of First Instance to pay for the damages at 0.8 million baht, and another three cases involving total amount of 3 million baht which are in the tribunal process and not yet reach judgment. Additional details on legal disputes are presented in Notes to Financial Statements; 3.29.2 Litigation. The management of the Bank and its subsidiary companies believe that neither the Bank nor the subsidiary companies will suffer material loss as a result of the abovementioned lawsuits and request for damages.

## 8. Capital Structure

### 8.1 Securities Information

#### 8.1.1 Common Shares and Preferred Shares

Total registered and paid-up capital as of December 31, 2006

Total registered capital : Baht 11,002,000,000

Total paid-up capital : Baht 7,264,047,500 comprised of 541,277,120 common shares and 185,127,630 preferred shares, both with par value of 10 baht per share.

The preferred shares have the same rights and benefits as common shares, with added rights and benefits as follows:

1. Holders of preferred shares receive dividends for each year that the Bank pays dividends prior to the holders of common shares at the rate of 1 baht per share. Additionally, the holders of preferred shares are entitled to share leftover dividends with the holders of common shares.

In a year that the Bank does not declare a dividend payment to the holders of common shares, the Bank may still declare a dividend payment at the above-mentioned rate to the holders of preferred shares.

The holders of preferred shares shall be entitled to receive a dividend only in the years in which the Bank has declared a dividend payment. Dividends shall not be made up in subsequent years for the years that the Bank did not declare a dividend payment.

2. In the event of liquidation or dissolution of the Bank, all assets shall be returned to the holders of preferred shares according to the amount of preferred shares, prior to the holders of common shares. The amount paid to preferred shareholders shall be proportionate to their number of preferred shares.

In the event that the value of the assets is inadequate for dividing up among the holders of preferred shares, as specified in the above paragraph, assets shall be divided and returned to the holders of preferred shares proportionately to their respective shareholding.

The assets that remain after division among the holders of preferred shares as specified in the first paragraph shall thereafter be distributed among both preferred shareholders and common shareholders proportionate to shareholding.

3. In the event of a capital decrease for the purpose of recovering retained losses, the preferred shares' value shall be decreased after the common shares.

All of the above preferential rights of the holders of preferred shares shall be valid until June 30, 2009. Upon expiration, the rights and benefits of preferred shareholders shall be equal to those of holders of common shares, and preferred shares shall be converted into common shares. Preferred shareholders shall then submit applications to the Bank for conversion in a form prescribed by the Bank together with the preferred share certificates.

The details of total preferred shares held by management as of December 31, 2006 are described in Attachment 2.

#### 8.1.2 Offerings of Securities and Convertibles to the Thai Trust Fund or NVDR

##### Offerings of Securities and Other Convertibles to the Thai Trust Fund

None

##### Non-Voting Depository Receipts (NVDRs)

As of December 31, 2006, Thai NVDR Co., Ltd., a subsidiary wholly owned by the SET, issued Non-Voting Depository Receipts (NVDRs) which have the Bank's shares as underlying securities totaling 140,544,939 units, or 19.35% of paid up capital. Although all financial benefits received by NVDR investors are similar to the benefits from the Bank's common shares, NVDR investors shall have no voting rights in shareholder meetings except in case of a delisting decision. Therefore, if a great number of company shares are sold to investors as NVDRs, the number of shares with voting rights will be lessened.

Moreover, the number of NVDRs is subject to change and is not under control by the Bank. Investors can obtain records of the Bank's NVDRs from the website of the SET ([www.set.or.th](http://www.set.or.th)).

### 8.1.3 Warrants

On July 13, 2000, the SEC approved the Bank's Employee Stock Option Program, which offered warrants to purchase preferred shares to the amount of 30,000,000 units under a 5-year plan to the directors and employees of the Bank and its subsidiaries. On June 14, 2004, the Bank was permitted by the SEC to offer warrants returned by resigning employees, to the amount of 753,000 units, to other employees.

As of April 28, 2004, the Bank allotted fifth-year warrants, which is the last year of the program, to the amount of 5,317,000 units. Therefore, the total amount of warrants, or 30,000,000 units, has been fully allotted as approved by the SEC. As of December 31, 2006, the number of exercised warrants was 26,204,750 units, and warrants to purchase preferred shares Tranche 1 and 2 had reached their maturity date since March 31, 2005 and June 30, 2006, respectively. Therefore, the remaining three tranches which can be exercised are Tranche 3, Tranche 4 and Tranche 5, with total amount of 2,755,250 units. Common details of warrants are as follows:

Type of Warrants	:	Non-transferable warrants offered to directors and employees of TISCO Bank and its subsidiaries
Offering Price	:	0 Baht
Exercise Ratio	:	1:1
Tenor	:	5 years
Exercise date	:	on the 20 <sup>th</sup> of every month; in case that the exercise date is a holiday, the exercise date shall be on the previous business day.

The details of issuing date, the amount of offered and allotted warrants, unexercised warrants, exercise price and maturity date of tranche 3, tranche 4 and tranche 5 are as follows:

1. Warrants to Purchase Preferred Shares – Tranche 3
 

Issuing Date	:	September 20, 2002
Offered Warrants	:	5,919,000 units
Allotted Warrants	:	5,779,000 units
Unexercised Warrants	:	5,000 units
Exercise Price	:	13.20 Baht
Maturity Date	:	September 20, 2007
2. Warrants to Purchase Preferred Shares – Tranche 4
 

Issuing Date	:	June 20, 2003
Offered Warrants	:	6,000,000 units
Allotted Warrants	:	5,655,000 units
Unexercised Warrants	:	10,000 units
Exercise Price	:	14.94 Baht
Maturity Date	:	June 20, 2008
3. Warrants to Purchase Preferred Shares – Tranche 5
 

Issuing Date	:	August 30, 2004
Offered Warrants	:	5,317,000 units
Allotted Warrants	:	5,317,000 units
Unexercised Warrants	:	2,740,250 units
Exercise Price	:	21.88 Baht
Maturity Date	:	August 30, 2009

### 8.1.4 Debentures

As of December 31, 2006, the details of outstanding debentures of the Bank are as follows:

#### The Bank

1. TISCO Bank Public Company Limited unsubordinated and unsecured debentures with maturity date in 2009.
 

Type of Offering	:	For offer to the Ministry of Finance under the Tier II capital support scheme
Face Value	:	1,000,000 Baht
Offering Price	:	1,000,000 Baht
Issue Size	:	161 units
Outstanding	:	161 units
Tenor	:	10 years
Issuing Date	:	February 11, 1999
Maturity Date	:	February 11, 2009
Coupon Rate	:	Fixed rate 6% per annum
Payment Date	:	February 11 of each year during the term of the debenture. If the due date of interest payment is not a business day, it shall be postponed to the next business day.
  
2. TISCO Bank Public Company Limited 2<sup>nd</sup> unsubordinated and unsecured debentures with maturity date in 2009
 

Type of Offering	:	For offer to the Ministry of Finance under the Tier II capital support scheme
Face Value	:	1,000,000 Baht
Offering Price	:	1,000,000 Baht
Issue size	:	170 units
Outstanding	:	170 units
Tenor	:	10 years
Issuing Date	:	May 28, 1999
Maturity Date	:	May 28, 2009
Coupon Rate	:	Fixed rate 5% per annum
Payment Date	:	May 28 of each year during the term of the debenture. If the due date of interest payment is not a business day, it shall be postponed to the next business day.
  
3. TISCO Bank Public Company Limited 1/2002 #1 fixed rate debenture with maturity date in 2007 ("Tranche 1 Debenture")
 

Type of Offering	:	For offer to the Public
Face Value	:	1,000 Baht
Offering Price	:	1,000 Baht
Issue size	:	2,000,000 units
Outstanding	:	2,000,000 units
Tenor	:	5 years
Issuing Date	:	July 29, 2002
Maturity Date	:	July 29, 2007
Security	:	None
Coupon Rate	:	Fixed rate 4.25% per annum
Payment Date	:	January 29 and July 29 of each year during the term of the debenture. If the due date of interest payment is not a business day, it shall be postponed to the next business day.
Rating	:	"A" from TRIS Rating on December 27, 2006

4. TISCO Bank Public Company Limited 1/2002 #2 floating rate debenture with maturity date in 2007 ("Tranche 2 Debenture")
- |                  |   |   |
|------------------|---|---|
| Type of Offering | : | For offer to the Public   |
| Face Value       | : | 1,000 Baht  |
| Offering Price   | : | 1,000   |
| Issue size       | : | 1,000,000 units   |
| Outstanding      | : | 1,000,000 units   |
| Tenor            | : | 5 years   |
| Issuing Date     | : | July 29, 2002   |
| Maturity Date    | : | July 29, 2007   |
| Security         | : | None  |
| Coupon Rate      | : | 3.5% per annum for the first 2 years  |
|                  | : | Floating at reference rate plus 0.5% per annum in the third to fifth year providing that it shall not be less than 3.75%, but no more than 5%, 5.5% and 6% per annum in the third, fourth and fifth year, respectively. |
| Payment Date     | : | January 29 and July 29 of each year during the term of the debenture. If the due date of interest payment is not a business day, it shall be postponed to the next business day.  |
| Rating           | : | "A" from TRIS Rating on December 27, 2006   |
5. TISCO Bank Public Company Limited 2/2002 debenture with maturity date in 2007
- |                  |   |   |
|------------------|---|---|
| Type of Offering | : | For offer to Institutional Investors  |
| Face Value       | : | 1,000 Baht  |
| Offering Price   | : | 1,000 Baht  |
| Issue Size       | : | 1,800,000 units   |
| Outstanding      | : | 1,800,000 units   |
| Tenor            | : | 5 years   |
| Issuing Date     | : | October 21, 2002  |
| Maturity Date    | : | October 21, 2007  |
| Security         | : | None  |
| Interest Rate    | : | 6% minus the reference rate in the first to third year providing that it shall not be less than 0%.   |
|                  | : | 3.8% per annum for the fourth to fifth year.  |
| Payment Date     | : | April 21 and October 21 of each year during the term of the debenture. If the due date of interest payment is not a business day, it shall be postponed to the next business day. |
| Rating           | : | "A" from TRIS Rating on December 27, 2006   |

In addition, as of December 31, 2006, the Bank had unsubordinated and unsecured short-term debenture, in name certificates, unrepresented by debenture holders, with a maturity of not more than 270 days outstanding worth 3,084.72 million baht

#### 8.1.5 Bills of Exchange

##### Bank

As of December 31, 2006, the Bank had bills of exchange outstanding worth 15,289 million baht.

##### Subsidiaries

As of December 31, 2006, Hi-Way Co., Ltd. had short-term bills of exchange outstanding worth 2,144,320,265.18 baht, comprised of 95,000,000 baht in the form of a promissory note and 2,049,320,265.18 baht in a bill of exchange. TISCO Leasing Co., Ltd. also had short-term bill of exchange outstanding for 756,811,148.41 baht, comprised of 145,000,000 baht in the form of a promissory note and a 611,811,148.41 baht bill of exchange.

#### 8.1.6 Major shareholder agreements regarding share issuance or Bank management

None

#### 8.1.7 Minority-interest equity attributable to minority shareholders of subsidiaries

As of December 31, 2006, minority-interest equity attributable to minority shareholders of subsidiaries as it appeared on the Bank's and its subsidiaries' balance sheets was 426,841,166 baht.

## 8.2 Shareholders

The list of the top 10 major shareholder groups whose names appeared in the share registration book on May 17, 2006 is as follows:

Shareholder Name	Total Share Holding			%
	Common Shares	Preferred Shares	Total	
1 STOCK EXCHANGE OF THAILAND	145,158,503	-	145,158,503	20.01
2 CDIB & PARTNERS INVESTMENT HOLDING (CAYMAN) LTD	-	80,000,000	80,000,000	11.03
3 THAI NVDR CO., LTD.	36,132,400	65,600	36,198,000	4.99
4 SATHINEE Co., Ltd.	-	35,893,425	35,893,425	4.95
5 NORBAX INC., 18	30,360,180	-	30,360,180	4.18
6 HSBC (SINGAPORE) NOMINEES PTE LTD	22,938,713	-	22,938,713	3.16
7 STATE STREET BANK AND TRUST COMPANY	22,007,850	-	22,007,850	3.03
8 LITLEDOWN NOMINEES LIMITED 9	20,122,057	-	20,122,057	2.77
9 CHASE NOMINEES LIMITED 42	16,807,200	-	16,807,200	2.32
10 CHASE NOMINEES LIMITED 1	15,840,300	-	15,840,300	2.18
<b>Total shareholding of the first 10 major shareholders</b>	<b>309,367,203</b>	<b>115,959,025</b>	<b>425,326,228</b>	<b>58.62</b>
11 Others	231,899,917	68,331,105	300,231,022	41.38
<b>Total</b>	<b>541,267,120</b>	<b>184,290,130</b>	<b>725,557,250</b>	<b>100.00</b>

<sup>1</sup> CDIB & Partners Investment Holding (Cayman) Ltd. is a subsidiary of CDIB & Partners Investment Holding Corp.

After the upgrade to commercial bank status on July 1, 2005, the Commercial Banking Act B.E. 2505 was imposed on business operations. According to Section 5 bis. and 5 quinque of the Act, no person shall hold more than 5% of the total amount of a commercial bank's shares sold except in the case where shareholders are governmental agencies, state enterprises under the law on budget procedures, the Financial Institutions Development Fund under the law on the Bank of Thailand, or juristic persons established under a specific law. Moreover, the amount of shares held by persons of Thai nationality shall not be less than three-fourths of the total amount of shares sold. On June 29, 2005, an exemption was granted by the BoT allowing CDIB & Partners Investment Holding Corporation to hold more than 5% of TISCO Bank shares but not greater than 12.85% and not exceeding the amount of 92,450,000 shares until March 30, 2009. Moreover, the Bank is allowed to have the number of shares held by the Bank's non-Thai shareholders to exceed 40%, but less than 80%, of all shares sold. After the exemption period, non-Thai shareholders will be allowed to hold such shares providing that no additional share purchase is made unless the aggregate amount is less than 49% of the total shares sold.

## 8.3 Dividend Policy

The Bank's dividend payment shall be made in accordance with the Bank's Articles of Association, Section 40, which states that no dividend shall be paid out of any money other than profits. In the event that the Bank has an accumulated loss or cannot retain regulatory capital requirements after dividend payment, no dividend shall be paid.

Dividends shall be paid equally according to the number of shares, unless otherwise specified for preferred shares, as in Article 8.1.1. Payment of dividends shall be subject to shareholder approval.

The Board of Directors may from time to time pay interim dividends when they see that the Bank has sufficient profit to do so, and, after the interim dividend has been paid, they shall report to the next meeting of shareholders.

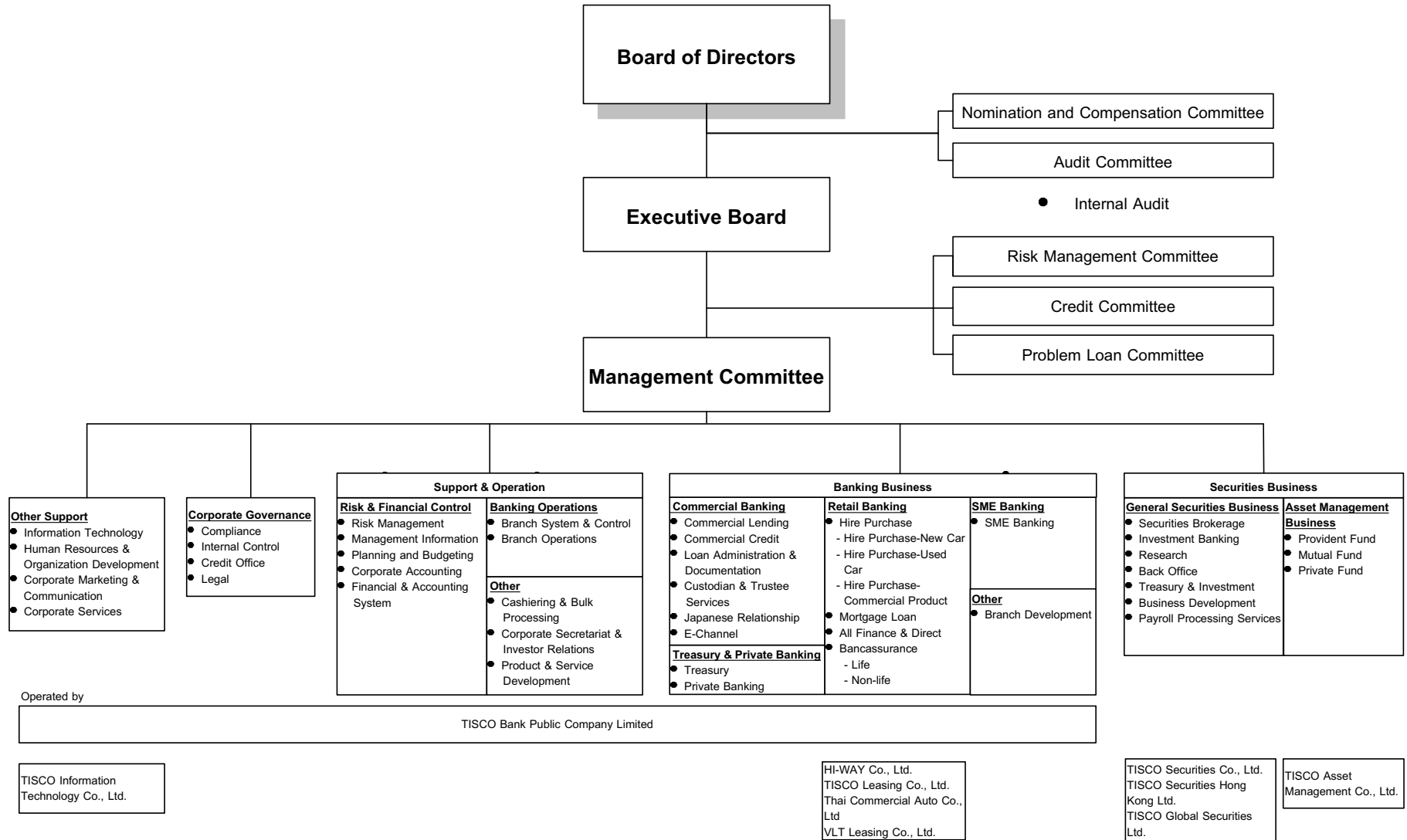
Dividend policy of subsidiaries is to appropriate dividends to TISCO Bank based on performance, financial circumstances and the economic situation.

## **9. Management**

### **9.1 Management Structure**

The Board Structure is comprised of 4 boards/committees: (1) Board of Directors, (2) Executive Board, (3) Audit Committee and (4) Nomination and Compensation Committee. In addition, the Management Committee oversees and monitors the Bank and subsidiaries to ensure that all operations are in line with policy and planning as approved by the Board of Directors.





As of February 1, 2007

### 9.1.1 Board of Directors

As of December 31, 2006, the Board of Directors consisted of the following directors:

Name	Position
1. Dr. Phisit Pakkasem	Chairman and Independent Director
2. Mr. Pliu Mangkornkanok	Director
3. Mrs. Krisna Theravuthi	Independent Director
4. Assoc.Prof.Dr. Angkarat Priebjivat	Independent Director
5. Prof.Dr. Praipol Koomsup	Independent Director
6. Mr. Sangiam Santad	Independent Director
7. Dr. Kanit Sangsubhan (Assumed on February 28, 2006)	Independent Director
8. Mr. Mitsunobu Hasegawa	Director
9. Mr. Samuel Shih (Assumed on April 5, 2006)	Director
10. Mr. Kah-Hua Yeo (Assumed on May 29, 2006)	Director
11. Mr. Pichai Chanvirachart	Director
12. Mrs. Oranuch Apisaksirikul	Director

Remark:

- The qualifications of Independent Director prescribed in section 9.3
- Mr. Jerry L. Lu resigned on April 3, 2006

The Bank's authorized signatories are Mr. Pliu Mangkornkanok, Mr. Pichai Chanvirachart, Mr. Mitsunobu Hasegawa, Mrs. Oranuch Apisaksirikul and Mr. Samuel Shih. It is required that Mr. Pliu Mangkornkanok or Mr. Pichai Chanvirachart sign with the seal of the Bank affixed or Mr. Mitsunobu Hasegawa or Mrs. Oranuch Apisaksirikul or Mr. Samuel Shih jointly sign with the seal of the Bank affixed.

Under Mrs. Oranuch Apisaksirikul's supervision, the Corporate Secretariat and Investor Relations are responsible for coordinating meetings of the Board of Directors and shareholders as well as organizing the disclosure of Bank information in an equitable and transparent manner.

Authority and Responsibilities of the Board of Directors:

1. Define overall direction and strategies of the Bank, consider and approve policies and direction of the Bank's operations proposed by management, and ensure that they are implemented efficiently and effectively to protect the interests of the Bank and its shareholders.
2. Ensure the institution of internal business codes and ethics, codes of conduct for directors, management and employees.
3. Review the Bank's operations continuously to ensure executive directors' and management's compliance with the laws and approved policies.
4. Ensure competent management of the Bank including appointing senior executives.
5. Ensure the institution of effective systems for internal control and audit.
6. Ensure that management refers significant banking issues to the board.
7. Ensure that management have in place risk management policies, process and control, at least pertaining to credit risks, market risks, investment risks, liquidity risks, operation risks, reputation risks, legal risks, and strategic risks. The board shall be responsible for approval of these policies, and regular review of operations and policies.
8. Appoint Executive Board members, Audit Committee members, Nomination and Compensation Committee members and/or other committee members to take on tasks that require detailed review or in-depth consideration for the benefit of the Bank.
9. Designate a director(s) to conduct business on behalf of the Board of Directors.

10. Consider and approve functions and responsibilities of committees, changes in their composition as well as changes that significantly affect the committees' work.
11. Ensure that the Bank has policy on loan and investment to related-entities.
12. Ensure that there is a process for prompt submission of management letters from the external auditor and management to the board. The board should receive these letters within 4 months after the end of an accounting period. If there is a long delay, the board should seek reasons for the delay from the management.
13. Ensure that there exists appropriate check and balance in the management and/or major shareholders of the Bank, in particular the proportion or the number of independent directors on the board.
14. Ensure that the board receives sufficient information from the management to discharge its authorities and duties effectively.
15. Require directors to attend at least half of the board meetings every year.
16. Determine and amend authorized signatory.
17. Determine directors' remuneration in compliance with shareholders' approval.

Other matters such as increase or decrease the Bank's capital, issuance of debentures, sales or transfers of whole or important parts of Bank business to other persons; the purchase, acceptance, or transfer of business belonging to other companies; amendments to Bank Memorandum and Articles of Association as well as transactions between related parties and sale and purchase of important parts of the business as per regulations stipulated by the SET or other governmental agencies, must obtain resolutions from shareholder meetings.

In 2006, there were 6 Board of Directors' Meetings, surpassing the requirement in the Company's Articles of Association that the Board shall meet once every three months.

### 9.1.2 Executive Board

The Executive Board members were appointed by the Board of Directors. As of December 31, 2006, the Executive Board comprised the following directors:

Name	Position
1. Mr. Pliu Mangkornkanok	Chairman of the Executive Board
2. Mr. Mitsunobu Hasegawa	Member of the Executive Board
3. Mr. Samuel Shih <sup>1</sup>	Member of the Executive Board
4. Mr. Pichai Chanvirachart	Member of the Executive Board

<sup>1</sup> Assumed on April 5, 2006

#### Authority and responsibilities of Executive Board:

1. Determine business strategies, mergers & acquisition activities, new business ventures, and new products, including annual budgeting.
2. Monitor the operations in accordance with the Bank's policies and related laws.
3. Approve transactions under the Bank's business framework.
4. Supervise the Risk Management Committee, Credit Committee and Problem Loan Committee.
5. Have in place risk management policies, process, control, at least pertaining to credit risks, market risks, investment risks, liquidity risks, operation risks, reputation risks, legal risks and strategic risks, and report to the board.
6. Have in place policy on loan and investment to related-entities.
7. Approve credit with substantial amounts and/or transactions that involve high risks.
8. Institute internal control policies, procedures and systems.
9. Report to the board on business performance and management, including risk management, the Executive Board's performance and management control.

10. Conduct the businesses as assigned by the board with approval of the Executive Board.
11. Determine remuneration and compensation of employees.

### 9.1.3 Audit Committee

The Audit Committee members were appointed by the Board of Directors on January 24, 2007, which comprises the following independent directors:

Name	Position
1. Assoc.Prof.Dr. Angkarat Priebjrivat	Chairperson of the Audit Committee
2. Mrs. Krisna Theravuthi	Member of the Audit Committee
3. Prof.Dr. Praipol Koomsup	Member of the Audit Committee

#### *Authority and responsibilities of Audit Committee:*

1. Review the Bank's financial report to ensure accuracy and adequacy.
2. Review and evaluate the Bank has suitable and efficient internal control system and internal audit.
3. Review the performance of the commercial bank to ensure compliance with the Commercial Banking Act, the securities and exchange law, regulations of the exchange or laws relating to business of the commercial bank.
4. Consider, select, nominate and recommend remuneration of the Bank's external auditor.
5. Consider the disclosure of information of the Bank in case that there is a connected transaction or transaction that may lead to conflict of interest so as to ensure the accurateness and completeness.
6. Prepare Report of the Audit Committee and disclose it in an annual report. Such report must be signed by the Chairman of the Audit Committee.
7. Set up the duties of the Audit Committee including the changing in the composition and the change that significantly affect Audit Committee's performance (with the written papers) as approved by the Board of Directors and inform the shareholder in annual report.
8. Report to the Board of Directors in order that remedial action is taken within the time that the Audit Committee deems appropriate in case the Audit Committee finds or suspects any misconduct as follows;
  - Transaction which causes conflict of interest;
  - Fraud or irregularity or material defect in the internal control system;
  - Infringement of applicable laws. If the Board of Directors or Bank executives do not take remedial action within the time that the Audit Committee proposed, the Audit Committee shall disclose such infringement in annual report and report to the BoT.
9. Perform any other act as assigned by the Board of Directors with approval of the Audit Committee.
10. Review the duties of member in the Audit Committee.

#### 9.1.4 Nomination and Compensation Committee

The Nomination and Compensation Committee members were appointed by the Board of Directors on January 24, 2007, which comprises the following directors;

Name	Position
1. Mrs. Krisna Theravuthi <sup>1</sup>	Chairperson of the Nomination and Compensation Committee
2. Mr. Mitsunobu Hasegawa	Member of the Nomination and Compensation Committee
3. Mr. Samuel Shih <sup>2</sup>	Member of the Nomination and Compensation Committee

<sup>1</sup> Independent Director

<sup>2</sup> Assumed on April 5, 2006

#### *Authority and Responsibilities of Nomination and Compensation Committee:*

1. Formulate policy, criteria, and method for proposing candidates for directors and senior executives to the Board for consideration and appointment, and submit the policy to the BoT upon request.
2. Select and propose names of qualified candidates for the following positions to the Board of Directors;
  - Bank directors
  - Members of committees whose functions, responsibilities and authorities are directly given by the Board of Directors
  - Senior executives
3. Recommend size and composition of the Board that is appropriate for the organization and the business environment. Board members shall possess appropriate expertise and experience.
4. Disclose the nomination policy and process in the annual report.
5. Study and propose criteria and procedures for evaluating the Board's performance.
6. Facilitate the process of Board performance evaluation as delegated by the Board of Directors.
7. Recommend remuneration and benefit policy as well as amount for the Board and senior executives with clear and transparent criteria.
8. Ensure that the Board and senior executives remuneration is commensurate with their duties and responsibilities. Board members who take on extra assignments should be compensated accordingly.
9. Devise performance assessment criteria for board members and senior executives for annual remuneration review, taking into account their responsibilities and risks as well as enhancement of long-term shareholder value
10. Disclose the remuneration policy, actual payment in various forms, and remuneration committee's report that at least covers the objectives, activities and opinion of the committee in the Bank's annual report
11. Meet at least twice a year.

The details of meeting attendance of directors in 2006 are as follows:

Name	Time of Attendance			
	Board of Directors	Executive Board	Audit Committee	Nomination Committee
<i>No. of meetings (times)</i>	6	12	11	3
1. Dr. Phisit Pakkasem	6			3
2. Mr. Pliu Mangkornkanok	6	12		
3. Mrs. Krisna Theravuthi	6		11	
4. Assoc. Prof. Dr. Angkarat Priebjrivat	6		11	
5. Prof. Dr. Praipol Koomsup	5		11	
6. Mr. Sangiam Santad	5			
7. Dr. Kanit Sangsubhan (Assumed on February 28, 2006)	5 (out of 5 times)			
8. Mr. Mitsunobu Hasegawa	5	11		3
9. Mr. Jerry L. Lu (Resigned on April 3, 2006)	- (out of 1 time)			
10. Mr. Samuel Shih (Assume on April 5, 2006)	4 (out of 5 times)	8 (out of 9 times)		2 (out of 2 times)
11. Mr. Kah-Hua Yeo (Assumed on May 29, 2006)	3 (out of 4 times)			
12. Mr. Pichai Chanvirachart	6	12		
13. Mrs. Oranuch Apisaksirikul	6			

### 9.1.5 Management Committee

Management Committee members of the Bank and its subsidiaries were appointed by the Board of Directors. As of December 31, 2006, the Management Committee was comprised of the following members:

Name	Position	Company
1. Mr. Pliu Mangkornkanok	Chief Executive Officer	TISCO Bank Plc.
2. Mr. Pichai Chanvirachart	President and Chief Operating Officer	TISCO Bank Plc.
3. Mrs. Oranuch Apisaksirikul	Senior Executive Vice President Chief Financial Officer	TISCO Bank Plc.
4. Mr. Panya Wotticharoenvong	Executive Vice President - SME Banking <sup>1</sup>	TISCO Bank Plc.
5. Ms. Nattamon Issaradharm	Executive Vice President Chief Governance Officer	TISCO Bank Plc.
6. Mr. Sakchai Peechapat	Executive Vice President - Retail Banking <sup>2</sup> , and Human Resources and Organization Development (Acting)	TISCO Bank Plc.
7. Mr. Metha Pingsuthiwong	Executive Vice President - Treasury and Private Banking	TISCO Bank Plc.
8. Mr. Suthas Ruangmanamongkol	Managing Director	TISCO Asset Management Co., Ltd.
9. Ms. Araya Thirakomen	Deputy Managing Director	TISCO Asset Management Co., Ltd.
10. Mr. Paiboon Nalinthrangkurn	Managing Director <sup>3</sup>	TISCO Securities Co., Ltd.

**Remarks:** Mr. Chavalit Chindavanig, Deputy Managing Director, Acting Managing Director and Head of Investment Banking of TISCO Securities Co., Ltd. resigned with effective date of December 31, 2006.

<sup>1</sup> Assumed the job title of Executive Vice President – SME Banking on March 1, 2006

<sup>2</sup> Assumed the job title of Executive Vice President – Retail Banking on March 1, 2006

<sup>3</sup> Assumed the job title of Managing Director on November 30, 2006

and Mr. Chatri Chandrangam as Financial Controller, and Ms. Chutintorn Vigasi as Head of Corporate Accounting.

#### *Authority and Responsibilities of Management Committee:*

The Management Committee shall oversee and monitor the operations of each business to be in line with policy and plan as approved by the Board of Directors. The Management Committee's authority and responsibilities are:

1. Formulate corporate plan and strategies to propose to the Board of Directors.
2. Direct, control, and monitor day-to-day operations as set out in the Bank's business plan and as approved by the Board of Directors.
3. Oversee resource management.

Nonetheless, the senior management of each subsidiary shall establish in-depth policy.

## **9.2 Directors and Management Nomination**

### **9.2.1 Directors Nomination**

The Nomination and Compensation Committee shall, upon contemplating Company's need and good corporate governance, identify and propose qualified nominees, with knowledge, experiences, sufficient understanding of banking and finance, economics, law or any other fields deem appropriate, to the Board of Directors or the shareholders' meeting for consideration. The Nomination and Compensation Committee shall consider the recommendation from minority shareholders on the nomination of directors or independent directors. A person to be nominated or appointed as an independent director must meet the requirements of the SEC, SET and the Bank's Corporate Governance Policy and Guideline as summarized in section 9.3.

The Nomination and Compensation Committee shall recommend the Board consider the appointment of new director for replacement of any vacancy occurring otherwise than by rotation, or propose the Shareholders the appointment of directors to replace those who retire by rotation or additional directors. The appointment and removal criteria are as follows:

1. The shareholders shall, from time to time, by resolution of a general meeting of shareholders, determine the number of directors, which shall not be less than nine, provided that not less than one half of the directors domicile in Thailand. In addition, the number of directors who are persons of Thai Nationality shall be in compliance with related law.
2. The general meeting of shareholders shall elect directors in accordance with rules and procedures as follows.
  - (1) Each shareholder shall have a number of votes equal to the number of shares multiplied by the number of the directors to be elected.
  - (2) Each shareholder may exercise all the votes he or she has under (1) to elect one or several persons as director of directors. If several persons are to be elected as directors, the shareholder may allot his or her votes to any person in any number.
  - (3) The candidates shall be ranked in order descending from the highest number of votes received to the lowest, and shall be appointed as directors in that order until all of the director positions are filled. Where the votes cast for candidates in descending order are tied, which would otherwise cause the number of directors to be exceeded, the remaining appointments shall be made by drawing lots.
3. At the general meeting of shareholders of each calendar year, the whole board of directors shall be simultaneously elected. However, the former board of directors shall remain in office to conduct the business of the company for the time being, as necessary, until the new board of directors takes office.
4. A director can be elected or removed only by the shareholders at a general meeting. A Board vacancy occurring for any reason other than rotation or retirement may be filled by the remaining directors, unless the term of the original director was less than two months. For the purpose thereof, the resolution of the Board of Directors shall be passed by a vote of not less than three-fourths the number of remaining Directors, but any person so appointed shall hold office only for the remainder of the term of the director to whom he has succeeded. If a general meeting of the shareholders removes a director, and appoints another in his stead, the person so appointed shall hold office only for the remainder of the term of the director so removed.
5. A general meeting of shareholders may resolve to remove a director before expiration of office with the votes of not less than three-fourths the number of shareholders present and eligible to vote. Such a motion must also represent an agreed number of shares equal to or not less than half the total number held by the shareholders present and eligible to vote.

In terms of balance of power, it was determined to be in the Bank's interest to have more non-executive directors than executive directors whereby representative from each shareholder shall be determined based on shareholding structure.

### **9.2.2 Management Nomination**

After due consideration, the Nomination and Compensation Committee shall identify and propose qualified nominees with competence and qualifications to the Executive Board for further approval and appointment.



### **9.3 Qualifications of Independent Director**

The following are the qualifications of an Independent Director set up in accordance with the Bank's Corporate Governance Policy and Guideline, which are stricter than those of the SEC and the SET.

1. Holding shares not more than 0.25% of paid-up capital of the Bank, parent company, subsidiary company, associated company or related company, which shall be inclusive of the shares held by related persons.
2. Not taking part in the management of being an employee, staff member, advisor who receives a regular salary, or has controlling authority in the Bank, parent company, subsidiary company, associated company, related company or major shareholders, who directly or indirectly hold shares in the Bank, parent company, subsidiary company, associated company and related company more than 5% of the paid-up capital.
3. Not having an immediate or legalized relationship to the management, major shareholders, controlling party or a person who is nominated to be management or controlling party of the Bank or subsidiary company. The relationship includes father, mother, spouse, brother, sister, children, son-in-law and daughter-in-law.
4. Not having any business relationship with the Bank, parent company, subsidiary company, associated company or any juristic persons who might have a conflict of interest that could be barrier to independent judgment; and not having other characteristics that prevent him/her from giving independent opinions towards the Bank's operation.
5. Not having direct or indirect benefit or interest in finance and management of the Bank, parent company, subsidiary company, associated company or major shareholders of the Bank.
6. Not having disqualification as prescribed by the Securities and Exchange Commission and the BoT.
7. Being independent from the major shareholders of the Bank or other shareholders within the group of the Bank.
8. Being able to protect equitable interests among shareholders of the Bank.
9. Being able to prevent any conflict of interest between the Bank and management, major shareholders or other companies, which have the same group of management and major shareholders.
10. Being able to attend the board of directors' meeting to make material decision for the Bank.
11. Having educational backgrounds, qualifications, skills, expertise, experiences, leadership and visions which will be beneficial to the Bank's operation.

### **9.4 Director and Management Remuneration**

#### **9.4.1 Director and Management Remuneration Policy**

The remuneration of directors, proposed by the Nomination and Compensation Committee, has been approved by shareholders. The scale and components of remuneration for directors and management has been set by the Bank subject to the principle that such remuneration should be appealing enough to attract and retain quality directors, but avoid excessive pays. Remuneration for directors should be comparable to the general practice in the industry with regard to work experience and commitment, as well as the benefits each director brings.

Directors who are assigned with extra work (being members of a committee, for example) should be paid appropriately. The remuneration to be paid to such director or directors will be approved by the board. Remuneration for top executives/management shall be linked to the performance of the bank, and that of each executive/management. The remuneration should be determined in accordance with the principles and policies approved by the executive board with an endorsement from the board of directors.

To avoid conflict of interest and enhance transparency, remuneration shall always be approved from the higher level of command. Namely, shareholders approve the remuneration of the board of directors, the board of directors approves remuneration of the executive board, and the executive board approves remuneration of top executives upon the propose and consideration of the Nomination and Compensation Committee.

### 9.4.2 Financial Remuneration

Directors' remuneration as determined by the Bank for the year 2006 is as follows:

	<i>Monthly Fee (Baht)</i>	<i>Meeting Fee (Baht)</i>
<b>Board of Directors</b>		
Chairman	60,000	15,000 <sup>1</sup>
Ordinary Member	25,000	15,000 <sup>1</sup>
<b>Audit Committee</b>		
Chairperson	50,000	-
Ordinary Member	40,000	-
<b>Executive Board</b>		
Chairperson	40,000	-
Ordinary Member	35,000	-

<sup>1</sup> Only the ordinary board members who are not members in other committees

In addition, the Board of Directors' meeting on February 27, 2007 approved the remuneration for the Nomination and Compensation Committee set up in January 2007 in replacement of the Nomination Committee as follows:

	<i>Monthly Fee (Baht)</i>	<i>Meeting Fee (Baht)</i>
<b>Nomination and Compensation Committee</b>		
Chairperson	-	25,000
Ordinary Member	-	15,000

The details of Board of Director remuneration during January 1-December 31, 2006 are as follows:

Name of the Directors	Remuneration (Baht)				
	Board of Directors		Executive Board	Audit Committee	Total
	Monthly Remuneration	Meeting Fee			
1. Dr. Phisit Pakkasem	720,000	90,000			810,000
2. Mr. Pliu Mangkornkanok	300,000		480,000		780,000
3. Mrs. Krisna Theravuthi	300,000			600,000	900,000
4. Assoc. Prof. Dr. Angkarat Priebjrivat	300,000			480,000	780,000
5. Prof. Dr. Praipol Koomsup	300,000			480,000	780,000
6. Mr. Sangiam Santad	300,000	75,000			375,000
7. Dr. Kanit Sangsubhan (Assumed on February 28, 2006)	275,000	90,000			365,000
8. Mr. Mitsunobu Hasegawa	300,000		420,000		720,000
9. Mr. Jerry L. Lu (Resigned on April 3, 2006)	75,000				75,000
10. Mr. Samuel Shih (Assumed on April 5, 2006)	225,000		315,000		540,000
11. Mr. Kah-Hua Yeo (Assumed on May 29, 2006)	175,000	45,000			220,000
12. Mr. Pichai Chanvirachart	300,000		420,000		720,000
13. Mrs. Oranuch Apisaksirikul	300,000	90,000			390,000
Total	3,870,000	390,000	1,635,000	1,560,000	7,455,000

In 2006, the total remuneration for the Board of Directors, the Executive Board, the Audit Committee and the Management Committee was 145,600,000 Baht. This was paid in the form of monthly compensation, salaries, meeting fee, provident fund and bonuses, which varied according to the Bank's performance.

#### **9.4.3 Other forms of Remuneration**

In 2000, the annual general meeting of the Bank's shareholders passed a resolution approving the allocation to directors and employees of the Bank and its subsidiaries of 30 million, 5-year, non-negotiable warrants to purchase the Bank's preferred shares. Details of the said warrants are prescribed in Section 8. Capital Structure under 8.1.3 Warrants. The total amount of 30,000,000 warrants has been fully allotted since 2004.

#### **9.5 Corporate Governance**

Being well aware of the importance of good corporate governance, the Bank has formulated a Corporate Governance Policy in full conformity with the SET's Code of Best Practices to ensure that the Bank and its subsidiaries carry out their duties with maximum accountability, transparency, and equitable treatment for all stakeholders. The policy aims to promote managerial integrity, effectiveness, and efficiency, as well as bolster enduring business growth in line with corporate planning and strategy.

In 2005, the Bank was awarded the "Best Corporate Governance Report" (SET Awards 2005) for its excellence in reporting compliance with the SET's good corporate governance principles. The Bank, in 2006, was also recognized for "Distinction in Maintaining Excellent Corporate Governance Report" (SET Awards 2006) as a listed company receiving the most outstanding reports on compliance with the SET's good corporate governance principles for the second consecutive year from SET and Money & Banking Magazine. Recently, the Thai Institute of Directors Association announced the Corporate Governance Report 2006 results of Thai listed companies, of which TISCO is scored "Very Good" (score range 80-89)

The Bank's Corporate Governance Policy, as jointly adopted by the Board of Directors and management, is outlined as follows:

##### **1. Corporate Governance Guidelines**

The Corporate Governance Guidelines assist the Board of Directors in effectively carrying out their duties in compliance with regulatory policy, the Bank's legal responsibilities, and business ethics. The Corporate Governance Guidelines embrace all key issues of the code of best practices for directors, including the role and structure of the board, relationships with stakeholders, information disclosure, and applicable laws and regulations related to directors (detail of Corporate Governance Policy and Guideline is disclosed on [www.tisco.co.th](http://www.tisco.co.th)). In addition, the Board of Directors has endorsed a code of conduct and compliance manual to be applied at the managerial and operational level.

Since the Corporate Governance Guidelines are as crucial to directors as they are to the operational level, the Bank has ascertained that all employees must be kept well aware of the guidelines, which reflect the basic principles of corporate governance. Accordingly, the compliance manual is in place as the guidelines for employees in dealing with such matters as customer complaints, conflicts of interest, control of inside information, confidentiality, and related issues such as securities trading by employees. To ensure that all TISCO staff understand and effectively carry out their duties in compliance with the regulatory policy, legal framework and business ethics, the Compliance Department and Human Resources Department, in 2006, has launched Compliance and Human Resource Policy Test through TISCO intranet system which all employees were required to complete this test. The results were evaluated to determine the level of staff's understanding so that the more appropriate communication method shall be made to encourage the awareness of their responsibilities to promote the good corporate governance. All new staffs are required to complete this test as part of their evaluation during probation period.

##### **2. Shareholders: Rights and Equitable Treatment**

The Bank's shareholders, majority or minority, individual or institutional, are assured of their right to receive equitable treatment and fair access to all necessary Bank information in a correct and timely fashion, and for participation in meetings of bank shareholders. To protect shareholder interests, all necessary information is disclosed in an accurate, timely, and transparent manner to allow the general public to make informed investment decisions. Adequate systems are established to support effective communications and management of shareholder relations.

The annual general meeting of shareholders is convened by the Board of Directors within 4 months of the date ending the accounting period of the Bank, with the agenda made public through the SET's information dissemination channel and the Bank's website more than 30 days in advance to allocate appropriate time for shareholders to study all meeting material.

The Bank will begin considering the agenda of the shareholders' meeting in October by facilitating shareholders to propose the agenda item and qualified candidate for director position in advance. The Nomination and Compensation Committee will consider the candidate's qualification and make suggestion to the Board of Directors to further recommend to the shareholders' meeting for the appointment of the Bank's director. Starting from 2006, the shareholders can propose agenda and/or qualified candidate according to the criteria set by the Bank. The shareholders' proposals will then be submitted to the Board to consider placing on the AGM agenda. The proposal approved by the Board along with the Board's opinion will be included in the AGM Agenda. For the proposal disapproved by the Board, the Bank shall inform the shareholders with the reason of the Board's refusal through the Bank's website or any other appropriate information dissemination channels. The order of the agenda at the Shareholders' Meeting is to be in an appropriate sequence as set by the Bank's Articles of Association. In addition, each agenda item will state clearly whether it is a matter proposed for acknowledgement, for approval or for consideration, including the opinions of the board in said matters.

To allow adequate time for the shareholders to study all of the meeting material, notice of the meeting specifying all the relevant information is sent to the shareholders not less than 7 days before the date set for the meeting. In 2006, the Shareholders' Ordinary General Meeting was convened on April 28, 2006 and the notice was delivered to the shareholders at least 14 days prior. The notice calling for the meeting was also published in a Thai daily newspaper for 3 consecutive days and at least 3 days prior to the date of the meeting.

The Board of Directors may summon an extra-ordinary meeting at such date, time and place as determined by the Board, so long as the requirement that due notice thereof be given as provided in the Bank's Articles of Association is followed. Shareholders who hold an aggregate number of shares not less than one-fifth of the total number sold may also request that the Board of Directors convene an extra-ordinary meeting by listing their names in a notice and submitting their reasons. Similarly, a group of shareholders numbering not less than 25, who hold an aggregate number of shares not less than one-tenth of the total number of shares sold, may also request an extra-ordinary meeting. In such cases, the Board of Directors must set the date, time and place of the meeting within one month of the date of receiving the notice.

To protect shareholders' rights in attending the meeting and ensure equitable treatment for shareholders, the Bank assigned officers to check the shareholder's documents or proxies' documents according to the requirements stated in the notice. Moreover, the shareholder could register for meeting attendance 2 hours in advance of the meeting time. The Bank utilized computer and barcode system for registration and printing of voting form for each agenda to facilitate the shareholders. Before the meeting started considering the agenda, the shareholders were informed of their voting rights, voting process including the use of voting form by those who intended to vote "Against", "Abstain" or split the votes on each of the agenda. To ensure shareholders' right in examining if the shareholder meeting was conducted in accordance with the Bank's Articles of Association, the Bank had exhibited some sections of the Articles of Association relating to the conduct of the meeting in the AGM notice. These included sections related to ordinary general meeting, extra-ordinary general meeting, notice of the meetings, quorum, conduct of meetings, voting, proxies, agenda, etc.

At the shareholders' meeting, the Chairman shall conduct the meeting to be in accordance with the order of agenda as arranged in the notice of the meeting, unless the meeting resolves to change order of the agenda with votes not less than two-third of the number of shareholders present. The shareholders holding an aggregate number of shares not less than one-third of the total number of shares sold may request the meeting to consider other matters in addition to those specified in the notice of the meeting.

The Bank also facilitates alternative arrangements for shareholders unable to attend meetings by preparing proxy for shareholders to authorize an Independent Director, of which more than one independent director are proposed for their selection, the Chief Executive Officer, the Chief Operating Officer, or any other person to attend the meeting on behalf of them.

The Bank always realizes that shareholders' rights and equitable treatment of all shareholders are crucial for good corporate governance. It endeavors to encourage shareholders' involvement in managing the company by facilitating the process of shareholder meeting in such a way that enhances the exercise of their rights. As a result, the Bank had obtained a "Good" score of 99.11 from the Annual General Meeting Assessment Program arranged by the SEC in cooperation with the Thai Investors Association and the Listed Companies Association.

### **3. Various Groups of Stakeholders**

It is the Bank's policy to ensure that the rights and interests of all stakeholders are well protected. Since each stakeholder has different objectives and expectations, the Board carefully considers the differing stakeholders' legal rights, and ensures that those rights are protected and treated with care. Co-operation between the Bank and various groups of stakeholders is promoted in order to secure profits and business stability.

<i>Shareholders:</i>	The Bank focuses on ownership rights of the shareholders and commits the shareholders to the best performance, recognized quality services as well as an ever-expanding scope of opportunities for future achievement. The shareholders are empowered to exercise their rights, for example, by the implementation of cumulative voting that allows minority shareholders to nominate directors.
<i>Employees:</i>	The Bank recognizes and values the dedication and commitment of the staff in carrying out their duties. As an organization built on the solid foundation of good corporate governance, the Bank's goal is to equip the employees with the education and training they need to serve the customers with the highest standards of professionalism. To ensure that our people are rewarded fairly for their dedication, a performance management system is in place so that all may enjoy the fruits of the Bank's success. All employees are treated fairly and equitably.
<i>Customers:</i>	Customers are the Bank's primary focus. Their needs are the Bank's priority. The Bank derives a professional and practical solution that fulfills our customers' requirement. The Bank raise the quality of client relationship by infusing excellence and integrity into all our dealings. Clients are offered the knowledge base and experience of our integrated resources. In addition, the Bank has provided channels for receiving customer complaints and resolving problems fairly and carefully and the Bank pledges to keep customer information confidential.
<i>Trading partners and Creditors:</i>	Any conditions with in the agreement made with the trading partners and creditors will be served honorably by the Bank. The Bank refrains from accepting or giving any benefits in bad faith from trading partners and creditors.
<i>Competitor:</i>	The Bank executes the business under the fair competition and integrity approaches.
<i>Society:</i>	The Bank recognizes that we have a responsibility to take a leading role in making the society a better place and therefore the Bank exercises this responsibility through a broad array of initiatives aimed at creating opportunities for sustainable development in society, TISCO's charitable work includes scholarships for needy students and donations to support worthy causes. Moreover, the Bank also encourages cultural and environmental activities.
<i>Environment:</i>	The Bank consistently supports activities aimed at conserving both the internal and external resources and environment. The Bank strives to cultivate values, social responsibilities and environment awareness among all employees. In providing its financial services, the Bank always performs "Know Your Customers" measures to ensure that the services granted by TISCO as well as business advisory are given to projects that operate in compliance with the environmental regulations and will not create any effects to the community and environment.

Besides this, The Bank's policy to protect the rights and interests of all stakeholders is disclosed in the Compliance Manual, which is posted on "mytisco", an intranet system to which all employees have access.

#### **4. Shareholders' Meeting**

In the shareholders' meeting, the chairman of the meeting allocates appropriate time and encourages equal opportunities for shareholders to express their opinions and raise questions in relation to the agenda and the issues presented.

The Bank ensures that shareholders receive equitable treatment. The Bank conducts shareholder meetings in accordance with stipulated laws and regulations with regard to calling meetings, the submission of advance notice, notification of agenda topics, as well as the provision of all necessary information to be used by shareholders' when making investment decisions. The shareholders are entitled to propose agenda items that deem significant to be placed on the AGM agenda and qualified candidates for director position. Moreover, the Bank assigns its Corporate Secretary to prepare the minutes of the meeting in which all information, such as queries, opinions, and resolutions are recorded and reported. The minutes of the meetings are kept at the office. At the Shareholder Ordinary General Meeting for the year 2006, all eleven directors attended the meeting.

The Bank shall endeavor to ensure that every director attends. Furthermore, the Bank's senior management, namely the Executive Vice President-SME Banking and the Executive Vice President-Retail Banking and Human Resources & Organization Development (Acting), 2 Deputy Managing Directors of TISCO Securities and the Bank's external auditors, all attended in the meeting.

## **5. Leadership and Vision**

The Board of Directors is composed of a broad range of experts who possess competency, knowledge and experience for running the business. The Board of Directors is ultimately accountable for the business plan and performance of the Bank. It shall ensure that the Bank achieves its goals by charting out effective long-term strategic plans, short-term business plans, and the corporate target. It is thus essential that the Board, and also senior management who support the board, possess leadership, vision, and independent decision-making capabilities for the best interests of the Bank and its shareholders. It is also imperative that the Board possesses a general understanding of the overall business of the company, and is able to ensure that management carries out Bank policy effectively and efficiently.

When a new director is appointed to the Board, senior management will provide such director the information regarding the Bank's business operations and past performance for clear understanding.

The Board oversees the development of a long-term strategic plan, which is reflected in its general business direction and vision, and short-term business plans with measurable targets. It approves policies and procedures developed by management in areas of crucial importance, and communicates clear standards of performance in implementing them. It also establishes the norm of periodically reviewing policy and business performance of the Bank and internal audit operations. The Bank conducts periodic evaluations of the board's performance to increase its effectiveness and transparency in managing the Bank

## **6. Conflict of Interest**

To prevent issues of conflict of interest, the Board has laid down the structure and composition of committees in accordance with the Corporate Governance Guidelines to ensure that the code of ethical practice is implemented at all significant levels.

Recognizing crucial roles of the Board and senior management in devoting time and effort to manage the Bank, the Bank strictly adhere to the BoT's notification regarding the assumption of directorship in other companies by directors and senior management which allows the directors and senior management to assume the position of Chairman, executive director, or director with full signatory authority in no more than three business groups. The Bank's Corporate Governance Policy and Guideline also prescribed that directors shall avoid other positions or jobs that may lead to conflicts of interest. Details of Directors, Management and Controlling Persons are disclosed in Attachment 1 and the annual report.

Under the Bank's Corporate Governance Guidelines, employees must comply with stipulated laws and regulations, conduct their duties honestly, and consider the Bank's interests above their own. The Bank has compiled business guidelines, relevant regulations and business code of conduct to be included in the compliance manual published on the Bank's intranet system, or "mytisco". This manual includes relevant criteria and a resolution system to protect against conflict of interest.

The Bank has no policy to encourage transactions between related parties. Should any such transactions occur, the conditions would be the same as those governing normal business transactions by the Bank and its subsidiaries. In addition, persons with vested interests shall not be entitled to vote for the approval of said transactions. Disclosure of such information shall also be made in a forthright manner.

Furthermore, the Bank has set out rules regarding securities trading by employees, stating that all employees must only open trading accounts with subsidiary TISCO Securities. Also, employees are required to seek the approval of their supervisors and the Compliance Unit before executing trades. Moreover, the Bank also prohibits management and insiders from trading the Bank's shares from the last working day of the month until the day the Bank's financial statements or the summary statements of assets and liabilities (C.B. 1.1) are published, with penalties prescribed for any breaches. Finally, directors must notify the Audit Committee of their shareholdings at the end of each quarter.

## **7. Business Ethics**

The Bank has introduced a code of business ethics as part of the compliance manual for management and has ruled the Employee Code of Conduct to assist the employees in performing their duties in line with corporate planning. In which, the Good Corporate Governance Guideline is displayed in the intranet system "mytisco" for the employees to be followed. Additionally, in order to ensure the honesty and fairness performance of the Board and employees to the Bank, stakeholders and the public, the Bank requires compliance with these regulations, and will impose serious penalties for any violations. The Compliance Department is charged with monitoring performance in accordance with the code of business ethics.

Directors shall carry out their duties with care and loyalty, with the full knowledge that they are jointly liable for any damage to the Bank caused by breach of responsibility. "Duty of care" means that directors should take reasonable steps to be in a position to monitor the Bank's affairs and maintain a sufficient understanding of the business of the Bank. "Duty of loyalty" means that directors must act honestly to preserve the interests of the Bank and comply with the Bank's Articles of Association as well as applicable laws.

#### **8. Balance of Power for Non-Executive Directors**

The Board's compliance roles include ensuring that appropriate systems providing accountability and transparency are set up and implemented by management. The Board of Directors itself has been structured to ensure accountability, and that no single individual or group has unfettered power. As a principle to promote a healthy balance of power, the Board is comprised of 12 directors with not more than three executive directors while one-third of the Board are independent with the qualifications as mentioned in Section 9.3. On December 31, 2006, the Board of Directors is, three non-management directors, 3 management directors, and six independent directors, which counts as 50% of the total of the Board of Directors. The independent directors, who possess qualification standards according to SET regulations, are expected to demonstrate their independence and objectivity to prevent any conflicts of interest.

The Chief Executive Officer chairs the Executive Board, but his position is separate from the Chairman of the Board of Directors. This is to ensure a balance of power and authority and to avoid a situation where a single individual has unfettered power in decision-making.

Term of office of the Bank's directors is specified in the Articles of Association, whereby the whole board of directors shall be simultaneously elected. However, the former board of directors shall remain in office to conduct the business of the company for the time being, as necessary, until the new board of directors takes office. In view of the board composition representing major shareholders, the Bank employs guidelines based on fair proportion of each group's investment.

#### **9. Aggregation and Segregation of Positions**

The Board of Directors is accountable for clearly defining and separating the roles and responsibilities of the Board of Directors, the Audit Committee, the Nomination and Compensation Committee, the Executive Board and the Management Committee.

In addition to the policy that Chairman of the Board of Directors shall not be part of the Bank's senior management and the Chairman of the Audit Committee shall not be a member in other committees, 2 top executive positions were established to jointly oversee comprehensive managerial tasks and to further promote managerial effectiveness. The Chief Executive Officer (CEO), who is also the Chairman of Executive Board, oversees long-term corporate strategies, policies, and shareholder wealth creation and protection. The Chief Operating Officer (COO), who reports to the CEO and is also a member of the Executive Board, oversees all day-to-day operations and short-term business performance.

#### **10. Remuneration for Directors and the Management**

In 2007, the Board had set up the Nomination and Compensation Committee in replacement of the Nomination Committee which was established in 2002. The Committee shall carry on duties and responsibilities in nominating qualified candidates to assume director position and senior executives and formulating policies on remuneration of directors and senior executives with clear and transparent criteria. The Nomination and Compensation Committee comprises 4 directors, of which half are independent directors. Initially, on January 24, 2007, the Board appointed 3 directors, one independent director who chairs the committee and two non-management directors. The Nomination and Compensation Committee will later nominate an additional independent director to the Committee for the Board's approval

The policy on scale and components of remuneration for directors and management has been set by the Bank subject to the principle that it should be appealing enough to attract and retain quality directors, but without being excessive. Remuneration for non-executive directors should be comparable to generally accepted practice by the industry with regard to work experience and commitment, as well as the benefits to the Bank that each director brings. Management should receive remuneration linked to Bank performance. Remuneration policy for directors shall be transparent and receive approval from the shareholders. The Board shall disclose in the annual report its remuneration policy and the amounts set for the directors and executives in accordance with SEC rules. Details of the remuneration are shown in section 9.4 and the annual report.



### **11. Board of Directors' Meeting**

Board meetings are regularly scheduled in advance. During meetings, the Chairman of the Board promotes prudent consideration and allocates adequate time for management to present issues, with enough time set aside for directors to broadly discuss important matters. The Secretary to the Board sends out documents relating to matters to be ratified or approved at the meeting to every director together with a written notice.

In relation to the Bank's Articles of Association, Board of Directors' meetings are held by the Bank at least once every three months except in special cases to protect the Bank's interests. The Bank ensures that written notice is sent to the Board at least 7 days before the date of the meeting. The minutes of meetings containing all details are prepared and put in order for auditing purposes.

In 2006, 6 Board meetings were convened, surpassing the requirement in the Bank's Articles of Association. Apart from the Board meetings, other committees appointed by the Board to perform specific duties also conducted meetings regularly to ensure that businesses were operated effectively. For example, the Executive Board and the Audit Committee which respectively had 12 and 11 meetings in 2006. The details of directors' attendance are shown in section 9.1.

### **12. Other Committees**

To achieve its high standards of performance, the Board delegates other committees to take on tasks that require detailed review or in-depth consideration. Such other committees as the Executive Board, the Audit Committee, the Nomination and Compensation Committee, the Risk Management Committee and others are, if necessary, entitled to make decisions on the Board's behalf or submit recommendations for consideration, depending on the committee's specific charter. The composition and responsibilities of other committees is detailed in section 9.1.

In any particular decision, the Executive Board can also authorise management or other committees such as the Credit Committee, Problem Loan Committee, and others, to make a detailed review of certain matters on their behalf.

### **13. Control System and Internal Audits**

The Board delegates its day-to-day operational oversight to the Executive Board and Senior Management. The Executive Board prepares an annual assessment of the Bank's internal control system and reports its findings to the Audit Committee for verification and further recommendation to the Board of Directors. In fulfilling its compliance role, the Board is responsible for monitoring operations by being aware and kept up-to-date regarding the Bank's operating environment. To ensure high standards of compliance, the Board delegates day-to-day compliance oversight to the Audit Committee, which serves the Board in monitoring compliance with the Board's policies, and internal and statutory regulations. The Audit Committee is composed solely of independent directors. Internal Audit function directly reports to the Audit Committee. The Bank's internal control system is shown in section 10. The internal control systems of each business activities have been evaluated by internal auditors periodically. The internal auditors report their audit results directly to the Audit Committee. The Audit Committee will then consider the matters and recommend on corrective action to management as well as follow up the disposition and report to the Board. In case significant deficiencies are found, the internal auditors shall inform and discuss with the management about their findings and corrective action to be taken. The audit results together with management's response shall instantly be reported to the Audit Committee for additional advice. The Audit Committee, in turn, will present report summaries to the Board continuously.

### **14. Directors' Report**

The Board shall also provide a report indicating the performance of the Bank and important business activities over the course of the year to shareholders. Moreover, the Board is responsible for assessing the Bank's internal control system, which is carried out by the Executive Board and reviewed by the Audit Committee, and for certifying the accuracy of information in financial statements. The Board assigns the Audit Committee to review the financial statements of the Bank and ensure that they are presented in accordance with generally accepted accounting principles and disclosed in an accurate and transparent manner to allow investors to make informed investment decisions. The Board provides the above-mentioned reports, while the Audit Committee provides reports on audit issues along with the auditor's report. Reports from the Board, the Audit Committee and the auditor's report are included in the annual report.



## 15. Relations with Investors

TISCO Bank realizes the importance of accurate, complete, transparent, and equitable information disclosure. The dedicated Corporate Secretariat and Investor Relations function was established to represent the Bank in communications with all shareholders, investors, analysts, credit rating agencies, and regulatory agencies concerned as well as for carrying out good governance practices on behalf of the shareholders. Besides, the Bank has set up Analyst Meetings and Press Conferences chaired by the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer with the objective of keeping investors, analysts, fund managers and interested parties well informed on the Bank's operating performance and to provide response to inquires from investors. In this respect, the activities arranged in 2006 are as follows;

1. Analyst Meetings at the quarterly basis (4 meetings)
2. Press Conference (1 time)
3. One-on-one meetings with investors and equity analysts (domestic and foreign) totaled of 73 meetings (62 one-on-one meetings, and 11 conference calls)
4. 5 non-deal Roadshows covered various countries in America, Europe, and Asia, such as United States, Great Britain, Hong Kong, and Singapore.

Other than the management discussion in the above occasions, the Bank's information is publicly disseminated to all investors via various channels, including the website of the SET, the SEC, and the Bank itself ([www.tisco.co.th](http://www.tisco.co.th)). The record of visits on the Bank's website in 2006 was 526,479 visits. The Investor Relations Units can be reached through the website and the following contacts.

Email : IR@tisco.co.th  
 Investor Relations : Tel 0 2633 6868  
 Fax 0 2633 6818

## 9.6 Control of Internal Information

The Bank's compliance manual acts as a set of guidelines to help employees perform their duties fairly and honestly, comply with applicable laws and regulations, avoid conflicts of interest, and not seek to benefit from insider information. Business guidelines, regulations, and the code of conduct have all been compiled to create the Bank's compliance manual. With respect to Bank regulations governing employee securities trading, the Bank requires management and employees to open trading accounts with TISCO Securities, its subsidiary. In this regard, he or she must, however the case may be, seek approval from supervisors before executing trades or report to supervisors and the Compliance function after execution. Furthermore, the Bank also prohibits management and insiders from trading the Bank's shares from the last working day of the month until the day the Bank's monthly financial statements are published. Penalties shall be imposed for any breaches.

## 9.7 Human Resources

As of December 31, 2006, the total number of employees in the Bank and its subsidiaries was 1,999 (excluding senior management) of which 1,656 are permanent employees and 343 are contract staff.

Major Function	As of December 31	
	2005 (employee)	2006 (employee)
1. Lending Business	285	215
2. Hire Purchase Business	959	1,040
3. Securities Business	249	234
4. Fund Management Business	149	144
5. Others	97	119
6. Back office and Administration	232	247
<b>Total</b>	<b>1,971</b>	<b>1,999</b>

The number of employees of the Bank and its subsidiaries at the end of 2006 was increased only 28 headcounts 1.4% whereas the Hire Purchase Business was expanded because the Bank's management of the asset portfolio of Sukhumvit Asset Management have been completed by end of March 2006 and employment of 128 contractual staff were automatically terminated.

For the year 2006, the Bank and its subsidiaries' total employee remuneration in form of salaries, bonuses, and provident fund contributions was 1,040,313,614.01 Baht. In the last 3 years, the Bank and its subsidiaries have adjusted personnel expenses to match

business performance. The proportion of variable personnel expenses to total personnel expenses in 2004, 2005 and 2006 were 45%, 38% and 27%, respectively.

### 9.7.1 TISCO Group Registered Provident Fund

TISCO Bank has established a Provident Fund in accordance with Ministerial Regulation 162 (B.E. 2526). The purpose of the fund is to encourage long-term savings among employees for their retirement or in the event of their leaving the Bank and its subsidiaries.

The fund, called the "TISCO Group Registered Provident Fund", as per Ministerial Regulation 162 (B.E. 2526), has been registered in compliance with the Provident Fund Act B.E. 2530 since June 21, 1990. Rules and regulations of the fund, including the rights of members for the entire duration of their membership to the fund, have been set up to comply with Provident Fund Act B.E. 2530.

**Employee's Contribution:** Members shall remit contributions to the fund by granting the Employer permission to make deductions from their monthly salary. Members have two alternatives; to remit contributions at 5% of monthly salary, or at the same rate as the employer's contribution, which can be changed once a year.

**Employer's Contribution:** Employer is obligated to contribute to the fund on the same day as the employee, and the percentage of the employer's contribution depends on the employee's years of service as follows:

Years of Service	Employer's Contribution (% of salary)
1	5
2	6
3	7
4	8
5	9
≥ 6	10

The fund is supervised by the fund committee, which is comprised of the employee's elected representatives and the employer's appointed representatives. Terms for fund committee members will be valid for two years, and any individual can be re-elected or re-appointed. The fund committee is responsible for the supervision of fund management and investment policy.

In 2002, TISCO Bank established an additional fund to offer Employees an option to better match their desired risk and return profile named "TISCO Group for Savings Registered Provident Fund." Also, the "TISCO Group Registered Provident Fund" was renamed "TISCO Group for Investment Registered Provident Fund." These two funds differ only in investment policy, and members are able to switch between the two funds once a year if so desired.

As of December 31, 2006, the total fund size of "TISCO Group for Investment Registered Provident Fund" was 599,864,089.62 Baht with 1,121 members. The total fund size of "TISCO Group for Savings Registered Provident Fund" was 217,773,094.90 Baht with 461 members.

### 9.7.2 General Human Resources Policies

To strengthen the group's corporate identity and brand personality in 2006, the implementation of people-oriented practices is conducted at the same high standards to reflect TISCO group's philosophy of human resources management. Although all **human resources policies** and some human resources operations are centralized for work efficiency and consistency, for example, payroll systems and employee data recording, there are decentralized authorities and empowerment embedded to allow business lines to execute competitive HR practices for competitive advantage in their own business environment and industry.

#### 1. Principles of Dealing with People at TISCO Group

As professionalism and trust in financial service is crucial, therefore TISCO Bank lay down the corporate values to build up desired TISCO Officer to have unique and appropriate values. These Bank's values describe human behaviors that accommodate the journey of the organization to its success.

- Customer Priority
- Integrity
- Reliability
- Mastery

## **2. Hiring**

In order to serve various business aims while maintaining a uniform corporate culture across the group, hiring of TISCO group's employees will be based on three sets of competencies: Organizational Core Competencies, Functional Competencies and Leadership Competencies. Organizational and Leadership Competencies will meet the same criteria across the group, whereas Functional Competencies can be varied to fit business strategy, business culture and competitive environment. TISCO Bank will hire employees with the right attitude and professional abilities that enable them to develop a long-term relationship with the Bank.

To ensure good corporate governance, close relatives and immediate family members of the Board of Directors, the Executive Board and the Management Committee, will not be considered for any job vacancy in the TISCO group. The same condition will apply to senior employees with managerial authority. Kin and immediate family members of other employees are to be considered on a case-by-case basis by senior management and the human resources function. Every candidate will be assessed to match their competency with the requirements of the position and potential for growth in future.

The Human Resources function is responsible for providing adequate recruitment and selection tools. It is understood that the hiring decision is in the hands of the manager responsible.

Even while promoting employees intensively from within the organization, it is the role of management and HR to keep an eye on valuable candidates from outside and to benchmark internal skills with external offers.

It is as important to hire the right person as it is to integrate newcomers into the organization so that their skills and behaviors can merge smoothly with TISCO group culture.

## **3. Employment at TISCO Group**

To uphold the highest standards of Good Corporate Governance, the Bank has established a "***Business Code of Conduct***" that demonstrates its determination to be a good corporate citizen in society. These principles are to be respected everywhere and under all circumstances. The management will implement the necessary processes to ensure that these principles are enforced at all levels. Employees who fail to abide with the Business Code of Conduct cannot be maintained in employment and will be asked to leave the organization. Employees should also inform vendors, suppliers and the providers of outsourced services of our Business Code of Conduct in the issues related to them and they should comply.

The Bank favors a policy of long-term employment. Separations are only for cases violating the Bank's principles, business misconduct, retirement, leaving voluntarily, and falling into the separation criteria as stated in the rules and regulations that the Bank has registered with the Department of Labor. Whenever an operation or business cannot be maintained under TISCO Bank's umbrella, reasonable steps will be undertaken to avoid overall loss of employment and by fully respecting all related labor laws. Reasonable efforts will be undertaken to reduce, as much as possible, the suffering of our employees.

## **4. People Assessment and Development**

### **4.1 Assessment**

Human value creation starts with the quality of the people that fit with TISCO group's strategy, culture, technology and environment. Therefore, employee assessments shall be employed in all steps of employee movements from selection of new candidates to promotion, career development and succession planning. The Human Resources function will provide assessment tools at the corporate level, whereas business units will have the freedom to customize assessment tools under corporate HR consultation to suit each business environment while maintaining corporate standards of people quality.

### **4.2 Development**

To sustain organizational growth, TISCO prioritizes human resources development as primary policy. Learning culture is established by providing development solutions that satisfy both organizational requirements and individual development. Continuous self-learning will lead to sustainable growth and High Performance Organization at last.

The Human Resources function is responsible for providing knowledge and skills development at the corporate level for corporate competitive advantage. At the Business Unit level, the Human Resources function will provide consultation and advice on development methodology and techniques to maximize learning and development of human capital to add value to the business. Human Resources will also be responsible for the records of organization knowledge and the skills inventory of all business units in TISCO group.

## **5. Career Management**

To motivate employees and build up the organization's strength, every employee has opportunities for career progression, both vertically and horizontally. TISCO group emphasizes "*promotion from within*" for available job positions. Should there be no best fit within the organization, hiring from outside then comes into consideration.

Career development and progression are open for upwards, downwards and lateral movements both within business units and functions and cross-functions across TISCO group. Open communication in career development and progression is mandatory between line managers and employees to ensure transparency and clear expectations.

## **6. Performance Management**

The objective of Performance Management is to build a workforce committed to the delivery of quality service while building a trusting relationship between line managers and job performers. Performance Management will be a key responsibility of every employee who assumes a supervisory role. Regular counseling and guidance are the best tools for improving performance and helping people develop their skills. Efficient performance management, emphasizing the achievement of agreed objectives is a prime responsibility for each manager. Candidates for managerial positions should clearly have demonstrated a willingness and ability to apply the performance management system and process. The components of the performance management system and process are outlined in the guidelines and manuals that support this policy and will be developed, updated and maintained by the Human Resources function.

## **7. Employee Compensation and Benefits**

The Bank recognizes that its employees are its most important resource and thus places great emphasis on their health, safety and well being. The Bank arranges for all employees to have annual physical checkups, and has set up facilities of aerobic exercise, yoga, badminton, football, golf, etc., for the use of its employees. Regarding employee safety, the Bank provides life and travel insurance for each employee as well as arranging fire drills annually under the Workplace Safety Committee's supervision. Additionally, the Bank has also set up the Employee Welfare Committee to be responsible for monitoring, attending to and recommending policies regarding employee welfare.

TISCO group favors competitive, stimulating and fair remuneration structures offering an overall competitive and attractive compensation package. Various forms of compensation will be designed in combination to best match the nature of various jobs, as well as supply and demand. Remuneration includes salary, fixed and variable incentives/bonuses, social welfare, health care and other benefits.

TISCO group has adopted the broad banding system specifically to facilitate the implementation of a flat organizational structure. The system is flexible so as to be able to adapt to the evolution of market conditions. The broad banding structure allows sufficient flexibility to effectively reward high professional insight and performance as well as individual potential in both generalist and specialist employees.

The Bank will establish a compensation practice based on relevant external compensation levels as well as the requirement of internal fairness. It is the responsibility of each manager to propose, within the framework of Bank policy, the remuneration of his/her employees, taking into account the local market, individual performance, skills and potential for development.

It is also the responsibility of each manager, if needed, with the support of the Human Resources function, to communicate properly, clearly and with sufficient transparency, the individual remuneration of each staff member regarding his/her specific responsibilities. The quality of communication in these matters is an essential part of the dialogue that each manager will have with his/her employees. It should be realized that, however important remuneration is for each employee, it is not remuneration alone that will stimulate the motivation of staff.

TISCO group rewards employees in the following aspects:

### **7.1 Pay for roles and responsibilities**

All jobs in TISCO group are clearly identified by key roles and responsibilities and slotted into the broad banding system. Certain pay levels are determined for each job by market surveys and benchmarking. The jobholders will be rewarded within the pay range of their particular job and band.

Individual remuneration is considered from skills, knowledge, behavior, attitude and potential to contribute to the business. Development of competency level will be valued and rewarded. Line managers have a direct responsibility to assess team members for a fair reward.

## **7.2 Pay for performance**

Performance objectives and targets for each employee are preset and agreed at the beginning of the financial year. Employees who meet their target are entitled to earn rewards in the form of monetary bonuses or incentives of any form that the Bank will announce in the future.

Different types of businesses in TISCO group can have different combinations and methods of pay with senior management agreement and the CEO and COO approval in order to drive business success.

## **8. Human Resources Administration**

To be fully in compliance with labor laws and regulations, all HR practices related to labor laws are centralized at the Human Resources function so as to be handled properly. Any policies and/or HR practices that contradict national labor laws will be automatically superceded.

Employee data recording is centralized at the Human Resources function for overall and high-level workforce management. Transfers or changes in employee status at all business units across TISCO group are to be reported and processed according to the corporate HR guidelines and procedures.

## **9. Succession Planning**

To prepare the organization for the future, all key positions are required to develop successors and put development plans in place. Succession planning is overseen by the CEO and COO with support from the Human Resources function.

For senior management positions, the Executive Board, with authorized delegation from the Board of Directors, will form the committee to screen and assess successors with support from the CEO, COO and the Human Resources function.

### **9.7.3 Organizational Development**

TISCO Bank and its subsidiaries have placed great focus and support on learning organization, productivity improvement, internal branding and value enhancement. These have led the Bank to undertake many changes and pursue continuous development. In 2006, the Bank continued implementing development programs as follows:

#### **1. Knowledge Sharing Program**

Being the organization which always promote the knowledge enhancement and regular self-development, in 2006 the Knowledge Sharing Sessions have been organized to allow everyone to participate this sharing as Compulsory KPIs. The objective of these activities is to encourage everyone to share and learn from each other's stories, experiences, and perspectives in different forms e.g. knowledge and experience sharing, book briefing, training update, etc. The special sessions have been continuously arranged 4 sessions a month throughout the year and 900 employees who have participated in this constructive program.

#### **2. 7 Habits Briefing Program**

The Bank believes that true success encompasses a balance of personal and professional effectiveness. The organization has been fully supported remarkably in the self-development program called "The 7 Habits of Highly Effective People." The Bank organized intensive one day briefing sessions which introduces life-changing principles and values to recognize leadership characteristics and apply their principles to personal, professional and business success. It helps build stronger organizations by strengthening and exercising the character and competence of the individuals who comprise them.

The briefing sessions have been arranged for 1,200 staff in Bangkok office and branch channels in up country.

#### **3. Performance Improvement Program for Branch Channel**

The Bank continued to move on towards its strategic management through the Balanced Scorecard (BSC), Strategy Map, and **Key Performance Indicators (KPIs)** to be cascaded and executed to every business lines and each individual especially in all branch channels up country as to be moving towards the corporate direction.

Therefore, the Performance Improvement Workshop has been organized to facilitate each branch channel to develop a specific SWOT analysis and Performance Improvement Action Plans of each branch in aligning with Corporate directions and strategies. In additions, this workshop also leads and guides for the right behaviors set to strengthen corporate brand values perceptions within employees at all branch channels. This program involves 130 key persons from all 14 branch channels.

#### **4. Effective Development Program**

The Bank consistently supported the development of the organization effectiveness. The staff have been developed through a variety of skills development programs including Effective Business Presentation and Cross Selling Workshop especially designed for Retail Marketing and Front Lines Personnel, including Effective Meeting.

#### **5. Leadership Execution Capabilities Development Program**

In the direction of improving organization's focus and success in achieving our top goals, the Leadership and Execution Development Project has been initiated.

The Bank appointed the well-known and trustworthy expert in leadership and organizational development as the consultant on this project. The development process includes the survey of Bank's employee on capability of the organization to develop strategic plan for successfulness and 360 Degree Assessment. The result of such surveys will be used as the tool for Intensive Workshop for management committees and selected key function heads to enlighten their strength and skills for the organization.

#### **6. Internal Branding Enhancement Program (Brand Action: Internal Branding Workshop)**

The Bank consecutively arrange Branding Enhancement Program focusing on internal branding through the Brand Action: Internal Branding Workshop for all heads of key business units and key personnel.

The ultimate goal of this project is to start initiating and implementing the brand-based strategies in an attempt to achieve TISCO's brand based culture, especially 4 core values i.e. Customer Priority, Integrity, Reliability and Mastery. Moreover, Brand Action Plan also be implemented for each department which includes commencement date and due date. The first three Brand Action Plan will be identified as a Key Performance Indicators for such department to fully implement. Implementation progress will be followed up by the Organization Development function in order to maintain and develop for better result.

#### **7. Brand Values and Leadership Enhancement Program (Brand Values Camp)**

The bank has always embedded the corporate values, Brand Values, and Leadership into staff at all levels, the Brand Values and Leadership Enhancement Program is one of key activities in the direction toward this target. Also this year, the offsite learning activities has been sustained to transfer our TISCO Brand Values, Leadership concept based on the 7 Habits of highly effective people, as well as Strategic Planning Approach.

Participants have learned these knowledge and skills through a wide range of indoor and outdoor activities including group discussions, and especially designed simulations, which lead them to become skilled during the process of "Learning by doing." The Brand Values Camp has been arranged for 11 groups which 50 people per each totally 550 people participated within this year.

#### **8. Self-Development through Sharpen the Saws Corner and Organization Development Homepage**

The Bank constantly encourage our staff to value self development and continuous leaning at all the times. We provide many possible channels for them to easily access to any significant knowledge and information. First of all, Sharpen The Saws Corner is a public library or learning center where employees can see and borrow various kinds of books any time at their interest.

In addition, OD Homepage is another self learning intranet channel which contains a variety of columns on page as 7 Habits of Highly Effective People, Corporate Values, Brand values, and Strategy Alignment for example. TISCO staff can search and explore many interesting topics, articles, and any updated information about organization development activities by just logging on to our homepage at their desktops.

### **9.7.4 Human Resources Development**

In 2006, TISCO Bank concentrated on expanding customer base, productivity improvement and process improvement based on Customer Centric approach. Training and development activities therefore aligned with corporate goals and direction. Policy and objectives were delivered through training and development programs as follows:

#### **1. Basic Training Courses and Specific Knowledge and Skills Training**

In 2006, TISCO Bank provides basic training courses for existing staffs and new staffs to align their knowledge and understanding that required by their functions. This also enhanced their knowledge, abilities and diversified their creativity. Staffs will be knowledgeable and able to assess and adapt learning to the future situation with sound rationale. Human Resources Development function organized the basic training through 3 channels, i.e. Class room training, Satellite Training and E-Learning.

For the Specific Knowledge and Skills Training, during the year business units planned to develop their staffs according to specific requirement. HRD satisfied their needs by specifically organizing these training courses and sending selecting staffs to attend external courses for example Basel II, Risk Management ,E-Banking and Payment System, Portfolio Management and Performance Measurement. The internal training included Personality Development for Bank Teller, Personality Development for Marketing Staff, Passport Verifying, Know Your Customer and Team Building activities.

## **2. 2006 Strategic Policy Training**

Human resources development policy in 2006 required all staffs to attend 2 required training courses before launching Cross Selling and Suggestion System. The Cross Selling training program provided participants about TISCO's product knowledge , basic selling skills, manual usage and cross selling process. For the Suggestion System workshop, staffs would learn about suggestion system and how to write the effective suggestion.

## **3. Talent Management**

This year TISCO Group required all heads closely motivate their talent staffs with regard to the changing of the existing generation both work and interest. To support heads effectively manage their talents Human Resources Development function organized Talent Management training for all heads. Therefore, heads be able to identify their talents and arrange development plan for them.

## **4. Executive Trainee**

In 2006 TISCO Group continuously implemented Executive Trainee Development Program with regard to importance of high potential development. The participants of this program were selected from staffs who graduated master degree with high potential and also the experienced TISCO staffs with leadership. Executive trainees have learned all business strategies and key success factors, good governance including experiences shared from expertise of each business who are heads in TISCO Group and also some external resources. This program encourage staffs to initiate, analyze, be knowledgeable in doing business and also groom them to be "TISCO Officer" and ready to be TISCO executives in the future.

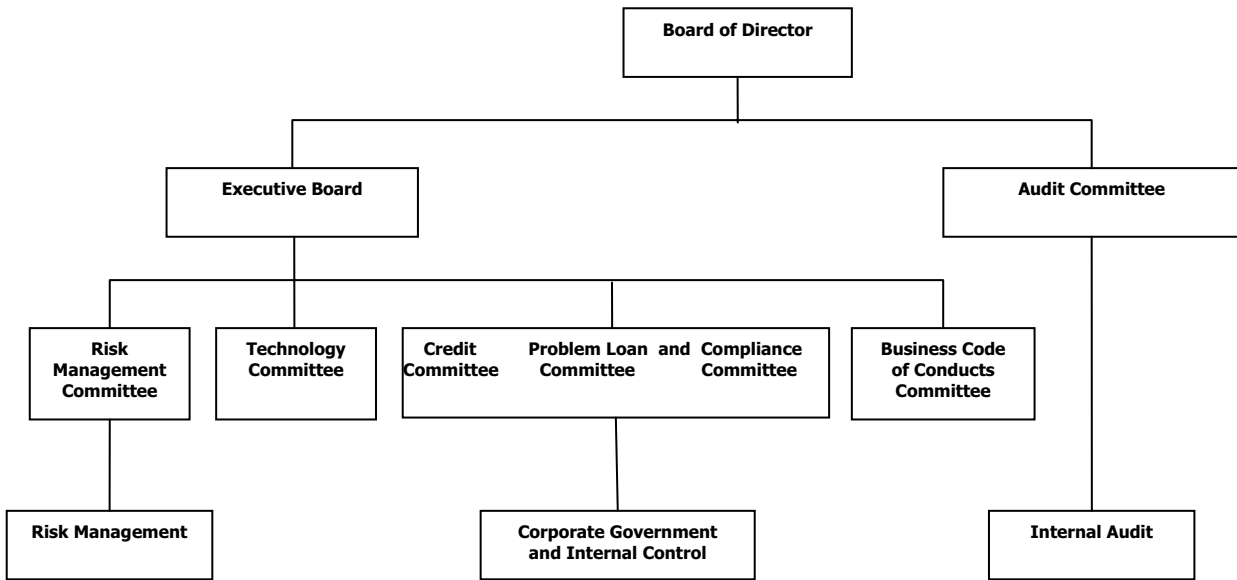
**10. Internal Control**

**10.1 Internal Control Overview**

The importance of an internal control system has always been a key focus of the Bank and its subsidiaries. Special emphasis is placed on the adequacy and appropriateness of the internal control system on all business operations, with the ability to protect the Bank and its subsidiaries’ assets from any damage or misconduct on the part of employees or management. Meanwhile, recommendations on internal controls from the independent external auditor and the BoT’s auditor are seriously taken into consideration.

For all business operations, clear goals and operating guidelines have been set up in a measurable way to ensure operational efficiency. The Bank also sets up training programs to increase staff knowledge and skills at many levels in order to improve efficiency and reduce operational errors. In addition, an operating compliance manual and an IT user manual have been put into place to create thorough understanding and compliance to the rules and regulations of the Bank.

The Board of Directors oversees all of the internal control system through the Executive Board and the Audit Committee, with the following organizational structure:



1. The Executive Board oversees all the internal control systems of the Bank through delegated sub-committees, namely: the Risk Management Committee, the Credit Committee, the Problem Loan Committee, the Compliance Committee, the Business Code of Conducts Committee, and the Technology Committee. Effective policies and guidelines for internal controls and risk management have been set up with clearly-defined roles and responsibilities and are documented in writing.

- The Risk Management Committee is responsible for setting up effective risk management policies, guidelines and limits. The committee regularly reviews risk positions of the Bank and its subsidiaries to ensure comprehensive and timely risk monitoring and control. The Risk Management function supports the committee in assessing and monitoring bank risks at the portfolio level, under the guidelines and limits approved by the Risk Management Committee. It regularly reports on risk positions to the Risk Management Committee and relevant business lines, and performs risks analyses of new businesses for the Bank and its subsidiaries.
- The Credit Committee and Problem Loan Committee are responsible for setting up credit granting criteria and controlling loan approval procedures at the transaction level to ensure comprehensive monitoring and control of credit risk. The Credit Office supports the committees in assessing and controlling the credit approval process of each transaction. In addition, the Credit Review unit regularly reviews compliance to the credit approval guidelines and procedures.



- The Compliance Committee is responsible for reviewing internal control guidelines and processes, as well as following up and detecting issues and compliance related to internal controls, to ensure that operational risks are thoroughly addressed.
- The Business Code of Conduct Committee is responsible in developing corporate code of conducts and makes decision regarding ethical issues of employees.
- The Corporate Governance and Internal Control division, which is comprised of credit offices, internal controls, compliance and legal functions, is responsible for reviewing and monitoring the internal controls system at the transaction level and reporting to the Chief Governance Officer. The Chief Governance officer regularly reviews the internal controls system of all business operations, while ensuring good compliance with the internal guidelines and related laws and regulations.
- The Technology Committee is responsible for setting up an effective IT technology policy and prudent operating guidelines to ensure accuracy and security of information.

2. The Audit Committee independently reviews the assessment of the adequacy of the Bank's internal control system, as annually prepared by the Executive Board, in relation to the Bank's risks, and assesses that financial statement reports are transparent and accurate. The committee also reviews the policy and guidelines for internal audit to effectively assess that all business operations have adequate internal controls and are in compliance with laws and regulations.

The Internal Audit function is responsible for regular auditing of business operations in compliance with policies and guidelines, and reporting to the Audit Committee. Internal Audit also coordinates with management and relevant business units to improve the effectiveness of internal control systems.

#### **10.1.1 Audit Committee Report**

The Audit Committee held 11 meetings in Year 2006. Major issues considered by the Committee were as follows:

1. Reviewing quarterly, semi-annual and annual financial statements audited by the certified public accountant before recommending to the Board of Directors with emphasis on accuracy and completeness of information in the financial statements and the notes to financial statements by considering changes during the year based on Thai accounting standards and the Bank of Thailand's regulations and the adequacy of information disclosed in the financial statements and in the notes to financial statements.
2. Reviewing internal control system and internal audit works by considering the management letter issues and the results of assessment by the certified public accountant towards efficiency of the internal audit department, related company transactions and irregularity transactions, sharing views with internal auditors and the certified public accountant concerning obstacles and cooperation received from the Bank, and assessing the extent of independence of internal auditors and the certified public accountant.
3. Meeting with Head of Compliance in acknowledging an annual compliance report and non-compliance issues arising during the year and sharing views on preventive measures and compliance activities to assure that the Bank and its subsidiaries are on compliance with laws and regulations.
4. Selecting and nominating to the Board of Directors and general shareholders' meeting for endorsement a certified public accountant and determining their audit fee. The Committee proposed the appointment of Mr. Narong Puntawong of Ernst & Young Office Limited as the auditor of the Bank and its subsidiaries for Year 2006 by taking into account the credibility, independence, proven track record as well as experience of the auditor and personnel assigned to audit the Bank's accounts.
5. Reviewing the disclosure of information of the Bank and its subsidiaries in the case of connected transaction or transaction that may lead to conflict of interest, and reviewing the Bank's related party guideline covering three groups of related parties, namely connected persons, employees and subsidiaries & affiliates.
6. Meeting with management in updating and monitoring on the following compliance and risk management issues:
  - Bank preparation for Basel II,
  - Know Your Customer/ Customer Due Diligence procedures,
  - Consolidated supervision of banking group,
  - Anti-Money Laundering & Combating the Financing of Terrorism Policy, and
  - Bank preparation for changes in accounting standards, particularly loan loss provisioning and non-performing loan reporting.

7. Considering for acknowledgement the results of external assessment and proposing implementation for improvement on issues as raised by the Bank of Thailand, the Securities and Exchange Commission, Thailand and Thai Rating and Information Services Co., Ltd.
8. Reviewing and endorsing annual audit plan, strategy, key performance indicators of the internal audit department and result of self-assessment of internal audit quality assurance review program, acknowledging the results of audit and following-up on observations and recommendations made by the Audit Committee.
9. Developing an annual Audit Committee plan and conducting an annual review of the charter of Audit Committee and Audit Committee's self assessment for the Board of Directors' acknowledgement.

The Audit Committee have recognized the significance of good corporate governance and business ethics and believed that good corporate governance practices would facilitate the ability of shareholders to better govern the Bank and enhance both corporate accountability and the creation of wealth.

In Year 2006, the Audit Committee assessed their own effectiveness and the adequacy of their terms of reference, work plan, and forum of discussion and communication by comparing the Committee's activities to the charter of Audit Committee and leading practices.

The Audit Committee agreed with the certified public accountant that the Bank's financial statements and the disclosure of relevant information were adequate and fairly presented in accordance with generally accepted accounting principles. The Audit Committee opined that the Bank had an appropriate and efficient internal control system, and had properly followed all necessary rules and regulations imposed by the related regulators.

See the Report of the Audit Committee in Attachment 4.

## **10.2 Board of Directors' Report on Internal Control System**

At the Board of Directors' Meeting No. 2/2007 on February 27, 2007, where all Audit Committee members and independent directors were present, the Board assessed the Bank's internal control system, as prepared by the Executive Board and reviewed by the Audit Committee. The Board viewed that the Bank's internal control system is adequate based upon the assessment of five aspects: Organisational Control and Environmental Measures, Risk Management Measures, Management Control Activities, Information and Communication Measures, and Monitoring, including sufficient internal control system for transaction with major shareholders, management and related persons.

## **11. Related Party Transactions**

The Bank had no transactions between related parties.

### **11.1 Measures or procedures for approval of related party transactions**

All transactions between related parties shall be done on the same basis and conditions as applied to external parties. Information will be disclosed in a transparent manner to satisfy the Bank's Good Governance rules and all related regulations.

### **11.2 Future related transaction policy**

The Bank puts a strong emphasis on effective management under Good Governance, and therefore has no policy to encourage transactions between related parties. Should any such transactions occur, the conditions would be the same as in normal business transactions for the Bank and its subsidiaries.

## **12. Financial Status and Performance**

### **12.1 Financial Statements**

#### **12.1.1 Auditor's Report**

##### *The Consolidated Financial Statements of the Bank and its Subsidiaries for the Year Ended December 31, 2004 and 2005*

The independent auditor for the Bank's financial statements and the Bank's and its subsidiaries' consolidated financial statements for the year ended December 31, 2004 and 2005 was Mr. Supachai Phanyawattano, Certified Public Accountant (Thailand) No. 3930, of Ernst & Young Office Limited. The conclusion of his report can be described as follows:

Based on the independent auditor's audit, the financial statements presented fairly, in all material respects, the financial position of the Bank and its subsidiaries, the results of the operations, and cash flows in accordance with generally accepted accounting principles.

##### *The Consolidated Financial Statements of the Bank and its Subsidiaries for the Year Ended December 31, 2005 and 2006*

The independent auditor for the Bank's financial statements and the Bank's and its subsidiaries' consolidated financial statements for the year ended December 31, 2005 and 2006 was Mr. Narong Puntawong, Certified Public Accountant (Thailand) No. 3315, of Ernst & Young Office Limited. The conclusion of his report can be described as follows:

Based on the independent auditor's audit, the financial statements presented fairly, in all material respects, the financial position of the Bank and its subsidiaries, the results of the operations, and cash flows in accordance with generally accepted accounting principles.

Table Depicting the Consolidated Financial Statements of the Bank and its Subsidiaries

<b>TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES</b>			
<b>BALANCE SHEETS</b>			
<b>AS AT DECEMBER 31</b>			
	<b>Unit: Baht</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>ASSETS</b>			
CASH	3,765,946	203,952,651	210,224,762
INTERBANK AND MONEY MARKET ITEMS			
Domestic			
Interest bearing	1,110,260,592	338,991,696	201,922,475
Non-interest bearing	409,049,166	618,458,009	502,547,476
Foreign items			
Interest bearing	-	547,963,075	187,328,700
Non-interest bearing	-	-	132,436,705
<b>Total Interbank and money market items – net</b>	<b>1,519,309,758</b>	<b>1,505,412,780</b>	<b>1,024,235,356</b>
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	2,105,000,000	2,000,000,000	1,718,000,000
INVESTMENT IN SECURITIES			
Current investment – net	647,498,882	826,593,131	774,660,668
Long-term investment – net	4,564,668,591	4,378,779,842	3,618,540,549
<b>Net investments</b>	<b>5,212,167,473</b>	<b>5,205,372,973</b>	<b>4,393,201,217</b>
TRADING TRANSACTIONS WITH SECURITIES COMPANIES	159,025,845	61,191,433	256,710,155
LOANS, RECEIVABLE AND ACCRUED INTEREST RECEIVABLE			
Loans and receivable	55,759,842,707	63,948,411,845	74,641,231,101
Securities business receivable	1,224,893,843	1,275,269,335	667,250,225
Total loans and receivable	56,984,736,550	65,223,681,180	75,308,481,326
Accrued interest receivable	117,390,139	113,987,295	143,399,168
Total loans, receivable and accrued interest receivable	57,102,126,689	65,337,668,475	75,451,880,494
Less : Allowance for doubtful accounts	( 3,928,871,936)	( 3,181,001,341)	( 2,771,223,476)
Less : Allowance for loss on debt restructuring	( 359,502,073)	( 303,731,217)	( 22,403,970)
<b>Net Loans, receivable and accrued interest receivable</b>	<b>52,813,752,680</b>	<b>61,852,935,917</b>	<b>72,658,253,048</b>
PROPERTY FORECLOSED – net	1,230,358,055	1,206,694,763	1,042,803,295
LAND, PREMISES AND EQUIPMENT – Net	1,440,706,920	1,559,496,070	1,602,800,147
DEFERRED TAX ASSETS	831,145,923	682,854,387	655,771,653
OTHER ASSETS	980,807,526	1,004,850,554	1,219,421,878
<b>TOTAL ASSETS</b>	<b>66,296,040,126</b>	<b>75,282,761,528</b>	<b>84,781,421,511</b>

**TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**BALANCE SHEETS (CONTINUED)**

**AS AT DECEMBER 31**

	<b>Unit: Baht</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
DEPOSITS IN BAHT	39,287,802,319	34,450,801,235	40,567,860,158
INTERBANK AND MONEY MARKET ITEMS			
Domestic – interest bearing	4,307,266,920	6,415,252,821	2,156,981,126
LIABILITY PAYABLE ON DEMAND	-	247,287,192	477,515,807
BORROWINGS			
Short-term borrowings	999,974,076	12,322,795,836	25,720,283,810
Long-term borrowings	5,986,309,395	5,167,743,812	361,700,000
<b>Total borrowings</b>	<b>6,986,283,471</b>	<b>17,490,539,648</b>	<b>26,081,983,810</b>
TRADING TRANSACTIONS WITH SECURITIES COMPANIES	130,994,931	566,490,815	365,137,963
SECURITIES BUSINESS PAYABLE	1,382,248,514	1,347,282,618	710,639,235
ACCRUED INTEREST PAYABLE	189,973,464	247,144,460	462,185,329
OTHER LIABILITIES	1,430,574,408	1,436,296,502	1,276,255,960
<b>TOTAL LIABILITIES</b>	<b>53,715,144,027</b>	<b>62,201,095,291</b>	<b>72,098,559,388</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital			
Registered	11,002,000,000	11,002,000,000	11,002,000,000
Issued and paid up			
185,127,630 preferred shares of Baht 10 each	1,841,234,800	1,809,476,300	1,851,276,300
541,277,120 ordinary shares of Baht 10 each	5,339,075,200	5,410,201,200	5,412,771,200
Share premium			
Share premium of preference shares	23,206,450	43,128,630	73,190,950
Share premium of ordinary shares	36,500,000	36,500,000	36,500,000
Revaluation surplus on changes in the value of investment	1,255,383,557	1,011,780,646	662,956,136
Translation adjustments	98,315,392	112,560,156	82,146,613
Retained earnings			
Appropriated – statutory reserve	254,600,000	344,800,000	422,100,000
Unappropriated	3,301,679,365	3,882,251,279	3,715,079,758
Equity attributable to Bank's shareholders	<b>12,149,994,764</b>	<b>12,650,698,211</b>	<b>12,256,020,957</b>
Minority interest - equity attributable to minority shareholders of subsidiaries	430,901,335	430,968,026	426,841,166
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>12,580,896,099</b>	<b>13,081,666,237</b>	<b>12,682,862,123</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>66,296,040,126</b>	<b>75,282,761,528</b>	<b>84,781,421,511</b>

## TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENT OF EARNINGS

## FOR THE YEARS ENDED 31 DECEMBER

	Unit: Baht		
	2004	2005	2006
INTEREST AND DIVIDEND INCOME			
Loans	701,054,382	589,703,186	943,334,215
Interbank and money market items	48,517,545	144,857,642	438,037,356
Hire purchase and financial lease income	2,957,022,258	3,544,059,627	4,068,351,456
Investments	206,767,640	288,778,023	255,587,949
<b>Total interest and dividend income</b>	<b>3,913,361,825</b>	<b>4,567,398,478</b>	<b>5,705,310,976</b>
INTEREST EXPENSES			
Deposit	726,170,275	1,049,806,386	2,344,239,878
Interbank and money market items	87,584,270	130,461,116	127,926,648
Short-term borrowings	28,994,867	70,391,099	295,086,990
Long-term borrowings	240,232,018	213,500,000	131,989,790
<b>Total interest expenses</b>	<b>1,082,981,430</b>	<b>1,464,158,601</b>	<b>2,899,243,306</b>
<b>Net interest and dividend income</b>	<b>2,830,380,395</b>	<b>3,103,239,877</b>	<b>2,806,067,670</b>
REVERSAL OF BAD DEBT AND DOUBTFUL ACCOUNTS (BAD DEBT AND DOUBTFUL ACCOUNTS)	( 174,805,899)	186,221,513	221,845,281
<b>Net interest and dividend income after bad debt and doubtful accounts and loss on debt restructuring</b>	<b>2,655,574,496</b>	<b>3,289,461,390</b>	<b>3,027,912,951</b>
NON-INTEREST INCOME			
Brokerage fees	902,779,413	621,950,517	648,525,326
Gain on investments	567,097,140	334,062,523	455,375,963
Fees and service income			
Acceptances, aval and guarantees	3,109,239	2,250,197	6,620,546
Others	1,095,539,771	874,605,453	880,431,520
Gain on exchange	2,317,328	2,284,331	4,722,384
Other income	158,616,285	221,902,068	226,522,564
<b>Total non-interest income</b>	<b>2,729,459,176</b>	<b>2,057,055,089</b>	<b>2,222,198,303</b>
<b>Total Net Income</b>	<b>5,385,033,672</b>	<b>5,346,516,479</b>	<b>5,250,111,254</b>
NON-INTEREST EXPENSES			
Personnel expenses	1,259,001,411	1,205,427,967	1,216,248,371
Premises and equipment expenses	351,531,582	415,841,048	451,629,893
Taxes and duties	72,852,780	73,128,868	101,466,463
Fees and service expenses	537,808,292	588,622,501	728,456,160
Directors' remuneration	7,065,000	7,185,000	7,695,000
Other expenses	418,064,372	602,635,872	542,088,951
<b>Total non-interest expenses</b>	<b>2,646,323,437</b>	<b>2,892,841,256</b>	<b>3,047,584,838</b>
EARNINGS BEFORE INCOME TAX AND MINORITY INTEREST	2,738,710,235	2,453,675,223	2,202,526,416
CORPORATE INCOME TAX	( 478,925,856)	( 635,010,183)	( 633,420,167)
EARNINGS BEFORE MINORITY INTEREST	2,259,784,379	1,818,665,040	1,569,106,249
MINORITY INTEREST IN NET EARNINGS IN SUBSIDIARY COMPANIES	( 35,518,834)	( 27,815,796)	( 23,573,140)
<b>NET EARNINGS FOR THE YEAR</b>	<b>2,224,265,545</b>	<b>1,790,849,244</b>	<b>1,545,533,109</b>
<b>Diluted earnings per share</b>	<b>2.79</b>	<b>2.21</b>	<b>1.87</b>

**TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER**

	<b>Unit: Baht</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Cash flows from operating activities</b>			
Net earnings	2,224,265,545	1,790,849,244	1,545,533,109
Adjustments to reconcile net earnings to net cash provided			
by (used in) operating activities:-			
Minority interest in earnings of subsidiary company	35,518,834	27,815,796	23,573,140
Depreciation and amortisation	175,155,002	170,020,564	210,802,077
Bad debt and doubtful accounts			
(reversal of bad debt and doubtful accounts)	224,033,546	(94,434,943)	(75,717,421)
Unrealised loss (gain) on revaluation of investment	20,608,044	13,876,397	(5,797,556)
Allowance for impairment of property foreclosed			
(reversal)	1,276,794	(34,168,243)	(33,490,244)
Gain on disposal of investments	(592,393,555)	(347,938,920)	(449,578,736)
Gain on disposal of equipment	(3,331,989)	(8,792,526)	(8,225,985)
Loss from written-off equipment	-	-	116,573
Unrealised loss on valuation of securities held for			
trading	22,634,240	-	-
Loss on disposal of property foreclosed	72,407,364	187,406,361	100,516,073
Decrease in deferred tax assets	119,495,416	176,754,079	182,799,738
Decrease (increase) in accrued interest and dividend			
receivable	15,967,799	8,489,950	(29,956,606)
Decrease (increase) in other receivable	99,476,843	(3,484,609)	5,099,493
Increase (decrease) in accrued interest payable	(4,183,504)	57,170,996	215,040,869
Increase (decrease) in accrued expenses	(58,849,820)	24,822,687	8,761,107
Unrealised loss on exchange rate	-	-	3,819,200
Earnings from operating activities before changes in			
operating assets and liabilities	2,352,080,559	1,968,386,833	1,693,294,831
Decrease (increase) in operating assets			
Interbank and money market items	271,636,406	13,896,978	477,358,224
Securities purchased under resale agreements	(2,068,000,000)	105,000,000	282,000,000
Investment in securities – held for trading	475,806,861	-	-
Trading transactions with securities companies	571,166,451	97,834,412	(195,518,722)
Loans and receivable	(10,925,060,885)	(9,796,797,459)	(12,414,384,742)
Securities business loans and receivable	2,203,108,208	(51,472,569)	608,019,110
Property foreclosed	412,735,811	832,148,188	1,182,745,079
Other assets	696,138,408	(111,558,588)	(244,356,916)



**TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED 31 DECEMBER**

	<b>Unit: Baht</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Increase (decrease) in operating liabilities			
Deposits	6,214,017,476	(4,837,001,084)	6,117,058,923
Interbank and money market items	(30,262,581)	2,107,985,901	(4,258,271,695)
Liabilities payable on demand	-	247,287,192	230,228,615
Short-term borrowings	75,579,702	10,504,256,177	8,591,444,162
Trading transactions with securities companies	(733,592,520)	435,495,884	(201,352,852)
Securities business payable	(1,916,918,357)	(34,965,896)	(636,643,383)
Other liabilities	293,548,025	(26,727,205)	(182,695,978)
<b>Net cash flows from (used in) operating activities</b>	<b>(2,108,016,436)</b>	<b>1,453,768,764</b>	<b>1,048,924,656</b>
<b>Cash flows from investing activities</b>			
Cash paid for purchase of investment in securities held for investment	(6,519,090,161)	(9,970,851,702)	(1,434,251,692)
Cash received from disposal of investment in securities held for investment	9,392,491,569	10,011,616,371	2,209,231,397
Cash paid for purchase of property, plant and equipment	(144,448,145)	(237,502,454)	(208,584,734)
Cash received from disposal of equipment	12,201,795	17,448,612	10,038,337
Cash paid for purchase of a subsidiary	(42,000,000)	-	-
<b>Net cash flows from (used in) investing activities</b>	<b>2,699,155,058</b>	<b>(179,289,173)</b>	<b>576,433,308</b>
<b>Cash flows from financing activities</b>			
Cash received from long-term borrowings	32,109,395	-	-
Dividend paid	(697,534,780)	(1,147,827,330)	(1,663,104,630)
Cash received from exchange of warrants to purchase preference shares	78,509,910	59,289,680	74,432,320
<b>Net cash flows from (used in) financing activities</b>	<b>(586,915,475)</b>	<b>(1,088,537,650)</b>	<b>(1,588,672,310)</b>
<b>Translation adjustment</b>	<b>(4,085,363)</b>	<b>14,244,764</b>	<b>(30,413,543)</b>
Net increase in cash and cash equivalents	137,784	200,186,705	6,272,111
Cash and cash equivalents at beginning of the year	3,628,162	3,765,946	203,952,651
<b>Cash and cash equivalents at the end of the year</b>	<b>3,765,946</b>	<b>203,952,651</b>	<b>210,224,762</b>

### 12.1.2 Important Financial Ratios

		2004	2005	2006
<b>Profitability Ratio</b>				
Gross Profit Margin	(%)	72.6	66.2	49.9
Net Profit Margin	(%)	41.3	33.5	29.4
Return on Average Shareholders' Equity	(%)	19.1	14.0	12.0
Interest Income Ratio	(%)	6.9	6.7	7.5
Interest Expense Ratio	(%)	2.3	2.7	4.6
Interest Spread	(%)	4.7	4.0	2.9
Return on Investment	(%)	11.6	12.0	14.8
<b>Efficiency Ratio</b>				
Net Interest Income to Total Assets	(%)	4.5	4.4	3.5
Return on Average Assets	(%)	3.5	2.5	1.9
Total Asset Turnover	(times)	0.1	0.1	0.1
<b>Financial Ratio</b>				
Debt to Equity Ratio	(times)	4.3	4.8	5.7
Total Loans to Total Borrowing and Deposits	(%)	120.5	122.5	111.2
Total Loans to Public Borrowing	(%)	141.9	185.6	184.0
Public Borrowing to Total Liabilities	(%)	73.1	55.4	56.3
Dividend Payout Ratio	(%)	51.6	91.3	n.a.
<b>Asset Quality Ratio</b>				
Allowance for Doubtful Account to Total Loans and accrued interest receivable	(%)	7.5	5.3	3.7
Bad Debt and Doubtful Account to Total Loans and accrued interest receivable	(%)	0.9	1.0	0.8
Non-accrued loans <sup>1</sup> to Total loans	(%)	5.8	4.1	3.5
Loan loss provision to Non-performing loans	(%)	129.8	119.6	81.0
Accrued Interest Receivable to Total Loans	(%)	0.2	0.2	0.2
<b>Other Ratios</b>				
Securities Business Receivables to Finance Business Loans and Receivables	(times)	0.02	0.02	0.01
Capital funds to Risk Weighted Asset (BIS)	(%)	15.7	15.9	13.4
Net Capital Rule (TISCO Securities)	(%)	56.5	103.0	181.2

<sup>1</sup> according to the Bank of Thailand's definition

## 12.2 Explanation and Analysis of Financial Status and Performance

### Movement of Money Market and Capital Market in 2006

In 2006, as a result of ongoing inflationary pressure, Bank of Thailand (BoT) consecutively raised its policy rate (Repo 14-days) from 4.00% at the end of 2005 to 5.00% at the end of the second quarter of 2006 and decided to sustain this rate through the second half of 2006. Consequently, the Weighted-Average Interest Rate on Deposit of Thai Commercial Banks also jumped from 1.55% in the fourth quarter of 2005 to 2.87% in the last quarter of 2006.

Meanwhile, the stock market was impacted from political turmoil, the SET index closed at 679.84 points, decreased 33.89 points from the end of 2005 mainly resulted by the Bank of Thailand's announcement, "the implementation of reserve requirement on short-term capital", at the end of the year. The average daily turnover of 2006 was decreased by 173.13 million Baht to 16,280.91 million Baht.

**The Management Discussion and Analysis compares operating performance and financial position of the year 2006 with those of the year 2005.**

### 12.2.1 Operating Results for the Year 2006

In 2006, interest income significantly increased by 24.9% mainly from continuous growth in core businesses especially hire-purchase business together with improvement in yield. However, intense competition among commercial banks and rising deposit rates resulted in higher cost of fund. In effect, net interest income declined by 9.6%. Meanwhile, non-interest income increased by 8.0% mainly from growth in core businesses including hire purchase, asset management, and securities brokerage, in spite of deterioration in capital markets. Net income before operating expense and corporate income tax stood at the previous year level. However, operating expense and corporate income tax increased in line with business growth and additional expense from commercial bank upgrade. As a result, net profit declined by 245.32 million Baht or 13.7%, ending at 1,545.53 million Baht.

Diluted earnings per share in 2006 was 1.87 Baht, decreased from 2.21 Baht in 2005. The average return on equity (ROAE) for 2006 was 12.0% compared with 14.0% at the end of 2005.

#### (1) Consolidated Revenue Structure

The Bank and its subsidiaries' consolidated revenue structure in 2006 and 2005 is illustrated in Table1.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	2005		2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Interest and dividend income					
Loans	589.70	11.4	943.33	18.8	60.0
Interbank and money market items	144.86	2.8	438.04	8.7	202.4
Hire purchase and financial lease	3,544.06	68.7	4,068.35	80.9	14.8
Investments	288.78	5.6	255.59	5.1	(11.5)
<b>Total interest and dividend income</b>	<b>4,567.40</b>	<b>88.5</b>	<b>5,705.31</b>	<b>113.5</b>	<b>24.9</b>
Interest expenses	(1,464.16)	(28.4)	(2,899.24)	(57.7)	98.0
<b>Net interest and dividend income</b>	<b>3,103.24</b>	<b>60.1</b>	<b>2,806.07</b>	<b>55.8</b>	<b>(9.6)</b>
Non-interest income					
Brokerage Fees	621.95	12.1	648.53	12.9	4.3
Gain on securities	334.06	6.5	455.38	9.1	36.3
Fees and services income	876.86	17.0	891.77	17.7	1.7
Others	224.19	4.3	226.52	4.5	1.0
<b>Total non-interest income</b>	<b>2,057.06</b>	<b>39.9</b>	<b>2,222.20</b>	<b>44.2</b>	<b>8.0</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>5,160.30</b>	<b>100.0</b>	<b>5,028.27</b>	<b>100.0</b>	<b>(2.6)</b>
Bad debt and doubtful accounts	(290.85)		(377.45)		29.8
Bad debt written back revenue	477.07		599.30		25.6
<b>Total income – net of bad debts and doubtful accounts</b>	<b>5,346.52</b>		<b>5,250.11</b>		<b>(1.8)</b>
Non-interest expenses	(2,892.84)		(3,047.58)		5.3
<b>Profit before income tax and minority interest</b>	<b>2,453.68</b>		<b>2,202.53</b>		<b>(10.2)</b>
Corporate income tax	(635.01)		(633.42)		(0.3)
Minority interest in net earnings in subsidiary company	(27.82)		(23.57)		(15.3)
<b>Net Profit</b>	<b>1,790.85</b>		<b>1,545.53</b>		<b>(13.7)</b>

## (2) Net Interest and Dividend Income

Interest income in 2006 was 5,705.31 million Baht, increased by 1,137.91 million Baht (24.9%YoY), mainly due to the expansion of both hire purchase business and commercial lending with improvement in loan yield. However, the increase in interest income was slower than the increase in interest expense and dividend, which increased by 1,435.08 million Baht (98.0%YoY) mainly driven by the expansion of deposits base to support future business growth. Additionally, the increase in deposit rate arising from intense competition among commercial banks resulted in net interest and dividend income decreased by 297.17 million Baht (9.6%YoY).

Loan spread was improved during the second half of the year after the cost of fund reached its peak in July. In 2006, loan yield increased from 6.9% in 2005 to 7.3% while the cost of fund increased at a faster pace than loan spread resulting in the decline in loan spread ending at 3.0% in 2006. However, net interest margin (NIM) remained stable at 3.3% from the second quarter throughout the remaining of the year.

**Table 2: Interest spread**

%	2005	2006
Yield on Loans	6.9	7.3
Cost of fund	2.7	4.3
<b>Loan spread</b>	<b>4.2</b>	<b>3.0</b>

## (3) Non-interest Income

Non-interest income for 2006 was 2,222.20 million Baht, increased by 165.14 million Baht (8.0%YoY), mainly contributed by:

- Brokerage fee income was 648.53 million Baht, slightly increased by 26.57 million Baht (4.3%YoY) due to higher trading volume from foreign sector mainly contributed by successful business agreement between TISCO Securities Co., Ltd. and Deutsche Bank.
- Fee and service income ended at 887.05 million Baht; increased by 10.19 million Baht (1.2% YoY) mainly contributed by the growing volume of banking transactions, Bancassurance, and Cash Management business.
- Gain from investment was 455.38 million Baht, increased by 121.31 million Baht (36.3%YoY) mainly from the sale of investment during the first quarter.
- Other income was 226.52 million Baht; up by 4.62 million Baht (2.1%YoY), mainly from sale of property foreclosed and assets from debt restructuring.

## (4) Non-interest Expenses

Non-interest expenses for 2006 were 3,047.58 million Baht, increased by 154.74 million Baht, (5.3%YoY). The key elements were:

- Personnel Expense amounted to 1,216.25 million Baht, slightly increased of 10.82 million Baht (0.9%).
- Fee and services expense was 728.46 million Baht; increased by 139.83 million Baht (23.8% YoY) in line with strong growth in loan portfolio.
- Tax and duties, as a result of the rise of interest income, rose by 28.34 million Baht (38.8%YoY) to 101.47 million Baht.
- Premises and equipment expenses was 451.63 million Baht, increased by 35.79 million Baht (8.6%YoY) mainly from the investment in system infrastructure in supporting increased business volume.

## (5) Bad Debt and Doubtful Accounts

In 2006, the Bank and its subsidiaries recorded bad debt written back revenue amounting 599.30 million Baht, resulting in net bad debts and doubtful accounts of 221.85 million Baht.

## (6) Corporate Income Tax

In 2006, the corporate income tax was 633.42 million Baht, equivalent to the effective tax rate of 28.8% (25.9% in 2005), decreased from 2005 by 1.59 million Baht or down by 0.3%.

## 12.2.2 Financial Position

### (1) Assets

The Bank and its subsidiaries' total assets as of December 31, 2006 were 84,781.42 million Baht, increased by 9,498.66 million Baht (12.6% YoY). The increase was mainly resulted from strong loan growth in both retail and commercial sectors. Investment was 4,393.20 million Baht, declined by 812.17 million Baht (15.6% YoY), mainly due to sales of securities during favorable market condition.

**Table 3: Assets Breakdown**

Assets	December 31, 2005		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	203.95	0.3	210.22	0.2	3.1
Interbank and Money Market Items	1,505.41	2.0	1,024.24	1.2	(32.0)
Securities purchased under resale agreements	2,000.00	2.6	1,718.00	2.0	(14.1)
Fixed income	1,178.22	1.6	1,078.49	1.3	(8.5)
Equity	4,027.15	5.4	3,314.71	3.9	(17.7)
Corporate Loans	12,704.69	16.9	14,573.64	17.2	14.7
Retail Loans	47,248.89	62.8	56,249.53	66.3	19.0
Other Loans	3,994.84	5.3	3,818.06	4.5	(4.4)
Allowance	(3,484.73)	(4.6)	(2,793.63)	(3.3)	(19.8)
Other Assets	5,904.34	7.7	5,588.16	6.7	(5.4)
<b>Total – The Bank and Subsidiaries</b>	<b>75,282.76</b>	<b>100.0</b>	<b>84,781.42</b>	<b>100.0</b>	<b>12.6</b>

### (a) Investments

At the end of 2006, total investment in securities totaled 4,393.20 million Baht, declined 15.6% from the end of 2005. Investment in equity decreased by 21.7% to 3,314.71 million Baht, due to gain on sales of equity securities. The investment in fixed income decreased 8.5% to 1,078.49 million Baht owing to an increase of investment in debt instruments.

### (b) Loans and Receivables Breakdown

Total loans and receivables as of December 31, 2006 were 74,641.23 million Baht, an increase of 16.7% YoY. From this, retail lending was accounted to 75.4%, while commercial lending and other loans were 19.5% and 5.1% of loan portfolio. In addition, loans and receivables breakdown is displayed in the following table.

**Table 4: Loans and Receivables Breakdown**

Type of Business	December 31, 2005		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	6,779.39	10.6	7,329.45	9.8	8.1
Real estate and construction	4,148.82	6.5	4,808.79	6.4	15.9
Public utilities and services	1,655.62	2.6	2,337.48	3.1	41.2
Agriculture and mining	120.86	0.2	97.91	0.1	(19.0)
<b>Commercial Lending</b>	<b>12,704.69</b>	<b>19.9</b>	<b>14,573.64</b>	<b>19.5</b>	<b>14.7</b>
Hire purchase	45,074.07	70.5	54,244.65	72.7	20.3
Housing	2,174.82	3.4	2,004.88	2.7	(7.8)
<b>Retail Lending</b>	<b>47,248.89</b>	<b>73.9</b>	<b>56,249.53</b>	<b>75.4</b>	<b>19.0</b>
<b>Others</b>	<b>3,994.84</b>	<b>6.2</b>	<b>3,818.06</b>	<b>5.1</b>	<b>(4.4)</b>
<b>Total – The Bank and Subsidiaries</b>	<b>63,948.41</b>	<b>100.0</b>	<b>74,641.23</b>	<b>100.0</b>	<b>16.7</b>

Loans categorized by contractual maturity periods was mentioned in Note to financial statement 3.6.2

### (c) Non-performing Loans

As of December 31, 2006, non-performing loans (NPLs) to total loans ratio was 4.6% slightly increased from 4.5% at the end of previous year. NPLs of the Bank and its subsidiaries were 3,449.27 million Baht (contained Bank's NPLs of 2,945.55 million Baht and subsidiaries' NPLs of 503.72 million Baht), increased by 536.36 million bath (18.4%YoY). An increase was mainly due to the

expansion of NPL on Commercial lending which accounted to 8.6% of the loan granted, while NPL of Retail loan was dropped to 2.2% from 2.5% in 2005.

**Table 5: NPLs Breakdown by Area**

Type of Business	December 31, 2005			December 31, 2006		
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%
Manufacturing and commerce	5.6	379.22	13.0	5.8	423.46	12.3
Real estate and construction	14.5	601.38	20.6	16.9	813.06	23.6
Public utilities and services	0.8	14.04	0.5	0.5	12.62	0.3
Agriculture and mining	1.3	1.53	0.1	0.9	0.86	0.0
<b>Commercial Lending</b>	<b>7.8</b>	<b>996.17</b>	<b>34.2</b>	<b>8.6</b>	<b>1,250.00</b>	<b>36.3</b>
Hire purchase	1.9	874.51	30.0	1.8	997.96	28.9
Housing	14.4	313.49	10.8	13.1	263.31	7.6
<b>Retail Lending</b>	<b>2.5</b>	<b>1,188.01</b>	<b>40.8</b>	<b>2.2</b>	<b>1,261.27</b>	<b>36.5</b>
<b>Others</b>	<b>13.8</b>	<b>728.73</b>	<b>25.0</b>	<b>20.9</b>	<b>938.01</b>	<b>27.2</b>
<b>Total – The Bank and Subsidiaries</b>	<b>4.5</b>	<b>2,912.91</b>	<b>100.0</b>	<b>4.6</b>	<b>3,449.27</b>	<b>100.0</b>

**(d) Allowance for Doubtful Accounts and Losses on Debt Restructuring**

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,793.63 million Baht, and the ratio of the allowance to NPLs was 81.0%. The Bank's allowance was 2,485.81 million Baht, consisting of specific reserve of 2,392.82 million Baht and general reserve of 92.99 million Baht. The Bank's allowance was greater than the minimum requirement of the Bank of Thailand, which was 2,141.99 million Baht. This followed a conservative provisioning policy aimed to protect the Bank from potential risks to its operations. Moreover, the Bank of Thailand's announcement according to new accounting standard (IAS39) in year 2006 has no adverse effect to the Bank and its subsidiaries' provision setting.

**(e) Foreclosed Properties**

Net foreclosed property as of December 31, 2006 decreased 13.6%, a change from 1,206.69 million Baht to 1,042.80 million Baht as a result of the disposal of the properties.

**(2) Liabilities**

Total liabilities as of December 31, 2006 were 72,098.56 million Baht, increased by 9,897.46 million Baht (15.9% YoY) mainly driven by an increase in deposit and short-term borrowings to support strong expansion in loan portfolio. In addition, 5-year long-term debenture amounting 4,800 million Baht, maturing in 2007, was reclassified to short-term borrowing.

**Table 6: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2005		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	46,773.60	75.2	66,288.14	91.9	41.7
Interbank and money market items	6,415.25	10.3	2,156.98	3.0	(66.4)
Long-term borrowings	5,167.74	8.3	361.70	0.5	(93.0)
Others	3,844.51	6.2	3,291.74	4.6	(14.4)
<b>Total – The Bank and Subsidiaries</b>	<b>62,201.10</b>	<b>100.0</b>	<b>72,098.56</b>	<b>100.0</b>	<b>15.9</b>

**(3) Shareholders' Equity**

Shareholder's equity and unappropriated retained earnings as of December 31, 2006 were 12,682.86 million Baht and 3,715.08 million Baht, respectively. The decline was mainly resulted from large dividend payment during the second quarter. Book value per share (BVPS) as of December 31, 2006, was 17.46 Baht, decreased from 18.12 Baht as of December 31, 2005.

**(4) Commitments and contingent liabilities**

The Bank's commitments and contingent liabilities included Avals, Guarantees of loans, and other obligations in 2006 and 2005 amounted to 6,194.32 million Baht and 5,646.32 million Baht, respectively. An increase was mainly contributed from the expansion of other guarantees. The detail of commitments and contingent liabilities was demonstrated in Note to financial statement 3.29.

### 12.2.3 Business Segment Performances

#### (1) Banking Business

##### Loans

Total consolidated loans and receivables were 74,641.23 million Baht, up by 10,692.82 million Baht (16.7% YoY), mainly contributed by the resumption of aggressive growth in hire purchase business since the second quarter, following significant improvement in loan yield and temporary slowdown strategy during the first quarter of 2006.

The composition of loan portfolio was 19.5% of corporate loans, 75.4% of retail loans, and 5.1% of other loans.

**Corporate lending** portfolio of the Bank and its subsidiaries totaled 14,573.64 million Baht, up by 1,868.95 million Baht (14.7% YoY), mainly due to an increase in loans to public utilities and services, real estate and construction industry, and manufacturing and commerce.

**Retail lending** portfolio consisted of 96.4% car, motorcycle, and other hire purchase and 3.6% mortgage loans. The outstanding hire purchase loans equaled 54,244.65 million Baht, rose by 9,170.58 million Baht (20.3% YoY). Car new business extended in year 2006 amounted 30,437.28 million Baht, increased by 4,230.82 million Baht (16.1% YoY). The domestic new car sales during 2006 reported at 682,693 units lower from 703,261 units in 2005, resulting in higher penetration rate from 7.0% to 9.1%.

##### Deposit and Short-Term Borrowings

Total deposit and short-term borrowings totaled 66,288.14 million Baht, increased by 19,514.54 million Baht (41.7% YoY). The portion of saving accounts and current accounts contributed to 4.3% of total deposits and short-term borrowings, increased from 3.0% in December 31, 2005. The expansion of the saving accounts and current accounts was resulted from the Bank's success in launching of special-rate saving accounts and current accounts since 2005. In addition, the Bank successfully joined ATM Pool in November 2006, enabling clients to withdraw cash at any ATM terminal nationwide.

**Table 7: Deposits Structure**

Type of Deposits	December 31, 2005		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	1,133.34	2.4	1,389.98	2.1	22.6
Saving accounts	260.47	0.6	1,464.16	2.2	462.1
Fixed accounts	19,042.26	40.7	32,194.22	48.6	69.1
Negotiate certificate deposit	686.90	1.5	547.10	0.8	(20.4)
Promissory notes and Bill of exchange	13,327.83	28.5	4,972.40	7.5	(62.7)
<b>Total deposits</b>	<b>34,450.80</b>	<b>73.7</b>	<b>40,567.86</b>	<b>61.2</b>	<b>17.8</b>
<b>Short-term borrowings</b>	<b>12,322.80</b>	<b>26.3</b>	<b>25,720.28</b>	<b>38.8</b>	<b>108.7</b>
<b>Total</b>	<b>46,773.60</b>	<b>100.0</b>	<b>66,288.14</b>	<b>100.0</b>	<b>41.7</b>

The loans to deposits and short-term borrowings ratio decreased from 136.7% in 2005 to 112.6%. The decrease was resulted from an increase in funding activities in supporting strong loan growth.

#### (2) Securities Business

At the end of year 2006, the SET index ended at 679.84 points, decreased from 713.73 points at the end of previous year, with average daily turnover of 16,280.91 million Baht, compared to 16,454.04 million Baht in year 2005. This sluggish stock market condition was mainly affected by political uncertainty and the BoT implementation of reserve requirement on short-term capital.

The daily average turnover of TISCO Securities totaled 1,052.87 million Baht, increased from 981.65 million Baht in previous year resulting in an increase of brokerage fee to 648.53 million Baht, up by 26.57 million Baht (4.3% YoY). TISCO Securities' average market share for 2006 was 3.2%, improved from 3.0% in the previous year. In 2006 TISCO Brokerage business served 36.5% of foreign institutional customers, 23.3% of domestic institution customers, and 40.2% of retail customers.

#### (3) Asset Management Business

The total asset under management of TISCO Asset Management was 84,736.77 million Baht, increased by 2,606.83 million Baht (3.2% YoY). The composition of total asset under management is 62.6% of provident fund, 28.8% of private fund, and 8.6% of mutual fund. In the third quarter of year 2006, TISCO Asset Management was re-appointed by the Government Pension Fund to manage both equity and fixed-income with total fund size of 9,355.00 million Baht.

The fee from asset management totaled 293.21 million Baht, increased by 27.56 million Baht (10.4% YoY), owing to higher numbers of funds and customers.

Total market share of TISCO Asset Management Co., Ltd. as of December 31, 2006 was 5.4%, ranking 7<sup>th</sup> in the market. The market share of provident fund and private fund was 13.7% and 16.6%, ranking 2<sup>nd</sup> in the market for both fund types. For mutual fund, the market share was 0.7%, ranking 17<sup>th</sup> in the market.

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

Type of Fund	December 31, 2005		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	50,889.15	62.0	53,016.04	62.6	4.2
Private Fund	20,843.48	25.4	24,392.50	28.8	17.0
Mutual Fund	10,397.31	12.6	7,328.23	8.6	(29.5)
<b>Total</b>	<b>82,129.94</b>	<b>100.0</b>	<b>84,736.77</b>	<b>100.0</b>	<b>3.2</b>

#### 12.2.4 Liquidity

As of December 31, 2006, the Bank and its subsidiaries' cash was 210.22 million Baht, an increase of 6.27 million Baht. This was mainly comprised of 1,048.92 million Baht in net cash flows from operating activities. In addition, an increase from net cash flows from investing activities of 576.43 million Baht, mainly caused by cash received from sales of investment in securities held for investment. Nevertheless, there was net cash flows from used in financing activities of 1,588.67 million, contributed mainly by the Bank's dividend payment in May 2006.

#### 12.2.5 Sources and Uses of Funds

As the end of 2006, the funding structure as show in the consolidated financial statement comprised 72,098.56 million Baht in liabilities and 12,682.86 million Baht in shareholders' equity, resulting in a debt-to-equity ratio of 5.7. The major source of funds on liabilities side was deposits, which accounted for 56.3% of total. Other sources of funds included interbank and money market items and borrowing, accounted for 3.0% and 36.2% of total, respectively.

The Bank and its subsidiaries major use of funds was loans. As of December 31, 2006, loans amounted to 74,641.23 million Baht, resulting in a loan-to-deposit ratio of 184.0%. The other uses of funds include interbank and money market items, securities purchased under resale agreements, and investment in securities.

More details of deposits and loans appear in Part 2, Section 1 : Risk Factors, 1.3 Liquidity Risk.

#### 12.2.6 Capital Requirements

During the year 2006, the capital base declined by 3.0% to 12,682.86 million Baht, comparing with the estimated capital at risk that increased by 1.9% to 6,467.23 million Baht, due to normal business expansion during the year. Capital surplus remained high at 48.4% of total capital adjusted by excess loan loss reserve, reflecting a continuously strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained at 13.42%, with a tier-I capital ratio of 12.73%, higher than the minimum requirement of the Bank of Thailand at 8.5% and at 4.25% respectively. The net capital ratio (NCR) of TISCO Securities stood at 181.18% comparing with the minimum of 7.0% required by the SEC. Details of the capital adequacy ratio of the Bank are as follows:

**Table 9: Capital Adequacy Ratio**

Capital Adequacy Ratio	December 31, 2005	December 31, 2006
Tier-I Capital	14.25	12.73
Total Capital	15.85	13.42



**Table 10: 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	
	2005	2006	2005	2006
<b>Assets</b>	<b>1.23</b>	<b>1.30</b>	<b>250.69</b>	<b>279.82</b>
<b>Liabilities</b>	<b>0.48</b>	<b>0.40</b>	<b>(377.60)</b>	<b>(431.05)</b>
<b>Net Gap</b>	<b>0.75</b>	<b>0.90</b>	<b>(126.91)</b>	<b>(151.23)</b>

**12.2.7 Auditor's Fee****(1) Audit Fee**

The Bank and subsidiaries paid the audit fee for the year 2006 of 6,735,175 Baht to Ernst & Young Office Limited.

**(2) Non-audit Fee**

The Bank and TISCO Securities Hong Kong Ltd. paid non-audit fees in 2006 amounted to 265,062 Baht to Ernst & Young Office Limited. These fees were for special audit under the requirement of the Bank of Thailand and for taxation service.

**12.2.8 Credit Rating**

In 2006, TISCO Bank has been rated by 2 leading credit rating agencies.

**(1) TRIS Rating Co., Ltd.**

On December 27, 2006, TRIS Rating has affirmed the company rating of TISCO Bank and the ratings of all TISCO's senior debentures at "A" with a "stable" outlook.

The ratings reflect TISCO's capable management team, its good risk management system, good asset quality, its strong market position in the hire purchase business, and its diversification into fee-based income businesses. The ratings take into account TISCO's benefits as a commercial bank which will provide the bank with higher financial liquidity and flexibility. Details of credit ratings by TRIS Rating are shown in the following table.

Credit Rating	December 9, 2005 <sup>/1</sup>	December 27, 2006 <sup>/2</sup>
Company Rating Issue Ratings (Senior debentures ratings)	A	A
TSCO077A: Bt 2,000 million senior debentures due 2007	A	A
TSCO077B: Bt 1,000 million senior debentures due 2007	A	A
TSCO070A: Bt 1,800 million senior debentures due 2007	A	A
Rating outlook	Stable	Stable

<sup>/1</sup> TRIS Rating announced the credit ratings of TISCO Bank Public Company Limited on December 9, 2005.

<sup>/2</sup> TRIS Rating announced the credit ratings of TISCO Bank Public Company Limited on December 27, 2006.

**(2) Fitch Ratings (Thailand) Ltd.**

On March 20, 2007, Fitch Ratings (Thailand) has affirmed TISCO Bank National ratings at Long-term 'A(thai)' with a Stable Outlook and National Short-term rating at 'F1(thai)'.

The ratings reflect TISCO's strong asset quality, capital and profitability, as well as, its conservative management track record. Details of Credit Rating by Fitch Ratings are shown in the following table.

Credit Rating (unsolicited rating)	July 17, 2006 <sup>/3</sup>	March 20, 2007 <sup>/4</sup>
Long - Term National Rating	A (tha)	A (tha)
Short - Term National Rating	F1 (tha)	F1 (tha)
Rating Outlook	Stable	Stable

<sup>/3</sup> Fitch Ratings (Thailand) Ltd. announced the credit ratings for TISCO Bank Public Company Limited on July 17, 2006.

<sup>/4</sup> Fitch Ratings (Thailand) Ltd. announced the credit ratings for TISCO Bank Public Company Limited on March 20, 2007.

## 13. Others

TISCO places great importance on its corporate commitment to social responsibility as one of the group's core values. Not only are the group's Corporate Social Responsibility ("CSR") projects and activities focused on the sustainable development of the nation's people, culture and environment, they are supported by the active participation of TISCO employees. Working groups for specific projects have been set up to maintain continuity in the activities and to evaluate whether the project's desired outcome has been attained.

### Hi-lights in 2006

#### 13.1 Social Supports

**The TISCO Foundation for Chariry.** As a demonstration of TISCO's long-term commitment to sustainable development, the "TISCO Foundation for Charity" was established in 1982 to work towards the long-term goal of improving society and the nation. Since then, TISCO's major social contributions have been made through the work of the TISCO Foundation, which has four primary charitable purposes as follows:

- 1) providing nationwide educational scholarships for needy students,
- 2) providing medical funding for destitute patients,
- 3) providing business start-up funds for underprivileged people to promote self- reliance, and
- 4) providing support for social and community activities.

The Chief Executive Officer and three senior management of the TISCO group, together with a panel of six experts, make up the TISCO Foundation's board of directors. The board is responsible for the Foundation's policy and direction, and also to ensure that its charitable efforts are carried out effectively. At the beginning of each academic year, the Foundation's board reviews and approves scholarship applications, and then allocates funds to those most in need. Moreover, twenty representatives of TISCO's staff voluntarily serve two-year terms, working closely with the Foundation's staff, in support the Foundation's action plans and activities. Their roles include helping to arrange the Foundation's annual scholarship presentation ceremony, participating in field trips to follow up on the educational progress of the Foundation's scholarship recipients, and promoting and helping to organize fund raising activities.

*Total funds donated by the TISCO Foundation (Unit: baht)*

<u>Year</u>	<u>Scholarships</u>	<u>Medical Funds</u>	<u>Start-up Funds</u>	<u>Total</u>
1982 - 2005	94,882,612	4,001,336	1,741,379	100,625,357
2006	12,987,000	23,350	57,140	13,067,490

The funds used in carrying out the charitable works of the TISCO Foundation come from interest earned on its capital fund. However, the amount of interest received alone is not sufficient for the Foundation to pursue its obligations. Therefore, each year major support comes from donations made by the TISCO group. In 2006, the group's total contribution to the Foundation amounted to 8,004,436 baht.

In 2006, the TISCO Foundation granted 4,950 scholarships, for a total of 12,987,000 baht, to needy students from 693 educational institutions throughout the country, ranging from primary school to the university level (60% of the scholarships are long-term). During the year, the Foundation's working team went on field trips to follow up on the educational progress of 496 scholarship recipients from 30 educational institutions in Lop Buri, Nakhon Ratchasima, Chiang Rai, Nan and Bangkok.

**Other Social Supports.** Besides the continuing activities performed by the TISCO Foundation, some other social projects supported by TISCO include:

***The Prince Doctor Fund under the Patronage of Her Royal Highness Princess Galayani Vadhana Krom Luang Nara-dhiwas Rajanagarindra.***

A contribution of 4,000,000 baht was made to the Prince Doctor Fund, which awards overseas scholarships to qualified instructors at Chiang Mai University's Faculty of Medicine. These doctors will share their knowledge and experience by assisting in the education of medical students and improving local healthcare.

***The Royal-Initiated 'Pak Panang River Basin Development Project.***

TISCO donated 600,000 baht to the Pak Panang River Basin Development Foundation to support the royal project, which promotes the well-being of rural people in Nakhon Srithammarat province.

***Thai Red Cross Society for Flood Victims Relief.***

TISCO donated 200,000 baht to the Thai Red Cross Society to aid flood victims. The funds will be used in restoration projects undertaken by the Red Cross aimed at helping flood victims recover from the disaster.

***Educational Equipment Donations.***

The group donated 104 used computers to needy schools in Bangkok and the provinces. The management and staff also hosted lunches and donated educational equipment to needy students at Wat Koh School in Bangkok, Nakhon Sawan Punyanukul School in Nakhon Sawan province, Baan Huay Tong School in Chiang Mai, and Wat Tah Manao School in Nakhon Ratchasima.

***Blood Donations.***

For the eighth consecutive year, TISCO organized quarterly blood donor campaigns in support of the Thai Red Cross at its headquarters. In 2006, a total of 560,950 cc of blood was donated by nearly 300 regular donors, most of whom are TISCO employees.

**13.2 Environmental Conservation**

***Reforestation Project.*** TISCO and its staff has embarked on numerous charity ventures focused on preserving the environment. The group organized its 19<sup>th</sup> annual reforestation trip with participation from management and 250 staff, mostly new recruits, to plant more than 3,000 young trees on a 10-rai plot of land at the Huai Sai Royal Development Center in Petchaburi Province. Since the reforestation project began in 1989, TISCO staff have planted more than 360,000 trees on 500 rai in Kanchanaburi and Petchaburi provinces.

**13.3 Support for the Arts and Culture**

***The Second-Edition of "His Majesty's Photographic Portfolio".*** To commemorate the auspicious occasion of the sixtieth anniversary celebrations of His Majesty the King's accession to the throne, TISCO has reproduced the book entitled, "His Majesty's Photographic Portfolio", which the company was granted royal permission to publish back in 1989. The portfolio of 180 photographs taken by His Majesty has always been hugely popular, widely used as a reference book, and has remained in print throughout the 16 years since its publication. This collection of photographs, which reflects the story of our country and the aspirations of its people, features the great Monarch with his warm family, who are the inspiration for millions of Thais. The second edition was produced as an electronic book (CD-ROM) with the purpose of making His Majesty's invaluable works more accessible to his loyal subjects. Twenty thousand copies were distributed for free to interested people, including educational institutions in Bangkok and the provinces at TISCO bank's branches throughout the country. The CD-ROM was warmly received by the public.

***Art in the Reign of King Rama IX : Six Decades of Thai Art.*** TISCO has been a continuous supporter of Thai contemporary art for over 30 years. In recent years, the group assisted the Rama IX Art Museum Foundation in promoting Thai art in cyberspace through online exhibitions. This year, to celebrate the 60<sup>th</sup> anniversary of His Majesty the King's accession to the throne, TISCO supported the Foundation's production of an electronic book featuring exhibits encompassing six decades of Thai art.

***Kathin.*** Holding kathin ceremonies, in support of religious traditions in rural areas, has long been an important annual activity for TISCO. Because the temple has for centuries been the center of village life, our contributions to these activities directly support local communities. Also, by working through our provincial branch network, we are better able to respond to specific needs. In October, 2006, the Group hosted kathin ceremonies at Wat Weruwan, Chiang Rai province, and Wat Thamanao, Nakhon Ratchasima province.

The Bank strives to do the job well in all our CSR projects and activities undertaken in parallel with our business operations. We take pride in what is accomplished each year. The Bank is committed and feel encouraged to continue working towards the goal of strong and vibrant communities in the years ahead.

## **Attachment 1**

### **Details of the Management and Controlling Persons**

**1.1 Details of the Management and Controlling Persons**

**Attachment 1**

Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) / <sup>1</sup>	Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years								
					Period	Position	Company / Organization	Type of Business					
<b>1. Dr. Phisit Pakkasem</b> Chairman of the Board and Independent Director	74	-	-	Ph.D. (Development Economics) University of Pittsburgh, USA MPA. (Development Economics) Harvard University, USA B.A. (Economics) Claremont Men's College, USA	2005-Present	<i>TISCO Group</i> Chairman of the Board Independent Director	TISCO Bank Public Co., Ltd.	Bank					
					2005-2007	Chairman of the Nomination Committee	TISCO Bank Public Co., Ltd.	Bank					
					2002-2005	Chairman of the Board Independent Director Chairman of the Audit Committee Chairman of the Nomination Committee	TISCO Finance Public Co., Ltd.	Finance					
					1998-2002	Chairman of the Board Independent Director Chairman of the Audit Committee	TISCO Finance Public Co., Ltd.	Finance					
					2003-present	<i>Others</i> Chairman of the Board	Thai Smart Card Co.,Ltd	Smart Card					
					1995-present	Executive Advisor	C.P.Group of Companies	Agro-Industries, Retails and Communications					
					1994-present	Director	Toyota Thailand Foundation	Foundation					
					1985-2006	Director	Thailand Development Research Institute Foundation (TDRI Foundation)	Foundation					
					2002-2005	Vice Chairman	Vinythai Public Co., Ltd.	Import, export and wholesale of petrochemical products					
					2001-2003	Chairman of the Board	Thai Sugar Millers Corporation Ltd.	Manufacture of Sugar					
					1999-2002	Chairman of the Board	Vinythai Public Co., Ltd.	Import, export and wholesale of petrochemical products					
					<b>2. Mr. Pliu Mangkornkanok</b> Director and Chairman of the Executive Board Chief Executive Officer (Authorized Signatory)	59	Common 70,600 Preferred 2,662,700	-	M.B.A. (Finance) University of California at Los Angeles, USA M.S. (Industrial Engineering) Stanford University, USA B.Eng. (Industrial Engineering) Chulalongkorn University Directors Certification Program Thai Institute of Directors Association Chairman 2000 Program Thai Institute of Directors Association	2005-present	<i>TISCO Group</i> Director Chairman of the Executive Board Chief Executive Officer	TISCO Bank Public Co., Ltd.	Bank
										2005-present	Director	TISCO Corporation Public Co., Ltd.	Investment
2005-2007	Secretary to the Nomination Committee	TISCO Bank Public Co., Ltd.	Bank										
2002-2005	Director Chairman of the Executive Board Member of the Nomination Committee Chief Executive Officer	TISCO Finance Public Co., Ltd.	Finance										
2007-present	<i>Others</i> Director	The Thai Bankers' Association	Association										
2006-present	Director	Amata Spring Development Co., Ltd.	Golf Course										
2004-present	Councillor	Thai Management Association	Association										
1994-present	Director	Phelps Dodge Thailand Co., Ltd.	Manufacture of wire and cable products										
2003-2006	Director	Thai Agro Exchange Co., Ltd.	Fruits & Vegetables Wholesale										
2002-2005	Chairman	Association of Finance Company	Association										
2001-2005	Director Chairman of the Compensation Committee Member of the Audit Committee Chairman of the Nomination Committee	Singer (Thailand) Public Co., Ltd.	Manufacture and trading of electrical appliances										
2000-2004	Director	Thai Oil Co., Ltd.	Oil refinery										

Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) <sup>1</sup>	Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years			
					Period	Position	Company / Organization	Type of Business
3. Mrs. Krisna Theravuthi Independent Director, Chairperson of the Nomination and Compensation Committee <sup>2</sup> and Member of the Audit Committee <sup>2</sup>	57	Common 12 Preferred -	-	M.B.A. (Marketing) University of Wisconsin-Madison, USA B.A. (Accounting) Chulalongkorn University Audit Committee Program Thai Institute of Directors Association Director Certification Program Thai Institute of Directors Association Director Accreditation Program Thai Institute of Directors Association Effective Audit Committee and Best Practice Program Thai Institute of Directors Association	2007-present	<i>TISCO Group</i> Chairperson of the Nomination and Compensation Committee Member of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2006 - present	Independent Director	TISCO Corporation Public Co., Ltd.	Investment
					2005- present	Independent Director	TISCO Bank Public Co., Ltd.	Bank
					2005- 2007	Chairperson of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2005	Independent Director	TISCO Corporation Public Co., Ltd.	Investment
					1998-2005	Independent Director	TISCO Finance Public Co., Ltd.	Finance
						<i>Others</i> Secretary-general	Women's Association of Thailand - Udomrthani	Association
					2004-present	Vice President	The North-Eastern Mentally Retarded Welfare Center	Foundation
					1986-present	Executive Director	Tavornudorn Co., Ltd.	Hotel
					1986-present	Executive Director	Food Manufacturing Co., Ltd.	Food Industry
4. Assoc.Prof.Dr. Angkarat Pribejrivat Independent Director and Chairperson of the Audit Committee <sup>2</sup>	52	-	-	Ph.D (Accounting) New York University, USA M.S. (Accounting) Thammasat University B.B.A. (Accounting) Thammasat University Director Certification Program Thai Institute of Directors Association Director Accreditation Program Thai Institute of Directors Association	2007-present	<i>TISCO Group</i> Chairperson of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2006-present	Independent Director	TISCO Corporation Public Co., Ltd.	Investment
					2005-present	Member of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2005-2007	Independent Director	TISCO Bank Public Co., Ltd.	Bank
					2005-2007	Member of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2006-present	<i>Others</i> Director and Chairperson of the Audit Committee	National Housing Authority	State Enterprise
					2005-present	Chairperson of the Accounting Standard Setting Committee	Federation Of Accounting Professions	Federation
					2004-present	Member of the Consultative Subcommittee on Cost Accounting Development Project	Commission on Higher Education	Commission on Higher Education
					2004-present	Independent Director	Association of Investment Management Companies	Association
					2002-present	Advisor	The Comptroller General's Department, Ministry of Finance	Government
					2002-present	Advisor to the Audit Committee	TOT Corporation Public Co., Ltd.	Communication
					1997-present	Associate Professor	National Institute of Development Administration (NIDA)	Educational Institute
					1992-present	Advisor to the Listing and Disclosure Department	The Stock Exchange of Thailand	The Stock Exchange of Thailand
2002-2005	Specialist - Financial Institutions Policy Group	The Bank of Thailand	The Bank of Thailand					
2001-2005	Associate Dean of Administrative Affair and Director of the Executive MBA Program	National Institute of Development Administration (NIDA)	Educational Institute					
5. Prof.Dr. Praipol Koomsup Independent Director and Member of the Audit Committee	59	-	-	Ph.D (Economics) Yale University, USA M.A. (Economics) Thammasat University B. Economics University of Western Australia, Australia Director Accreditation Program Thai Institute of Directors Association	2006-present	<i>TISCO Group</i> Independent Director Member of the Audit Committee	TISCO Corporation Public Co., Ltd.	Investment
					2005-present	Independent Director	TISCO Bank Public Co., Ltd.	Bank
					2005	Member of the Audit Committee	TISCO Bank Public Co., Ltd.	Bank
					2005	Independent Director	TISCO Bank Public Co., Ltd.	Bank
					2005-present	<i>Others</i> Professor	Faculty of Economics, Thammasat University	Educational Institute
					1993-present	Director	Energy Conservation Fund	Fund
					1993-present	Senior Economic Consultant	Business & Economic Research Associates Co., Ltd. (BERA)	Research business
					1986-present	Economics Advisor	Panya Consultant Co., Ltd.	Consultant
					1983-2004	Associate Professor	Faculty of Economics, Thammasat University	Educational Institute
1996-2003	Director	Aromatics (Thailand) Public Co., Ltd.	Petrochemical industry					

Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) <sup>1A</sup>		Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years			
						Period	Position	Company / Organization	Type of Business
<b>6. Mr. Sangiam Santad</b> Independent Director	60	-	-	-	MPA. National Institute of Development Administration (NIDA) LL.B. Ramkhamhang University Director Certification Program Thai Institute of Directors Association Director Accreditation Program Thai Institute of Directors Association	2005-present 2005-present 2004-2005 2006-present 2005-present 2004-present 2003-2006 2002-2005 2001-2002	<i>TISCO Group</i> Independent Director Independent Director Independent Director <i>Others</i> Independent Director and Member of the Audit Committee Inspector General Director Director Legal Advisor Director of Regional Customs Bureau 1	TISCO Bank Public Co., Ltd. TISCO Corporation Public Co., Ltd. TISCO Finance Public Co., Ltd. IRPC Public Co., Ltd. The Office of Permanent Secretary, Ministry of Finance Provincial Electricity Authority Dairy Farming Promotion Organization of Thailand The Office of Permanent Secretary, Ministry of Finance Customs Department, Ministry of Finance	Bank Investment Finance Petrochemical industry Government State Enterprise State Enterprise Government Government
<b>7. Dr. Kanit Sangsubhan<sup>3</sup></b> Independent Director	49	-	-	-	Ph.D. (Economics) University of Toronto, Canada M.A. (Economics) Thammasat University B.A. (Economics) Thammasat University Director Accreditation Program Thai Institute of Directors Association	2006-present 2005-present 2005-present 2005-present 2005-present 2004-present 2004-present 2000-present 2004-2006 2004	<i>TISCO Group</i> Independent Director <i>Others</i> Director Director Director Director Honorary Advisor Director Member of Advisory Board Director	TISCO Bank Public Co., Ltd. Dhanarak Asset Development Co., Ltd. Asia Bond Market Development, Ministry of Finance DAD SPV Co., Ltd. FPRI Education Co., Ltd. Thailand Outlook Co., Ltd. Thailand Investment Service Center (TISC) Fiscal Policy Research Institute Asian Development Bank Institute (ADBI), Tokyo, Japan Thanachart Securities Co., Ltd.	Bank Asset Development Government The Specific Purpose Juristic Person Consultant Media & Publishing Investment Service Center Research Institute Institute Securities
<b>8. Mr. Mitsunobu Hasegawa</b> Director, Member of the Executive Board, and Member of the Nomination and Compensation Committee <sup>2</sup> (Authorized Signatory)	44	-	-	-	B.A. (Economics) Keio University, Tokyo Japan	2007 - present 2005 - present 2005 - present 2005 - 2007 2003-present 2001-2002	<i>TISCO Group</i> Member of the Nomination and Compensation Committee Director Director and Member of the Executive Board Member of the Nomination Committee <i>Others</i> Managing Director Senior Manager of Credit Risk Management Division	TISCO Bank Public Co., Ltd. TISCO Corporation Public Co., Ltd. TISCO Bank Public Co., Ltd. TISCO Bank Public Co., Ltd. MHC Consulting (Thailand) Co., Ltd. Mizuho Corporate Bank, Ltd. Japan	Bank Investment Bank Bank Consultant Bank
<b>9. Mr. Samuel Shih</b> Director <sup>4</sup> , Member of the Executive Board <sup>4</sup> , Member of the Nomination and Compensation Committee <sup>2</sup> (Authorized Signatory)	56	Common Preferred	2,000 -	-	B.B.A. (Banking) Tamkang University (Taipei) Associate Degree (Computer Science) Oriental Institute of Technology Director Certification Program Thai Institute of Directors Association ROC Corporate Directors' Training Program The Registry of Companies (Malaysia)	2007-present 2006-present 2006-2007 1999-present 2004-2006 1999-2004 1999-2002	<i>TISCO Group</i> Member of the Nomination and Compensation Committee Director and Member of the Executive Board Member of the Nomination Committee <i>Others</i> Vice President Advisor Chairman of Executive Committee and Deputy Managing Director Director of the Board	TISCO Bank Public Co., Ltd. TISCO Bank Public Co., Ltd. TISCO Bank Public Co., Ltd. China Development Industrial Bank, Taipei Bangkok First Investment & Trust Public Co., Ltd. Bangkok First Investment & Trust Public Co., Ltd. RHB Leasing SDN., GHD. Kuala Lumpur	Bank Bank Bank Bank Finance Finance Finance Leasing

Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) <sup>1A</sup>	Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years			
					Period	Position	Company / Organization	Type of Business
<b>10. Mr. Kah Hua Yeo</b> Director <sup>5</sup>	54	-	-	B.B.A. (Finance & Marketing) University of Singapore, Singapore Director Certification Program (Class 16/2002) Thai Institute of Directors/Australian Institute of Company Directors	2006-present 2006-present 2005-present 1999-present 1999-present 2004-2005 1999-2004	<i>TISCO Group</i> Director <i>Others</i> Advisor Vice President Director Director Independent Director Managing Director	TISCO Bank Public Co., Ltd.  SCS Enterprise Systems (Thailand) Limited China Development Industrial Bank, Taipei Ornasteel Enterprise Corporation (M) Sdn.Bhd. Group Steel Corporation (M) Sdn. Bhd. BFIT Securities Public Co., Ltd. BFIT Securities Co., Ltd.	Bank  Information Technology Bank Steel Manufacturer Steel Manufacturer Securities Securities
<b>11. Mr. Pichai Chanvirachart</b> Director, Member of the Executive Board, President and Chief Operating Officer (Authorized Signatory)	57	Common 2,136 Preferred 1,770,000	-	B.B.A. (Finance) Marshall University, USA Directors Certification Program Thai Institute of Directors Association	2005-present  2001-2005  1993-present 2000-2006	<i>TISCO Group</i> Director, Member of the Executive Board, President and Chief Operating Officer Director, Member of the Executive Board, President and Chief Operating Officer <i>Others</i> Director Director	TISCO Bank Public Co., Ltd.  TISCO Finance Public Co., Ltd.  Mizuho Corporate Leasing (Thailand) Co., Ltd. AXA Insurance Public Co., Ltd.	Bank  Finance  Leasing Insurance
<b>12. Mrs. Oranuch Apisaksirikul</b> Director, Senior Executive Vice President and Chief Financial Officer (Authorized Signatory)	49	Common - Preferred 1,759,400	-	M.B.A (Finance) Thammasat University LL.B. Thammasat University B.A. (Accounting & Commerce) Thammasat University Directors Certification Program Thai Institute of Directors Association	2005-present  2005-present 2000-present 2000-present 2002-2005  2001-2002 1999-2002  2004-present 2001-present	<i>TISCO Group</i> Director and Senior Executive Vice President Chief Financial Officer Director Director Director Senior Executive Vice President and Chief Financial Officer Director Director <i>Others</i> Member of Risk Management Committee Member of Risk Management Sub-Committee	TISCO Bank Public Co., Ltd.  TISCO Corporation Public Co., Ltd. TISCO Global Securities Ltd. TISCO Securities Hong Kong Ltd. TISCO Finance Public Co., Ltd.  TISCO Securities UK Ltd. TISCO Asset Management Co., Ltd.  Small Industry Credit Guarantee Corporation The Stock Exchange of Thailand	Bank  Investment Securities Securities Finance  Securities Asset Management  Specialized Financial Institution The Stock Exchange of Thailand
<b>13. Mr. Panya Wottichareonvong</b> Executive Vice President -SME Banking <sup>6</sup>	53	Common 44 Preferred -	-	M.S (Accounting) Thammasat University B.A. (Accounting) Thammasat University LL.B. Thammasat University Graduate Diploma Program in Business Law Thammasat University Directors Certification Program Thai Institute of Directors Association Certified Public Accountants C.P.A. Thailand	2006-present 2005-2006 2005 2002-2004	<i>TISCO Group</i> Executive Vice President-SME Banking Executive Vice President-Retail Banking Executive Vice President-Retail Banking Head of Retail Finance and Head of Special Asset Management <i>Others</i> -	TISCO Bank Public Co., Ltd. TISCO Bank Public Co., Ltd. TISCO Finance Public Co., Ltd. TISCO Finance Public Co., Ltd.	Bank Bank Finance Finance



Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) <sup>1A</sup>	Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years			
					Period	Position	Company / Organization	Type of Business
<b>14. Ms. Nattamon Issaradharm</b> Executive Vice President and Chief Governance Officer	53	Common - Preferred 537,000	-	B.A. (Accounting) Chulalongkorn University Certified Public Accountants C.P.A. Thailand Directors Certification Program Thai Institute of Directors Association	2005-Present	<i>TISCO Group</i> Executive Vice President and Chief Governance Officer	TISCO Bank Public Co., Ltd.	Bank
					2002-2005	Executive Vice President and Chief Governance Officer	TISCO Finance Public Co., Ltd.	Finance
					2000-2002	Director <i>Others</i>	TISCO Asset Management Co., Ltd.	Asset Management
					1998-2006	Sub-Committee Member of the Corporate Debt Restructuring Advisory Committee (CDRAC)	The Bank of Thailand	The Bank of Thailand
					2002-2005	Representative	Association of Finance Companies	Association
<b>15. Mr. Sakchai Peechapat</b> Executive Vice President - Retail Banking <sup>7</sup> , and Human Resources and Organization Development (Acting)	40	-	-	M.B.A. (International Business) University of Hawaii at Manoa, USA B.E. (Civil Engineering) (Honour) Kasetsart Univeristy Japan-focused Management Program Japan-America Institute of Management Science, USA Director Certification Program Thai Institute of Directors Association Director Accreditation Program Thai Institute of Directors Association	2006-present	<i>TISCO Group</i> Executive Vice President-Retail Banking, Human Resources and Organization Development (Acting)	TISCO Bank Public Co., Ltd.	Bank
					2005-2006	Executive Vice President-Human Resources and Organization Development	TISCO Bank Public Co., Ltd.	Bank
					2004-2005	Head of Human Resources and Organization Development	TISCO Finance Public Co., Ltd.	Finance
					2002-2004	Deputy Head of Retail Finance and Head of Special Channel Distribution (Acting)	TISCO Finance Public Co., Ltd.	Finance
					2000-2002	Executive Director	Volkswagen Leasing Thailand Limited	Leasing
					1996-2002	Managing Director <i>Others</i>	Thai Commercial Auto Co., Ltd.	Leasing
2006-present	Director	AXA Insurance Public Co., Ltd.	Insurance					
<b>16. Mr. Metha Pingsuthiwong</b> Executive Vice President - Treasury and Private Banking	40	Common - Preferred 178,000	-	M.B.A. (Finance) University of Wisconsin-Milwaukee, USA B.Eng. (Electrical Engineering) (Honour) Chulalongkorn University	2005-present	<i>TISCO Group</i> Executive Vice President-Treasury and Private Banking	TISCO Bank Public Co., Ltd.	Bank
					2005	Executive Vice President-Treasury and Funding	TISCO Finance Public Co., Ltd.	Finance
					2002-2005	Head of Securities Investment and Trading <i>Others</i>	TISCO Securities Co., Ltd.	Securities
					1999-present	Director	K-Line (Thailand) Co., Ltd.	Transportation
<b>17. Mr. Suthas Ruangmanamongkol</b> Director and Managing Director of TISCO Asset Management Co., Ltd.	46	Common - Preferred 2,110,000	-	M.S. (Finance & Banking) University of Wisconsin-Madison, USA M.B.A. (Finance) Western Illinois University, USA B.Eng. (Computer) Chulalongkorn University Director Certification Program Thai Institute of Directors Association	2005-present	<i>TISCO Group</i> Director and Managing Director	TISCO Asset Management Co., Ltd.	Asset Management
					2002-2005	Head of Commercial Finance, Treasury and Funding <i>Others</i>	TISCO Finance Public Co., Ltd.	Finance

Name of Director, Management and Controlling Person	Age (years)	Total Company Share Holding as of December 31, 06 (Shares) <sup>14</sup>	Family Relationship with other Management	Education / Director's Training Course Program	Work Experience within 5 years			
					Period	Position	Company / Organization	Type of Business
<b>18. Ms. Araya Thirakomen</b> Deputy Managing Director of TISCO Asset Management Co., Ltd.	45	Common 5,000 Preferred 170,500	-	M.B.A. (Finance) University of New Haven, USA B.A. (Finance) Chulalongkorn University	2005-present 2003-2005 1999-2003 2006-present 2004-present 2002-present 2002-present 2002-2004	<u>TISCO Group</u> Deputy Managing Director Head of Provident Fund Business Head of Provident Fund–Marketing <u>Others</u> Member of National Pension Sub-Committee Deputy Chairman, Chairperson of Provident Fund Business Group, and Chairperson of Sub Committee – Provident Fund Investment Performance Standard Member of Sub Committee on Pension and Provident Fund Reform Member of Sub Committee on Consideration of draft Notifications on Supervision of Security Member of Sub Committee on Consideration of the Amendment to Provident Fund Act.	TISCO Asset Management Co., Ltd. TISCO Asset Management Co., Ltd. TISCO Asset Management Co., Ltd. Fiscal Policy Office, Ministry of Finance Association of Investment Management Company ("AIMC") Fiscal Policy Office, Ministry of Finance The Securities and Exchange Commission (SEC) The Securities and Exchange Commission (SEC)	Asset Management Asset Management Asset Management Government Agency Association Government Agency Independent Agency & Regulator Independent Agency & Regulator
<b>19. Mr. Paiboon Nalinthrangkum</b> Director, Managing Director <sup>8</sup> of TISCO Securities Co., Ltd.	41	Common - Preferred 220,000	-	M.B.A. (Finance) Indiana University at Bloomington, USA B.A. (Computer Science) University of California at Santa Cruz, USA C.F.A. C.F.A. Institute, USA Director Accreditation Program Thai Institute of Directors Association	2006-present 2005-present 2005-2006 2001-2005 2007-present 2006-present 2006-present 2004-present 2003-2005	<u>TISCO Group</u> Managing Director Director Deputy Managing Director and Head of Brokerage Equity Director and Head of Equity and Research <u>Others</u> Director of the Futures Industry Club Director Representative of the Sub-Committee on Standard Setting of CISA Program Deputy Chairman Director and Secretary-General	TISCO Securities Co., Ltd. TISCO Securities Co., Ltd. TISCO Securities Co., Ltd. TISCO Securities Co., Ltd. Association of Securities Companies Association of Securities Companies Thailand Securities Institute (TSI) Securities Analysts Association Securities Analysts Association	Securities Securities Securities Securities Association Association Institute Association Association
<b>20. Mr. Chatri Chandrangam</b> Financial Controller	37	Common - Preferred 20,000	-	C.F.A. C.F.A. Institute, USA M.Sc. (Finance) Imperial College, University of London M.B.A. (International Business) Schiller International University B.A. (Banking & Finance) Chulalongkorn University	2005 - present 2000-2005	<u>TISCO Group</u> Financial Controller Head of Risk Management <u>Others</u> -	TISCO Bank Public Co., Ltd. TISCO Finance Public Co., Ltd.	Bank Finance
<b>21. Ms. Chutintorn Vigasi</b> Head of Corporate Accounting	45	Common 324 Preferred 15,000	-	M.B.A (Accounting) Thammasat University B.A. (Accounting) Chulalongkorn University	2005-present 2002-2005	<u>TISCO Group</u> Head of Corporate Accounting Head of Corporate Accounting <u>Others</u> -	TISCO Bank Public Co., Ltd. TISCO Finance Public Co., Ltd.	Bank Finance

Remarks : The Company's Authorized Signatories comprise Mr. Pliu Mangkornkanok, Mr. Pichai Chanvirachart, Mr. Mitsunobu Hasegawa, Mrs. Oranuch Apisaksirikul and Mr. Samuel Shih.

It is required that Mr. Pliu Mangkornkanok or Mr. Pichai Chanvirachart sign with the seal of the Company affixed or Mr. Mitsunobu Hasegawa or Mrs. Oranuch Apisaksirikul or Mr. Samuel Shih, two persons jointly sign with the seal of the Company affixed.

<sup>11</sup> Including spouse and minor children

<sup>12</sup> Assumed on January 24, 2007

<sup>13</sup> Assumed on February 28, 2006

<sup>14</sup> Assumed on April 5, 2006

<sup>15</sup> Assumed on May 29, 2006

<sup>16</sup> Assumed the job title of Executive Vice President - SME Banking on March 1, 2006

<sup>17</sup> Assumed the job title of Executive Vice President - Retail Banking on March 1, 2006

<sup>18</sup> Assumed the job title of Managing Director on November 30, 2006

**1.2 Details of Directors, Management and Controlling Persons of Subsidiaries (As of December 31, 2006)**

Name	TBANK	TCORP	Subsidiaries											
			TSEC	TASSET	TLEASE	HI-WAY	TISCOHK	TISCOGS	TISCOIT	TCA	VLT	TGROUP		
1 Dr. Phisit Pakkasem	C,I													
2 Mr. Pliu Mangkornkanok	D,E,M	D												
3 Mrs. Krisna Theravuthi	A,I,NCC <sup>1</sup>	A,I												
4 Assoc.Prof.Dr.Angkarat Priebjriwat	A,I	A,I												
5 Prof.Dr.Praipol Koomsup	A,I	A,I												
6 Mr. Sangiam Santad	I	I												
7 Dr. Kanit Sangsubhan	I													
8 Mr. Mitsunobu Hasegawa	D,E,NCC <sup>1</sup>	D												
9 Mr. Samuel Shih	D,E,NCC <sup>1</sup>													
10 Mr. Kah Hua Yeo	D													
11 Mr. Pichai Chanvirachart	D,E,M													
12 Mrs. Oranuch Apisaksirikul	D,M	D						D	D					
13 Mr. Panya Wotticharoenvong	M													
14 Ms. Nattamon Issaradharm	M													
15 Mr. Sakchai Peechapat	M													
16 Mr. Metha Pingsuthiwong	M													
17 Mr. Suthas Ruangmanamongkol					D,M									
18 Ms. Araya Thirakomen					D,M									
19 Mr. Paiboon Nalinthrangkurn				D,M										
20 Mr. Chatri Chandrangam	FC													
21 Ms. Chutintorn Vigasi	AC													

Remarks 1 : C = Chairman      D = Director      E = Executive Board Member      A = Audit Committee      NCC = Nomination and Compensation Committee  
I = Independent Director      M = Management Committee      AC = Head of Corporate Accounting      FC=Financial Controller

Remarks 2 : TBANK = TISCO Bank Public Co., Ltd.      TCORP = TISCO Corporation Plc.      TSEC = TISCO Securities Co., Ltd.      TASSET = TISCO Asset Management Co., Ltd.  
TLEASE = TISCO Leasing Co., Ltd.      HI-WAY= Hi-Way Co., Ltd.      TISCOHK = TISCO Securities Hong Kong Ltd.      TISCOGS = TISCO Global Securities Ltd.  
TISCOIT = TISCO Information Technology Co., Ltd.      TCA = Thai Commercial Auto Co., Ltd.      VLT = VLT Leasing Co., Ltd.      TGROUP = TISCO Group Co., Ltd.

<sup>1/4</sup> Assumed on January 24, 2007

**Attachment 2**

**Changes in TISCO Shareholdings by Directors and Management**

## Changes in TISCO Shareholdings by Directors and Management

		Common Shares		Preferred Shared	
		Increase (Decrease) During the Year	As of December 31, 2006	Increase (Decrease) During the Year	As of December 31, 2006
1	Dr. Phisit Pakkasem	0	0	0	0
2	Mr. Pliu Mangkornkanok	68,000	70,600	550,000	2,662,700
3	Mrs. Krisna Theravuthi	0	12	0	0
4	Assoc.Prof.Dr.Angkarat Priebjivat	0	0	0	0
5	Prof.Dr.Praipol Koomsup	0	0	0	0
6	Mr. Sangiam Santad	0	0	0	0
7	Dr. Kanit Sangsubhan	0	0	0	0
8	Mr. Mitsunobu Hasegawa	0	0	0	0
9	Mr. Samuel Shih	0	2,000	0	0
10	Mr. Kah Hua Yeo	0	0	0	0
11	Mr. Pichai Chanvirachart	0	2,136	700,000	1,770,000
12	Mrs. Oranuch Apisaksirikul	0	0	307,500	1,759,400
13	Mr. Panya Wotticharoenvong	0	44	(225,000)	0
14	Ms. Nattamon Issaradharm	0	0	50,000	537,000
15	Mr. Sakchai Peechapat	0	0	(90,000)	0
16	Mr. Metha Pingsuthiwong	0	0	40,000	178,000
17	Mr. Suthas Ruangmanamongkol	0	0	287,500	2,110,000
18	Ms. Araya Thirakomen	0	5,000	12,500	170,500
19	Mr. Paiboon Nalinthrangkurn	0	0	100,000	220,000
20	Mr. Chatri Chandrangam	0	0	1,000	20,000
21	Ms. Chutintorn Vigasi	0	324	7,500	15,000

**Attachment 3**

**Details of Directors in Subsidiaries**

Details of Directors of Subsidiaries as of December 31, 2006

Attachment 3

Name	TSEC	TASSET	TLEASE	HI-WAY	TISCOHK	TISCOGS	TISCOIT	TCA	VLT	TCORP	TISCO GROUP
Mr. Pliu Mangkornkanok										X	
Mrs. Krisna Theravuthi										X	
Assoc.Prof.Dr.Angkarat Priebjrivat										X	
Prof.Dr.Praipol Koomsup										X	
Mr. Sangiam Santad										X	
Mr. Mitsunobu Hasegawa										X	
Mrs. Oranuch Apisaksirikul					X	X				X	
Mr. Paiboon Nalinthrangkurn	X										
Ms. Pakaporn Punyashthiti	X <sup>1</sup>										X <sup>1</sup>
Ms. Aunchana Grisa-ard	X										
Mr. Suthas Ruangmanamongkol		X									
Mrs. Supaporn Aramtiantamrong		X									
Mrs. Duangrat Kittivitayakul		X									
Ms. Araya Thirakomen		X									
Mr. Ekachai Chongvisal		X									
Mr. Yuttpong Sriwongjanya			X	X				X	X		
Mr. Charnchai Rakanantachai				X							
Mr. Worapan Luanguthai				X							
Ms. Charupee Chinapongpaisal			X								
Mr. Teerayuth Praserttananadacho			X	X				X			
Mr. Supachai Boonsiri				X				X			
Mr. Lee Kin Lam					X	X					
Mr. Kriengkrai Mongkolthanit					X <sup>2</sup>	X <sup>2</sup>					
Mr. Christian Norio Sano						X <sup>3</sup>					
Ms. Umaporn Dechavijit					X <sup>4</sup>	X <sup>4</sup>					
Mrs. Sasinee Phattiyakul							X				
Mrs. Suwadee Khaolaorr							X				
Mrs. Yutiga Sonthayanavin							X				
Mrs. Vannee Uboldejpracharak											X
Mr. Sathit Aungmanee								X			
Ms. Somsri Kiatchoosakul			X					X	X		
Mr. Ronnachai Chinwatanaporn								X			
Mr. Yoshitaga Iwamoto								X			
Mr. Masami Nakamura								X			
Mr. Sutthi Kittivasin								X			

<sup>1</sup> Assumed as a director of TGROUP and TSEC on February 8, 2007 and February 16, 2007 respectively.

<sup>2</sup> Resigned with effective date of February 28, 2007.

<sup>3</sup> Resigned with effective date of February 15, 2007.

<sup>4</sup> Assumed as a director of TISCOHK and TISCOGS, effective from March 1, 2007.

Remarks 1 : TSEC = TISCO Securities Co., Ltd.

TLEASE = TISCO Leasing Co., Ltd.

TISCOHK = TISCO Securities Hong Kong Ltd.

TISCOIT = TISCO Information Technology Co., Ltd.

VLT = VLT Leasing Co., Ltd.

TISCO GROUP = TISCO Group Co., Ltd.

TASSET = TISCO Asset Management Co., Ltd.

HI-WAY = Hi-Way Co., Ltd.

TISCOGS = TISCO Global Securities Ltd.

TCA = Thai Commercial Auto Co., Ltd.

TCORP = TISCO Corporation Plc.

Remarks 2 : X = Director

**Attachment 4**

**Report of the Audit Committee**



### Report of the Audit Committee

The Audit Committee of TISCO Bank Public Company Limited comprised three independent directors:

- |  |                                    |
|--|------------------------------------|
| 1. Mrs. Krisna Theravuthi              | Chairperson of the Audit Committee |
| 2. Assoc.Prof.Dr. Angkarat Priebjrivat | Member of the Audit Committee      |
| 3. Prof.Dr. Praipol Koomsup            | Member of the Audit Committee      |

The Audit Committee have performed duties and responsibilities according to the charter of Audit Committee and as delegated by the Board of Directors. The Audit Committee have carried out duties independently and without restrictions as to access to information. The Audit Committee support the Bank's good corporate governance in accountability, transparency, fairness, integrity, and check & balance, which will serve the best interests of not only shareholders but also employees and other stakeholders.

The Audit Committee held 11 meetings in Year 2006. Major issues considered by the Committee were as follows:

1. Reviewing quarterly, semi-annual and annual financial statements audited by the certified public accountant before recommending to the Board of Directors with emphasis on accuracy and completeness of information in the financial statements and the notes to financial statements by considering changes during the year based on Thai accounting standards and the Bank of Thailand's regulations and the adequacy of information disclosed in the financial statements and in the notes to financial statements.
2. Reviewing internal control system and internal audit works by considering the management letter issues and the results of assessment by the certified public accountant towards efficiency of the internal audit department, related company transactions and irregularity transactions, sharing views with internal auditors and the certified public accountant concerning obstacles and cooperation received from the Bank, and assessing the extent of independence of internal auditors and the certified public accountant.
3. Meeting with Head of Compliance in acknowledging an annual compliance report and non-compliance issues arising during the year and sharing views on preventive measures and compliance activities to assure that the Bank and its subsidiaries are on compliance with laws and regulations.
4. Selecting and nominating to the Board of Directors and general shareholders' meeting for endorsement a certified public accountant and determining their audit fee. The Committee proposed the appointment of Mr. Narong Puntawong of Ernst & Young Office Limited as the auditor of the Bank and its subsidiaries for Year 2006 by taking into account the credibility, independence, proven track record as well as experience of the auditor and personnel assigned to audit the Bank's accounts.
5. Reviewing the disclosure of information of the Bank and its subsidiaries in the case of connected transaction or transaction that may lead to conflict of interest, and reviewing the Bank's related party guideline covering three groups of related parties, namely connected persons, employees and subsidiaries & affiliates.
6. Meeting with management in updating and monitoring on the following compliance and risk management issues:
  - Bank preparation for Basel II,
  - Know Your Customer/ Customer Due Diligence procedures,
  - Consolidated supervision of banking group,
  - Anti-Money Laundering & Combating the Financing of Terrorism Policy, and
  - Bank preparation for changes in accounting standards, particularly loan loss provisioning and non-performing loan reporting.

7. Considering for acknowledgement the results of external assessment and proposing implementation for improvement on issues as raised by the Bank of Thailand, the Securities and Exchange Commission, Thailand and Thai Rating and Information Services Co., Ltd.
8. Reviewing and endorsing annual audit plan, strategy, key performance indicators of the internal audit department and result of self-assessment of internal audit quality assurance review program, acknowledging the results of audit and following-up on observations and recommendations made by the Audit Committee.
9. Developing an annual Audit Committee plan and conducting an annual review of the charter of Audit Committee and Audit Committee's self assessment for the Board of Directors' acknowledgement.

The Audit Committee have recognized the significance of good corporate governance and business ethics and believed that good corporate governance practices would facilitate the ability of shareholders to better govern the Bank and enhance both corporate accountability and the creation of wealth.

In Year 2006, the Audit Committee assessed their own effectiveness and the adequacy of their terms of reference, work plan, and forum of discussion and communication by comparing the Committee's activities to the charter of Audit Committee and leading practices.

The Audit Committee agreed with the certified public accountant that the Bank's financial statements and the disclosure of relevant information were adequate and fairly presented in accordance with generally accepted accounting principles. The Audit Committee opined that the Bank had an appropriate and efficient internal control system, and had properly followed all necessary rules and regulations imposed by the related regulators.

Krisna Theravuthi

Chairperson of the Audit Committee

February 16, 2007

**Attachment 5**

**Responsibility of the Board of Directors for Financial Statements and  
Auditor's Report and Financial Statement**

**Responsibility of the Board of Directors for Financial Statements**

The Board of Directors of TISCO Bank Public Company Limited is responsible for the Bank's financial statements, the consolidated financial statements of the Bank and its subsidiaries, and all financial information presented in the annual report. The financial statements have been prepared in accordance with generally accepted accounting standards in Thailand, which are based on appropriate accounting policies consistently applied and practiced. The financial statements have also been prepared with prudent judgement and the best forecasting method. All material information has been sufficiently disclosed in the notes to financial statements, with due consideration given to the directives of the Bank of Thailand, the regulations of the Securities Exchange Commission and the Stock Exchange of Thailand. Independent auditor has audited and expressed an unqualified audit opinion on those financial statements, therefore, they are presented fairly in the financial position, results of the operations and cash flow which will be useful for all shareholders.

The Board of Directors has established and maintained an effective risk management and internal control system which provide reasonable assurance that accounting records are accurate, complete and adequate to protect the Bank's assets. These controls also identify weaknesses requiring preventive measures against operational risk or other irregularities in the operation.

In this regard, the Board of Directors has appointed the Audit Committee, comprising independent directors, to be responsible for qualitative aspects of financial reporting and internal control system. The opinion of the Audit Committee with regard to these matters appears in the Report of the Audit Committee in this annual report.

The Board of Directors viewed that the Bank's internal control system is satisfactory and provides reasonable assurance as to the reliability of both the Bank's financial statements and the consolidated financial statements of the Bank and its subsidiaries as of December 31, 2006.

Board of Directors  
February 27, 2007

TISCO BANK PUBLIC COMPANY LIMITED  
AND ITS SUBSIDIARY COMPANIES  
REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2006 AND 2005

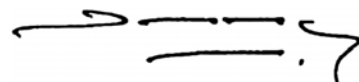
## Report of Independent Auditor

To The Board of Directors and Shareholders of  
TISCO Bank Public Company Limited

I have audited the accompanying consolidated balance sheet of TISCO Bank Public Company Limited and its subsidiaries as at 31 December 2006, the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, and the separate financial statements of TISCO Bank Public Company Limited for the same period. These financial statements are the responsibility of the Bank's management as to their correctness and the completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audit. The consolidated financial statements of TISCO Bank Public Company Limited and its subsidiaries and the separate financial statements of TISCO Bank Public Company Limited as at 31 December 2005 and for the year then ended, as presented herein for comparative purposes, were audited by another auditor of our firm who, under his report dated 9 February 2006, expressed an unqualified audit opinion on those financial statements.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TISCO Bank Public Company Limited and its subsidiaries and of TISCO Bank Public Company Limited as at 31 December 2006, and the results of their operations, and cash flows for the year then ended in accordance with generally accepted accounting principles.



Narong Puntawong

Certified Public Accountant (Thailand) No. 3315

Ernst & Young Office Limited  
Bangkok : 16 February 2007

## TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## BALANCE SHEETS

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE BANK ONLY	
		2006	2005	2006	2005
ASSETS					
CASH		210,224,762	203,952,651	209,087,846	202,324,961
INTERBANK AND MONEY MARKET ITEMS	3.2				
Domestic					
Interest bearing		201,922,475	338,991,696	-	125,449
Non-interest bearing		502,547,476	618,458,009	480,066,266	490,008,800
Foreign					
Interest bearing		187,328,700	547,963,075	-	-
Non-interest bearing		132,436,705	-	102,154,800	-
Total interbank and money market items - net		1,024,235,356	1,505,412,780	582,221,066	490,134,249
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	3.3	1,718,000,000	2,000,000,000	1,718,000,000	2,000,000,000
INVESTMENTS	3.4,3.5,3.8				
Current investment - net		774,660,668	826,593,131	723,292,076	715,779,356
Long-term investment - net		3,618,540,549	4,378,779,842	3,007,622,036	4,145,861,821
Investment in subsidiaries - net		-	-	3,986,406,393	3,566,055,931
Net investments		4,393,201,217	5,205,372,973	7,717,320,505	8,427,697,108
RECEIVABLE FROM CLEARING HOUSE		256,710,155	61,191,433	-	-
LOANS, RECEIVABLE AND ACCRUED INTEREST RECEIVABLE	3.6,3.8				
Loans and receivable		74,641,231,101	63,948,411,845	68,880,667,472	57,799,317,430
Securities and derivative business receivables		667,250,225	1,275,269,335	-	-
Total loans and receivable		75,308,481,326	65,223,681,180	68,880,667,472	57,799,317,430
Accrued interest receivable		143,399,168	113,987,295	98,862,425	77,532,932
Total loans, receivable and accrued interest receivable		75,451,880,494	65,337,668,475	68,979,529,897	57,876,850,362
Less : Allowance for doubtful accounts	3.7.1	(2,771,223,476)	(3,181,001,341)	(2,463,410,866)	(2,865,571,288)
Less : Allowance for loss on debt restructuring	3.7.2	(22,403,970)	(303,731,217)	(22,403,970)	(303,731,217)
Net loans, receivable and accrued interest receivable		72,658,253,048	61,852,935,917	66,493,715,061	54,707,547,857
PROPERTY FORECLOSED - NET	3.9	1,042,803,295	1,206,694,763	1,044,940,739	1,211,258,840
LAND, PREMISES AND EQUIPMENT - NET	3.10	1,602,800,147	1,559,496,070	1,080,850,642	1,004,248,203
DEFERRED TAX ASSETS	3.23	655,771,653	682,854,387	451,322,921	499,674,406
DIVIDEND RECEIVABLE FROM SUBSIDIARIES	3.27	-	-	591,022,425	846,022,234
OTHER ASSETS	3.11	1,219,421,878	1,004,850,554	1,035,386,753	833,879,355
TOTAL ASSETS		84,781,421,511	75,282,761,528	80,923,867,958	70,222,787,213

The accompanying notes are an integral part of the financial statements.

TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE BANK ONLY	
		2006	2005	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY					
DEPOSITS IN BAHT	3.12	40,567,860,158	34,450,801,235	40,668,116,274	34,611,262,962
INTERBANK AND MONEY MARKET ITEMS					
Domestic - Interest bearing	3.13	2,156,981,126	6,415,252,821	2,566,078,459	6,231,223,970
LIABILITY PAYABLE ON DEMAND		477,515,807	247,287,192	477,515,807	247,287,192
BORROWINGS					
Short-term borrowings	3.14	25,720,283,810	12,322,795,836	23,155,078,314	9,998,000,000
Long-term borrowings		361,700,000	5,167,743,812	361,700,000	5,144,200,000
Total borrowings		26,081,983,810	17,490,539,648	23,516,778,314	15,142,200,000
PAYABLE TO CLEARING HOUSE		365,137,963	566,490,815	-	-
SECURITIES AND DERIVATIVE BUSINESS PAYABLES		710,639,235	1,347,282,618	-	-
ACCRUED INTEREST PAYABLE		462,185,329	247,144,460	452,359,341	238,101,787
OTHER LIABILITIES	3.15	1,276,255,960	1,436,296,502	986,998,806	1,102,013,091
TOTAL LIABILITIES		72,098,559,388	62,201,095,291	68,667,847,001	57,572,089,002

The accompanying notes are an integral part of the financial statements.



TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE BANK ONLY	
		2006	2005	2006	2005
<b>SHAREHOLDERS' EQUITY</b>					
Share capital					
Registered	2.2	11,002,000,000	11,002,000,000	11,002,000,000	11,002,000,000
Issued and fully paid-up					
185,127,630 preference shares of Baht 10 each (2005: 180,947,630 preference shares of Baht 10 each)		1,851,276,300	1,809,476,300	1,851,276,300	1,809,476,300
541,277,120 ordinary shares of Baht 10 each (2005: 541,020,120 ordinary shares of Baht 10 each)		5,412,771,200	5,410,201,200	5,412,771,200	5,410,201,200
		7,264,047,500	7,219,677,500	7,264,047,500	7,219,677,500
Share premium					
Share premium of preference shares		73,190,950	43,128,630	73,190,950	43,128,630
Share premium of ordinary shares		36,500,000	36,500,000	36,500,000	36,500,000
Revaluation surplus on changes in the value of investment	3.19	662,956,136	1,011,780,646	662,956,136	1,011,780,646
Translation adjustment		82,146,613	112,560,156	82,146,613	112,560,156
Retained earnings					
Appropriated - statutory reserve	2.3	422,100,000	344,800,000	422,100,000	344,800,000
Unappropriated		3,715,079,758	3,882,251,279	3,715,079,758	3,882,251,279
Equity attributable to the Bank's shareholders		12,256,020,957	12,650,698,211	12,256,020,957	12,650,698,211
Minority interest - equity attributable to minority shareholders of subsidiaries		426,841,166	430,968,026	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>12,682,862,123</b>	<b>13,081,666,237</b>	<b>12,256,020,957</b>	<b>12,650,698,211</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>84,781,421,511</b>	<b>75,282,761,528</b>	<b>80,923,867,958</b>	<b>70,222,787,213</b>
		0	0	0	0
<b>OFF - BALANCE SHEET ITEMS - CONTINGENCIES</b>					
	3.29				
Aval to bills and guarantees of loans		526,625,000	561,000,000	526,625,000	561,000,000
Other commitments		5,667,692,739	5,085,318,059	5,667,692,739	5,085,318,059

The accompanying notes are an integral part of the financial statements.



Mr. Pichai Chanvirachart  
(President)



TISCO  
ธนาคารไทยพาณิชย์ จำกัด (มหาชน)  
TISCO Bank Public Company Limited



Mrs. Oranuch Apisaksirikul  
(Director and Senior Executive Vice President)

## TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE BANK ONLY	
		2006	2005	2006	2005
<b>INTEREST AND DIVIDEND INCOME</b>					
Loans		943,334,215	589,703,186	940,730,182	583,655,232
Interbank and money market items		438,037,356	144,857,642	344,948,957	100,928,711
Hire purchase and financial lease income		4,068,351,456	3,544,059,627	2,948,289,622	2,535,591,199
Investments		255,587,949	288,778,023	250,302,312	284,507,514
Total interest and dividend income		5,705,310,976	4,567,398,478	4,484,271,073	3,504,682,656
<b>INTEREST EXPENSES</b>					
Deposit		2,344,239,878	1,049,806,386	2,342,037,750	1,049,927,580
Interbank and money market items		127,926,648	130,461,116	73,022,977	72,927,476
Short-term borrowings		295,086,990	70,391,099	172,905,654	8,689,919
Long-term borrowings		131,989,790	213,500,000	131,579,558	213,500,000
Total interest expenses		2,899,243,306	1,464,158,601	2,719,545,939	1,345,044,975
Net interest and dividend income		2,806,067,670	3,103,239,877	1,764,725,134	2,159,637,681
<b>REVERSAL OF BAD DEBT AND DOUBTFUL ACCOUNTS</b>					
Net interest and dividend income after bad debt and doubtful accounts and loss on debt restructuring		221,845,281	186,221,513	280,460,484	230,527,483
<b>NON-INTEREST INCOME</b>					
Brokerage fees		648,525,326	621,950,517	-	-
Gain on investments	3.20	455,375,963	334,062,523	448,614,439	101,293,640
Share of profit of subsidiary companies		-	-	565,628,948	673,014,334
Fees and service income					
Acceptances, aval and guarantees		6,620,546	2,250,197	6,620,546	2,250,197
Insurance services		390,139,315	267,870,127	388,429,507	248,556,641
Fund management		264,442,568	242,847,889	-	-
Others		225,849,637	363,887,437	158,553,520	271,500,912
Gain (loss) on exchange		4,722,384	2,284,331	(3,861,229)	-
Other income	3.21	226,522,564	221,902,068	234,415,126	169,856,202
Total non-interest income		2,222,198,303	2,057,055,089	1,798,400,857	1,466,471,926
Total net income		5,250,111,254	5,346,516,479	3,843,586,475	3,856,637,090
<b>NON-INTEREST EXPENSES</b>					
Personnel expenses	3.25	1,216,248,371	1,205,427,967	671,678,838	646,896,834
Premises and equipment expenses		451,629,893	415,841,048	376,272,768	308,686,710
Taxes and duties		101,466,463	73,128,868	92,621,763	63,695,372
Fees and service expenses		728,456,160	588,622,501	477,292,290	368,472,295
Directors' remuneration	2.4	7,695,000	7,185,000	7,455,000	6,915,000
Other expenses	3.22	542,088,951	602,635,872	286,436,335	274,128,742
Total non-interest expenses		3,047,584,838	2,892,841,256	1,911,756,994	1,668,794,953
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		2,202,526,416	2,453,675,223	1,931,829,481	2,187,842,137
CORPORATE INCOME TAX	3.23	(633,420,167)	(635,010,183)	(386,296,372)	(396,992,893)
INCOME BEFORE MINORITY INTEREST		1,569,106,249	1,818,665,040	1,545,533,109	1,790,849,244
NET INCOME ATTRIBUTABLE TO MINORITY INTEREST		(23,573,140)	(27,815,796)	-	-
NET INCOME FOR THE YEAR		1,545,533,109	1,790,849,244	1,545,533,109	1,790,849,244
<b>EARNINGS PER SHARE</b>					
Basic earnings per share	3.26	1.88	2.23	1.88	2.23
Diluted earnings per share		1.87	2.21	1.87	2.21

The accompanying notes are an integral part of the financial statements.

TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

CONSOLIDATED

	Issued and fully paid-up share capital		Share premium		Surplus from changes in the value of investment	Translation adjustment	Statutory reserve	Unappropriated retained earnings	Minority interest- equity attributable to minority shareholders of subsidiaries	Total
	Preference shares	Ordinary shares	Preference shares	Ordinary shares						
	<b>Balance as at 31 December 2004</b>	1,841,234,800	5,339,075,200	23,206,450						
Decrease in fair value of investments	-	-	-	-	(243,602,911)	-	-	-	-	(243,602,911)
Increase in translation adjustment	-	-	-	-	-	14,244,764	-	-	-	14,244,764
Net income for the year	-	-	-	-	-	-	-	1,790,849,244	-	1,790,849,244
Dividend paid (Note 4.3)	-	-	-	-	-	-	-	(1,120,077,330)	-	(1,120,077,330)
Transfer unappropriated retained earnings to statutory reserve	-	-	-	-	-	-	90,200,000	(90,200,000)	-	-
Warrants converted to preference shares	39,367,500	-	19,922,180	-	-	-	-	-	-	59,289,680
Preference shares converted to ordinary shares	(71,126,000)	71,126,000	-	-	-	-	-	-	-	-
Increase in minority interest in subsidiary company	-	-	-	-	-	-	-	-	66,691	66,691
<b>Balance as at 31 December 2005</b>	1,809,476,300	5,410,201,200	43,128,630	36,500,000	1,011,780,646	112,560,156	344,800,000	3,882,251,279	430,968,026	13,081,666,237
Decrease in fair value of investments	-	-	-	-	(348,824,510)	-	-	-	-	(348,824,510)
Decrease in translation adjustment	-	-	-	-	-	(30,413,543)	-	-	-	(30,413,543)
Net income for the year	-	-	-	-	-	-	-	1,545,533,109	-	1,545,533,109
Dividend paid (Note 4.3)	-	-	-	-	-	-	-	(1,635,404,630)	-	(1,635,404,630)
Transfer unappropriated retained earnings to statutory reserve	-	-	-	-	-	-	77,300,000	(77,300,000)	-	-
Warrants converted to preference shares	44,370,000	-	30,062,320	-	-	-	-	-	-	74,432,320
Preference shares converted to ordinary shares	(2,570,000)	2,570,000	-	-	-	-	-	-	-	-
Decrease in minority interest in subsidiary company	-	-	-	-	-	-	-	-	(4,126,860)	(4,126,860)
<b>Balance as at 31 December 2006</b>	1,851,276,300	5,412,771,200	73,190,950	36,500,000	662,956,136	82,146,613	422,100,000	3,715,079,758	426,841,166	12,682,862,123

The accompanying notes are an integral part of the financial statements.

TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

THE BANK ONLY

	Issued and fully paid-up share capital		Share premium		Surplus from changes in the value of investment	Translation adjustment	Statutory reserve	Unappropriated retained earnings	Total
	Preference shares	Ordinary shares	Preference shares	Ordinary shares					
	<b>Balance as at 31 December 2004</b>	1,841,234,800	5,339,075,200	23,206,450					
Decrease in fair value of investments	-	-	-	-	(243,602,911)	-	-	-	(243,602,911)
Increase in translation adjustment	-	-	-	-	-	14,244,764	-	-	14,244,764
Net income for the year	-	-	-	-	-	-	-	1,790,849,244	1,790,849,244
Dividend paid (Note 4.3)	-	-	-	-	-	-	-	(1,120,077,330)	(1,120,077,330)
Transfer unappropriated retained earnings to statutory reserve	-	-	-	-	-	-	90,200,000	(90,200,000)	-
Warrants converted to preference shares	39,367,500	-	19,922,180	-	-	-	-	-	59,289,680
Preference shares converted to ordinary shares	(71,126,000)	71,126,000	-	-	-	-	-	-	-
<b>Balance as at 31 December 2005</b>	1,809,476,300	5,410,201,200	43,128,630	36,500,000	1,011,780,646	112,560,156	344,800,000	3,882,251,279	12,650,698,211
Decrease in fair value of investments	-	-	-	-	(348,824,510)	-	-	-	(348,824,510)
Decrease in translation adjustment	-	-	-	-	-	(30,413,543)	-	-	(30,413,543)
Net income for the year	-	-	-	-	-	-	-	1,545,533,109	1,545,533,109
Dividend paid (Note 4.3)	-	-	-	-	-	-	-	(1,635,404,630)	(1,635,404,630)
Transfer unappropriated retained earnings to statutory reserve	-	-	-	-	-	-	77,300,000	(77,300,000)	-
Warrants converted to preference shares	44,370,000	-	30,062,320	-	-	-	-	-	74,432,320
Preference shares converted to ordinary shares	(2,570,000)	2,570,000	-	-	-	-	-	-	-
<b>Balance as at 31 December 2006</b>	1,851,276,300	5,412,771,200	73,190,950	36,500,000	662,956,136	82,146,613	422,100,000	3,715,079,758	12,256,020,957

The accompanying notes are an integral part of the financial statements.

## TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	CONSOLIDATED		THE BANK ONLY	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Net income	1,545,533,109	1,790,849,244	1,545,533,109	1,790,849,244
Adjustments to reconcile net income to net cash provided by (paid from) operating activities				
Minority interest in income of subsidiary company	23,573,140	27,815,796	-	-
Share of profit from operating results of subsidiaries	-	-	(565,628,948)	(673,014,334)
Depreciation and amortisation	210,802,077	170,020,564	150,095,963	109,443,852
Reversal of bad debt and doubtful accounts	(75,717,421)	(94,434,943)	(150,029,027)	(146,332,053)
Unrealised loss on revaluation of investment (reversal)	(5,797,556)	13,876,397	(5,797,556)	13,964,083
Allowance for impairment of property foreclosed (reversal)	(33,490,244)	(34,168,243)	(34,228,347)	(34,168,243)
Gain on disposal of investments	(449,578,736)	(347,938,920)	(442,816,883)	(115,257,723)
Gain on sales of equipment	(8,225,985)	(8,792,526)	(6,245,320)	(8,677,155)
Loss from written-off equipment	116,573	-	38,105	-
Loss (gain) on sales of property foreclosed	100,516,073	187,406,361	(66,448,665)	23,421,852
Decrease in deferred tax assets	182,799,738	176,754,079	205,839,899	210,032,600
Decrease (increase) in accrued interest and dividend receivable	(29,956,606)	8,489,950	(24,958,809)	8,841,995
Decrease (increase) in other accrued income	5,099,493	(3,484,609)	30,067,039	(20,114,610)
Increase (decrease) in accrued interest payable	215,040,869	57,170,996	214,257,554	57,793,939
Increase (decrease) in accrued expenses	8,761,107	24,822,687	4,794,397	42,361,682
Unrealised loss on exchange rate	3,819,200	-	3,819,200	-
Income from operating activities before changes in operating assets and liabilities	1,693,294,831	1,968,386,833	858,291,711	1,259,145,129
Decrease (increase) in operating assets				
Interbank and money market items	477,358,224	13,896,978	(95,906,017)	(96,723,358)
Securities purchased under resale agreements	282,000,000	105,000,000	282,000,000	105,000,000
Receivable from clearing house	(195,518,722)	97,834,412	-	-
Loans and receivable	(12,414,384,742)	(9,796,797,459)	(12,107,313,943)	(8,660,137,387)
Securities and derivative business receivables	608,019,110	(51,472,569)	-	-
Property foreclosed	1,182,745,079	832,148,188	739,202,017	533,541,200
Other assets	(244,356,916)	(111,558,588)	(247,069,424)	1,375,570,112

The accompanying notes are an integral part of the financial statements.

## TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## CASH FLOW STATEMENTS (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	CONSOLIDATED		THE BANK ONLY	
	2006	2005	2006	2005
Increase (decrease) in operating liabilities				
Deposits	6,117,058,923	(4,837,001,084)	6,056,853,312	(4,694,287,092)
Interbank and money market items	(4,258,271,695)	2,107,985,901	(3,665,145,511)	2,079,231,162
Liability payable on demand	230,228,615	247,287,192	230,228,615	247,287,192
Borrowings	8,591,444,162	10,504,256,177	8,374,578,314	9,998,000,000
Payable to clearing house	(201,352,852)	435,495,884	-	-
Securities and derivative business payables	(636,643,383)	(34,965,896)	-	-
Other liabilities	(182,695,978)	(26,727,205)	(119,808,682)	41,283,511
Net cash flows from operating activities	1,048,924,656	1,453,768,764	305,910,392	2,187,910,469
<b>Cash flows from investing activities</b>				
Cash paid for purchase of investment in securities held for investment	(1,434,251,692)	(9,970,851,702)	(1,044,200,466)	(11,071,723,470)
Proceed from sales of investment in securities held for investment	2,209,231,397	10,011,616,371	2,098,733,338	9,619,900,218
Cash received from dividend of subsidiaries	-	-	388,513,209	717,598,386
Cash paid for purchase of property, plant and equipment	(208,584,734)	(237,502,454)	(187,710,952)	(206,903,348)
Proceed from sales of equipment	10,038,337	17,448,612	6,489,674	14,488,878
Net cash flows from (used in) investing activities	576,433,308	(179,289,173)	1,261,824,803	(926,639,336)
<b>Cash flows from financing activities</b>				
Dividend paid	(1,663,104,630)	(1,147,827,330)	(1,635,404,630)	(1,120,077,330)
Cash received from exchange of warrants to purchase preference shares	74,432,320	59,289,680	74,432,320	59,289,680
Net cash flows used in financing activities	(1,588,672,310)	(1,088,537,650)	(1,560,972,310)	(1,060,787,650)
<b>Translation adjustment</b>	(30,413,543)	14,244,764	-	-
Net increase in cash and cash equivalents	6,272,111	200,186,705	6,762,885	200,483,483
Cash and cash equivalents at beginning of year	203,952,651	3,765,946	202,324,961	1,841,478
Cash and cash equivalents at end of year	210,224,762	203,952,651	209,087,846	202,324,961
	-	-	-	-
<b>Supplemental cash flows information</b>				
Cash paid during the year for				
Interest	2,682,318,474	1,407,426,568	2,505,288,385	1,287,251,036
Corporate income tax	489,090,018	419,924,898	217,642,862	116,496,702
Non-cash transactions				
Conversion of preference shares to ordinary shares	2,570,000	71,126,000	2,570,000	71,126,000
Transfer of property foreclosed to land, premises and equipment	20,018,354	39,172,584	20,018,354	-

The accompanying notes are an integral part of the financial statements.

TISCO BANK PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

**1. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES**

**1.1 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Profession Act B.E. 2547, except for the early adoption of Accounting Standard No. 56 “Accounting for income taxes”, which is in line with International Accounting Standards (IAS) No.12 “Income Taxes” (revised 1996). These financial statements have been prepared in accordance with the Notifications of the Bank of Thailand and the Office of the Securities and Exchange Commission.

The presentation of the financial statements has been made in compliance with the stipulations of the Notification of the Bank of Thailand dated 10 May 2001, “Balance Sheets and Income Statements for Commercial Bank”.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

**1.2 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of TISCO Bank Public Company Limited (“the Bank”) and its subsidiary companies (“its subsidiaries”) as mentioned in Note 3.1.

The financial statements of overseas subsidiary companies are translated into Thai Baht at the closing average exchange rates as to assets and liabilities, and at monthly average exchange rates as to revenues and expenses. The resultant differences have been shown under the caption of “Translation adjustment” in shareholders’ equity.

Material balances and transactions between the Bank and its subsidiaries have been eliminated from the consolidated financial statements.

## 1.3 SIGNIFICANT ACCOUNTING POLICIES

### 1.3.1 Income recognition

a) Interest and discounts on loans

Interest on loans is recognised as income on an accrual basis and is based on principal outstanding. Hire-purchase and financial lease income are recognised over the installment period, using the effective interest rate.

For loans on which interest payments have been defaulted for more than one month, it is the policy of the Bank and its subsidiaries to cease accruing income on such loans and receivables. For hire purchase and financial lease accounts which are overdue for more than three months, the recognition of interest income is ceased. The recorded accrued interest will be reversed from the Bank and its subsidiaries' accounts and interest will be recognised as income on a cash basis.

Accrual of interest is ceased for margin loans on which interest is overdue by more than two months and interest is recognised on a cash basis.

The accounts will be reinstated to "accrual basis" when the overdue amounts are received.

Interest or discounts already included in the face value of notes receivable or loans are recorded as deferred interest and taken up as income evenly throughout the term of the notes or loans.

b) Interest and dividends on investment in securities

Interest on investment is recognised as income on an accrual basis. Dividends from securities are recognised as income when the dividends are declared.

c) Brokerage fee

Brokerage on securities and derivative trading are recognised as income on the transaction dates.

d) Gain (loss) on trading in securities

Gain (loss) on trading of investment in securities are recognised as income/expense on the transaction dates.

e) Fees and service income

Fees and service income are recognised as income on an accrual basis.



### **1.3.2 Interest expenses**

Interest expenses are charged to income on an accrual basis. Interest included in the face value of the notes payable is recorded as deferred interest and amortised to expenses evenly throughout the term of the notes.

### **1.3.3 Investments in securities**

- a) Investments in securities held for trading purposes are determined at fair value. Gains or losses arising from changes in the value of securities are included in determining income.
- b) Investments in available-for-sale securities, both held for short-term and long-term investment, are determined at fair value. Changes in the value of the securities are shown as separate items in shareholders' equity until the securities are sold, the changes are then included in determining income.
- c) Investments in debt securities, both due within one year or expected to be held to maturity, are stated at amortised cost. The premium/discount on debt securities is amortised by the effective rate method with the amortised amount presented as an adjustment to the interest income.
- d) Investments in non-marketable equity securities, which are classified as other investments, are stated at cost net of allowance for loss on diminution in value (if any).

The fair value of marketable securities is based on the latest bid price of the last working day of the year as quoted on the Stock Exchange of Thailand. The fair value of government bonds, state enterprise securities and private debt securities is determined by using the formula quoted by the Bank of Thailand, which is based on the yield rate quoted by the Thai Bond Market Association or other financial institutions. The fair value of unit trusts is determined based on their net asset value.

Losses on impairment (if any) of the investments in available-for-sale securities, debt securities due within one year or expected to be held to maturity and other investments are included in determining income.

The moving average method is used for computation of the cost of investment.

In the event the Bank and its subsidiaries reclassify their investments in securities, the investments are adjusted to their fair value as at the reclassification date. Differences between the carrying amount of the investments and their fair value on that date are included in determining income or recorded as a surplus (deficit) from change in the value of investments in shareholders' equity, depending on the type of investment which is reclassified.

#### **1.3.4 Investments in receivable purchased or transferred in**

Investments in receivable purchased or transferred in, which are classified as other investments, are valued at acquisition cost net of allowance for impairment (if any). Losses on impairment of investments are included in determining income.

For investments in receivable purchased or transferred in, who entered into troubled debt restructuring will be transferred to loans and receivable and valued at fair value, net of allowance for doubtful debt. The fair value is based on the outstanding balance of investments in receivable purchased or transferred in, as at transferred date or as at the date of restructuring.

Allowance for doubtful debt is based on the Bank of Thailand's guideline with the same as allowance for loans and receivable.

#### **1.3.5 Investment in subsidiary companies**

Investments in subsidiary companies are accounted for under the equity method.

The Bank does not record investments by the equity method for any investments which had been transferred as the result of debt restructuring, and the Bank holds not less than 20% of the equity. The Bank is obliged to dispose of these investments within a period stipulated in the Bank of Thailand's regulations.

#### **1.3.6 Receivable from Clearing House/ Payable to Clearing House**

Receivable from Clearing House comprises the net balance receivable from Thailand Securities Depository (TSD) in respect of securities trades settled through the Clearing House of TSD and the net balance receivable from Thailand Clearing House (TCH) including amounts pledged with TCH as security for derivatives trading.

Payable to Clearing House comprises the net balance payable to Thailand Securities Depository in relation to securities trading settlements made through the Clearing House of TSD and the net balance payable to Thailand Clearing House.

### **1.3.7 Loans and receivable**

Loans and receivable are stated at principal balances, excluding accrued interest receivables. Unrecognised deferred income/discount on loans are deducted from loans.

### **1.3.8 Allowance for doubtful accounts and losses from troubled debt restructuring**

- a) The Bank provides allowances for doubtful accounts and losses arising from troubled debt restructuring in accordance with the Notifications of the Bank of Thailand (“BOT”) and adjusts these by the additional amount which is expected not to be collectible based on an evaluation of the current status of the debtors, taking into consideration the recovery risk and the value of collateral.

#### **Year 2006**

In 2006, the Bank revised its guidelines on determining allowance for doubtful accounts and the value of collateral to be deducted against the loan balance when setting provisions for non-performing loans to follow the new guidelines of the BOT issued on 21 December 2006. The Bank will set aside provision at a rate of 100% of the debt balance remaining after deducting the present value of expected future cash flows from debt collection or from collateral disposal, based on the use of the discount rate and the time needed to dispose of collateral, in accordance with the BOT’s guidelines. The Bank may set up provision using a collective approach based on past loss experiences for receivables with the same credit risks, or having similar types and objectives of borrowing.

The timeline for implementing these provisioning guidelines is presented below.

- From the second half-year period of 2006 onwards, provisions are to be made for receivables for which a court judgment has already been issued, for which a court order is being executed, and against which legal actions have been brought.
- From the half-year period ending 30 June 2007 onwards, provisions are to be made for receivables that are classified as doubtful of loss and doubtful.
- From the year ending 31 December 2007 onwards, provisions are to be made for receivables that are classified as substandard.

The Bank set provision at minimum rates of 1% and 2% of the loan balances (excluding accrued interest receivable) net of collateral value for normal loans (including restructured receivables), and special-mentioned loans, respectively as required by the BOT’s guidelines.

In this regard, for the financial statements for the year ended 31 December 2006, the Bank set provision at 100% on receivables for which a court judgment has already been issued, for which a court order is being executed, and against which legal actions have been brought, in accordance with the new guidelines of the BOT. For the remaining non-performing loans which are classified as doubtful of loss, doubtful, and substandard loans, the Bank still apply provisioning rates of 100%, at least 50% and at least 20%, respectively, in accordance with the prior guidelines.

#### **Year 2005**

The Bank provided allowance for doubtful debt in accordance with the BOT's guideline dated 23 August 2004, applying provisioning rates at minimum rate of 1% for normal debt, 2% for special-mentioned debt, 20% for substandard debt, 50% for doubtful debt, and 100% for doubtful of loss debt. The Bank was able to deduct the valuation of collateral that calculated in accordance with BOT's guidelines, against the loan balance before determining the provisions.

- b) For the securities business of a subsidiary, an allowance for doubtful accounts is based on a review of debtors' ability to make repayment, taking into consideration of recovery risk and the value of the collateral. An allowance is set aside for doubtful debts that their collateral are not fully covered and/or those which may not be fully recovered. Such debt classifications and provisions are made in accordance with the Notification of the Office of the Securities and Exchange Commission and consideration of other relevant factors.
- c) For the hire-purchase and financial lease receivable of the subsidiaries, an allowance for doubtful accounts is based on a percentage of the outstanding balance, net of unearned interest income, for each age of receivable. The subsidiaries also estimated the allowances for doubtful accounts on the basis of historical statistical data, assessment of the risk associated with the receivable, the nature of the collateral provided, and the actual losses arising from such debtors in the past, while emphasizing the principal of conservatism. Furthermore, the adequacy of the allowance at the balance sheet date has been reviewed and evaluated in relation to the current status of the receivables. Bad debts are written off for accounts considered to be uncollectible.
- d) Amounts written off as bad debts are deducted from the allowance for doubtful accounts. Bad debt recovery amounts are recorded as income in the period of recovery.

- e) Allowance for doubtful accounts for other receivables is provided for the estimated losses that may be incurred in the collection of receivables and based on the review of current status of receivables outstanding at the balance sheet date.

### **1.3.9 Troubled debt restructuring**

The Bank records troubled debt restructuring transactions in accordance with the Bank of Thailand's regulations and Accounting Standard No. 34 "Accounting for Troubled Debts Restructuring". The assets and equities was transferred to the Bank for debt settlement at lower of fair values of the assets, less estimated selling expenses (if any), and the amount of investment in receivables.

In case where the debt restructuring involves modifications of terms of receivables, the fair value of investment in receivables after restructuring represents the net present value of the expected future cash flows, using the Minimum Lending Rates prevailing at the restructuring date. The Bank recorded the difference between the fair value of investment in receivables, and the amount of investments in receivables as of restructuring date as expenses in the income statements. Losses arising from restructuring by waiver of part of principal or recorded accrued interest receivable, less recorded allowance, are recognised in the income statement when incurred.

### **1.3.10 Recognition and amortisation of customers' deposits assets**

Cash which customers have placed with a subsidiary company for securities trading through cash accounts and derivative trading are recorded as assets of the subsidiary company for internal control purposes, but at the balance sheet date the subsidiary company writes the amounts which are unsecured off from both assets and liabilities and presents only those assets which belong to the subsidiary company.

### **1.3.11 Borrowing and lending of securities**

A subsidiary company conducts both securities borrowing and securities lending transactions through agreements made with borrowers and lenders of securities, which are the subsidiary company's customers.

A subsidiary company records its obligations to return borrowed securities which it has lent as “Securities borrowing payables” and securities lent to customers are recorded as “Securities borrowing receivables” in the balance sheet. At the end of the year, the balance of Securities borrowing payables and Securities borrowing receivables are adjusted based on the latest offer price quoted on the Stock Exchange of Thailand of the last working day of the year. Gains or losses arising from such adjustment are included in determining income. The subsidiary company records cash received as collateral for securities borrowing as “Guaranteed deposit payables”. Fees for borrowing and lending are recognised on an accrual basis over the term of the lending.

#### **1.3.12 Property foreclosed**

Property foreclosed represents assets transferred from loans, hire purchase receivable on which the debtors had defaulted on their repayment obligations under the loan contracts or restructured receivables. The value of the repossessed assets are stated at the lower of cost and net realisable value. Net realisable value is determined at the market value or the appraisal value of repossessed assets less estimated selling expenses.

Loss on impairment is recognised in the income statements. Gains or losses from disposal of property foreclosed is recognised upon disposal.

#### **1.3.13 Financial lease**

Leases of property, plant or equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in other long-term payables, while the interest element is charged to the income statements over the lease period. The property, plant or equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease period.

### 1.3.14 Depreciation and amortisation

- a) Land is stated at cost. Building and equipment are stated at cost less accumulated depreciation.

Depreciation of building and equipment is calculated by reference to their cost on the straight-line basis (except for the depreciation of computer and communication equipment acquired since 2000, which is calculated using the sum-of-the-years-digits method over estimated useful lives of 3 years) over the following estimated useful lives:

Buildings and office condominium units	-	20	years
Office improvements	-	5	years
Furniture, fixtures and equipment	-	5	years
Motor vehicles	-	5	years

Depreciation is included in determining income.

No depreciation is provided on land.

- b) Leasehold rights are amortised to expenses on a straight-line basis over the lease period of 12, 13.5 and 15 years.
- c) Software license fees are deferred and amortised over the period of the license agreements, which are for periods of 5 and 10 years (with the exception of the amortisation of software licenses acquired since 2000, which is calculated using the sum-of-the-years-digits method over estimated useful lives of 3 years).
- d) Licenses to trade securities on the Hong Kong Exchange and Clearing Limited (“HKEC”) are stated at cost less amortisation on a straight-line basis over 10 years.

### 1.3.15 Income tax

- a) Current tax

The Bank and its subsidiaries calculate corporate income tax in accordance with tax legislations.

- b) Deferred tax

Deferred tax assets/liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the balance sheet date. This will be realised in future periods when the income is realised, or the expenses provided for are actually incurred and considered deductible for income tax purposes.

Deferred tax assets are recognised for deductible temporary differences if it is highly probable that the Bank and its subsidiaries will generate sufficient taxable profits from its future operations to utilise these assets. Deferred tax liabilities are recognised for all payable temporary differences.

Deferred tax assets and liabilities are calculated based on the tax rate that is expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax legislations) that have been enacted at the balance sheet date.

The Bank and its subsidiaries record deferred tax directly to equity if the tax relates to items that are recorded directly to equity.

At each, balance sheet date, the Bank and its subsidiaries review and reduce the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

#### **1.3.16 Impairment of assets**

The Bank and its subsidiaries assess at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, the Bank and the subsidiaries make an estimate of the asset's recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

#### **1.3.17 Sales of commercial paper**

Commercial paper, which is sold without recourse, is recorded by crediting the notes receivable account.

Commercial paper without an aval or acceptance, which is sold with recourse, is recorded as a liability under the caption of "Liabilities from sale of commercial paper". Commercial paper sold at a discount with recourse, which is avaled by or has acceptance from a commercial bank or other finance company, is recorded by crediting the notes receivable account, and the obligations disclosed as part of "Contingent liabilities".



### **1.3.18 Foreign currencies**

Foreign currency transactions are translated into Baht at the exchange rates ruling on the transaction dates. Assets and liabilities denominated in foreign currencies outstanding at the balance sheet date are translated into Baht at the average exchange rates ruling on the balance sheet date.

Gains and losses on exchange are included in determining income.

### **1.3.19 Employee benefits**

Salary, wages, bonuses and contributions to the social security fund and provident fund are recognised as expenses on an accrual basis.

### **1.3.20 Provisions**

Provisions are recognised when the Bank and its subsidiaries have a present obligation as a result of a past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### **1.3.21 Derivatives - Interest rate swap contracts**

The Bank recognised the net amount of interest to be received from or paid to the counterparty under the interest rate swap contracts as income or expenses on an accrual basis.

### **1.3.22 Financial instruments**

#### **a) Financial risk management**

The Bank and its subsidiaries' financial instruments, as defined under Thai Accounting Standard No. 48 "Financial Instruments: Disclosure and Presentations", principally comprise cash, interbank and money market items (assets), securities purchased under resale agreement, investments, receivable from clearing house, loans and receivable and accrued interest receivable, deposits, interbank and money market items (liabilities), liability payable on demand, borrowings, payable to clearing house, and securities and derivative business payables. The financial risks associated with these financial instruments and how they are managed is described in Note 3.30.

b) Fair value of financial instruments

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The methods and assumptions used by the Bank and its subsidiaries in estimating the fair value of financial instruments are as follows.

- For financial assets and liabilities which have short-term maturity or carried interest at the rate approximate to the market rate, including cash, interbank and money market items (assets), securities purchased under resale agreement, loans and receivable and accrued interest receivable, deposits, interbank and money market items (liabilities), liability payable on demand, short-term borrowings, the carrying amounts in the balance sheet approximate their fair value.
- For debts and equity securities, their fair value is generally derived from quoted market prices, or based on generally accepted pricing models when no market price is available.
- For fixed rate debentures and long-term borrowings, their fair value is estimated by discounting expected future cash flow by the current market interest rate of the borrowings with similar terms and conditions.
- For derivatives, fair value is based on the market price, or a formula which is generally accepted in cases where there is no market price.

The fair value of the other off balance sheet items cannot be reasonably determined thus it has not been disclosed.

**1.3.23 Earnings per share**

Calculation of earnings per share is summarized below.

Basic earnings per share

Basic earnings per share is calculated by dividing net income for the year, after deducting the portion of dividends which the preference shareholders receive before the ordinary shareholders, by the sum of the weighted average number of ordinary shares and preference shares in issue during the year.

### Diluted earnings per share

Diluted earnings per share is calculated by dividing net income for the year, after deducting the portion of dividends which the preference shareholders receive before the ordinary shareholders, by the sum of the weighted average number of ordinary shares and preference shares in issue during the year plus the weighted average number of ordinary shares to be issued upon conversion of warrants into ordinary shares. The calculation assumes that the conversion took place either at the beginning of the year or on the date the warrants were issued.

In determining earnings per share for the year, the amount of preferential dividends as referred to above was arrived at on a time proportion basis.

#### **1.3.24 Use of accounting estimates**

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in setting up allowances for impairment of investments and property foreclosed, allowance for doubtful accounts and losses from troubled debt restructuring, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

#### **1.3.25 Reclassification**

Certain amounts in the financial statements for the year ended 31 December 2005 have been reclassified to conform to the current year's classifications, with no effect on previously reported net income or shareholders' equity.

## **2. GENERAL INFORMATION**

### **2.1 The Bank's information**

TISCO Bank Public Company Limited is a public company incorporated and domiciled in Thailand. The Bank has been licensed by the Ministry of Finance to operate commercial banking business. The Bank's registered address is 48/2 TISCO Tower, 1st Floor, North Sathorn Road, Silom, Bangrak, Bangkok. As at 31 December 2006, the Bank has 14 branches in Thailand.

## 2.2 Share capital

The Bank has a registered capital of Baht 11,002 million which, according to the documents filed with the Ministry of Commerce in 1999, comprises 100.2 million ordinary shares and 1,000 million preference shares, both with a par value of Baht 10 each. The preference shares can be, and were from time to time, converted to ordinary shares in accordance with the Memorandum and Articles of Association.

The preference shares have the same rights and benefits as ordinary shares, with added rights and benefits that the holders of preference shares receive dividend for each of the year that the Bank pays dividend prior to the holders of ordinary shares at the rate of 1 Baht per share. Additionally, the holders of preference shares are entitled to share the leftover dividend with the holders of ordinary shares. In the year that the Bank does not declare dividend payment to the holders of ordinary shares, the Bank may declare dividend payment at the above-mentioned rate to the holders of preference shares. The holders of preference shares shall be entitled to receive dividend only in the years in which the Bank has declared dividend payment. Dividend shall not be made up in subsequent years for the years that the Bank did not declare dividend payment. Since 30 June 2009, the rights and benefits of the preference shareholders shall be equal to the holders of ordinary shares.

On 10 April 2000, the annual general meeting of the Bank's shareholders passed a resolution approving the allocation to directors and employees of the Bank and its subsidiaries a total of 30 million, 5-year, non-negotiable warrants to purchase the Bank's preference shares, exercisable in a ratio of 1 warrant to 1 preference share, and passed a resolution approving the establishment an Allotment Committee. Such committee resolved that the warrants would not be allocated to the Bank's directors, except for those directors who were qualified by virtue of being the Bank employees. The exercise price of the warrants was stipulated at 75 percent of the ten-trading-day average closing price of the Bank's preference shares prior to the effective date of the filing, subject to a minimum price of par value. The warrants are to be offered subsequent to the receipt of approval from the Office of the Securities and Exchange Commission. In addition, the annual general meeting passed a resolution approving the un-allocation of 400 million preference shares (including 300 million preference shares which were to be reserved for the conversion of convertible debentures). Thirty million preference shares with a par value of Baht 10 each are to be reserved for the exercise of the warrants to be issued and offered to directors and employees of the Bank and its subsidiaries to purchase the Bank's preference shares, leaving 370 million unallocated preference shares.

On 24 April 2002, the annual general meeting of the Bank's shareholders passed a resolution approving the exercise price of warrants at 75 percent of the ten-trading-day average closing price of the Bank's preference shares prior to the date of warrant allocation, subject to a minimum price of par value.

### **2.3 Statutory reserve**

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Bank is required to set aside to a statutory reserve at least 5 percent of its net income after deducting accumulated deficit brought forward (if any), until such reserve reaches 10 percent of its registered share capital. The statutory reserve is not available for dividend distribution.

### **2.4 Directors' remuneration**

Directors' remuneration represents the benefits paid to the Bank's directors in accordance with Section 90 of the Public Limited Companies Act, exclusive of salaries and related benefits payable to directors who hold executive positions.

### **2.5 Provident fund**

The Bank, its seven subsidiaries and their employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. The Bank, the subsidiaries and the employees contributed to the fund monthly at the rates of 5 - 10 percent of the employees' salaries depending on the number of years of service. The fund, which is managed by Bangkok Bank Public Company Limited, will be paid to the employees upon termination in accordance with the fund rules.

### **2.6 Related party transactions**

Related parties comprise enterprises and individuals that control, or are controlled by, the Bank, whether directly or indirectly, or which are under common control with the Bank. They also include associated companies and individuals which directly or indirectly own a voting interest in the Bank that gives them significant influence over the Bank, key management personnel, directors and officers with authority in the planning and direction of the Bank's operations.

The Bank has significant business transactions with related parties. These transactions have been concluded on commercial terms and bases agreed upon in the ordinary course of business between the Bank and those companies, which are reference to the terms and price as charged to other customers.

The Bank and its subsidiaries have neither granted credit, nor made any commitments to management - level employees (departmental managers upward), and have not granted credit to companies of which at least 10 percent of the common shares of paid up capital are held by the Bank, the Bank's directors or management - level employees, with the exception of loans to employees under the employee welfare scheme, as mentioned in Note 3.27 to the financial statements.

The Bank has neither provided any credit nor made any commitments to companies which have directors in common with the Bank in cases where such credit is unsecured or not fully collateralised and therefore would require an approval from the Bank of Thailand.

The Bank and its subsidiaries have no investments in related companies which are related by way of members of the management of the Bank or of its subsidiaries being shareholders and/or authorised directors.

### 3. DETAILS OF FINANCIAL STATEMENTS

#### 3.1 Consolidated financial statements

List of subsidiaries included in the consolidated financial statements is presented below.

Company	Country of incorporation	Percentage of shares held by the Bank as at 31 December		Subsidiaries' total assets as a percentage to the consolidated total as at 31 December		Subsidiaries' total revenues as a percentage to the consolidated total for the year ended 31 December		Subsidiaries' net income (loss) as a percentage to the consolidated total for the year ended 31 December	
		2006	2005	2006	2005	2006	2005	2006	2005
		(Unit : Percentage)							
<b>Subsidiaries directly owned by the Bank</b>									
TISCO Securities Hong Kong Limited	China-Hong Kong	100.00	100.00	0.33	1.43	0.95	1.10	(1.28)	(0.82)
TISCO Securities Co., Ltd.	Thailand	99.99	99.99	1.92	1.91	15.04	13.66	21.53	14.94
TISCO Asset Management Co., Ltd.	Thailand	99.99	99.99	0.31	0.24	5.71	5.13	7.44	5.28
TISCO Leasing Co., Ltd.	Thailand	99.99	99.99	2.27	2.68	1.81	2.35	1.70	2.56
Hi-Way Co., Ltd.	Thailand	99.99	99.99	3.54	3.63	14.32	13.12	8.21	7.20
TISCO Information Technology Co., Ltd.	Thailand	99.99	99.99	0.03	0.03	0.12	0.06	(6.63)	(5.12)
Thai Commercial Auto Co., Ltd.	Thailand	50.00	50.00	1.57	2.68	1.79	2.22	2.77	3.13
TISCO Group Co., Ltd.	Thailand	99.99	99.99	-	-	-	-	-	(0.10)
TISCO Corporation Public Co., Ltd.	Thailand	95.00	95.00	-	-	-	-	(0.04)	-
<b>Subsidiaries indirectly owned by the Bank</b>									
TISCO Global Securities Limited (Formerly known as "TISCO Global Investment Holding Limited")	China-Hong Kong	100.00	100.00	0.03	-	0.03	0.03	0.05	0.08
TISCO Securities UK Limited (Liquidation in 2005)	United Kingdom	-	-	-	-	-	-	-	-
TISCO Securities Singapore Pte. Ltd. (Liquidation in 2006)	Singapore	-	100.00	-	-	-	-	-	(0.01)
VLT Leasing Co., Ltd.	Thailand	50.00	50.00	-	0.02	0.03	0.21	(0.16)	0.25

### 3.2 Interbank and money market items (assets)

(Unit : Baht)

	Consolidated as at					
	31 December 2006			31 December 2005		
	At call	Term	Total	At call	Term	Total
<b>Domestic</b>						
Bank of Thailand and Financial Institutions						
Development Fund	422,699,150	-	422,699,150	452,351,484	-	452,351,484
Commercial banks	270,233,819	10,497,558	280,731,377	467,304,414	10,600,184	477,904,598
Other banks and financial institutions	-	-	-	27,193,623	-	27,193,623
Total domestic	692,932,969	10,497,558	703,430,527	946,849,521	10,600,184	957,449,705
Add : Accrued interest	664,084	375,340	1,039,424	-	-	-
Total	693,597,053	10,872,898	704,469,951	946,849,521	10,600,184	957,449,705
<b>Foreign</b>						
Dollar Hong Kong	143,706,608	-	143,706,608	309,204,593	26,487,000	335,691,593
Dollar USA	148,101,241	-	148,101,241	90,074,785	25,202,825	115,277,610
Ringgit	24,923,945	-	24,923,945	27,613,286	22,703,709	50,316,995
Yen	28,519	-	28,519	19,283,245	-	19,283,245
Dollar Singapore	160,718	-	160,718	6,780,085	-	6,780,085
Others	2,844,374	-	2,844,374	16,239,186	4,374,361	20,613,547
Total foreign	319,765,405	-	319,765,405	469,195,180	78,767,895	547,963,075
Add : Accrued interest	-	-	-	-	-	-
Total	319,765,405	-	319,765,405	469,195,180	78,767,895	547,963,075
Total domestic and foreign	1,013,362,458	10,872,898	1,024,235,356	1,416,044,701	89,368,079	1,505,412,780

(Unit : Baht)

	The Bank Only as at					
	31 December 2006			31 December 2005		
	At call	Term	Total	At call	Term	Total
<u>Domestic</u>						
Bank of Thailand and Financial Institutions						
Development Fund	422,613,658	-	422,613,658	452,351,484	-	452,351,484
Commercial banks	57,452,608	-	57,452,608	37,657,316	125,449	37,782,765
Total domestic	480,066,266	-	480,066,266	490,008,800	125,449	490,134,249
Add : Accrued interest	-	-	-	-	-	-
Total	480,066,266	-	480,066,266	490,008,800	125,449	490,134,249
<u>Foreign</u>						
Dollar Hong Kong	102,154,800	-	102,154,800	-	-	-
Total foreign	102,154,800	-	102,154,800	-	-	-
Add : Accrued interest	-	-	-	-	-	-
Total	102,154,800	-	102,154,800	-	-	-
Total domestic and foreign	582,221,066	-	582,221,066	490,008,800	125,449	490,134,249

(Unit : Million Baht)

Interbank and money market items (assets) which are pledged	Consolidated		The Bank Only		Type of pledged
	As at		As at		
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	
Cash at banks of its local subsidiary	10	10	-	-	To secure facilities provided for bank overdraft
Promissory notes deposited in name of subsidiary for securities borrowing and lending	-	12	-	-	As collateral for borrowing securities, which a subsidiary received from a client under a securities borrowing and lending agreement.

### 3.3 Securities purchased under resale agreements

(Unit : Million Baht)

	Consolidated/The Bank Only as at	
	31 December 2006	31 December 2005
Bank of Thailand Bond	1,718	2,000



### 3.4 Investments

(Unit : Baht)

	Consolidated as at			
	31 December 2006		31 December 2005	
	Cost / Book value	Fair value	Cost / Book value	Fair value
<b>Current investment</b>				
<b>Trading securities</b>				
Equity securities :				
Domestic marketable equity securities	647	605	712	1,000
Add (less) : Allowance for changes in value	(42)		288	
Net equity securities	605		1,000	
Total trading securities	605		1,000	
<b>Available-for-sales securities</b>				
Debt securities :				
Government and state enterprise securities	460,230,153	460,111,647	407,956,994	407,906,038
Debt securities of private sector	237,568,301	178,608,804	285,452,079	221,803,717
Total	697,798,454	638,720,451	693,409,073	629,709,755
Add (less) : Allowance for changes in value	1,335,997		(3,285,318)	
Less : Allowance for impairment	(60,414,000)		(60,414,000)	
Debt securities - net	638,720,451		629,709,755	
Equity securities :				
Domestic marketable equity securities	129,506,440	85,163,447	124,491,790	86,108,412
Add (less): Allowance for changes in value	(44,342,993)		(38,383,378)	
Net equity securities	85,163,447		86,108,412	
Total available-for-sales securities	723,883,898		715,818,167	
<b>Held-to-maturity debt securities-due within 1 year</b>				
Government and state enterprise securities	772,165		1,570,129	
Debt securities of private sector	4,000		-	
Foreign debt securities	-		109,203,835	
Total held-to-maturity debt securities-due within 1 year	776,165		110,773,964	
<b>Other Investment</b>				
Equity securities :				
Unit trusts	50,000,000		-	
Total other investment	50,000,000		-	
Total net current investments	774,660,668		826,593,131	

(Unit : Baht)

	Consolidated as at			
	31 December 2006		31 December 2005	
	Cost / Book value	Fair value	Cost / Book value	Fair value
<b>Long-term investment</b>				
<b>Available-for-sales securities</b>				
Debt securities :				
Debt securities of private sector	100,000,000	101,819,890	100,000,000	100,523,500
Add (less) : Allowance for changes in value	1,819,890		523,500	
Debt securities – net	101,819,890		100,523,500	
Equity securities :				
Domestic marketable equity securities	2,502,412,020	2,335,941,187	2,620,256,702	2,928,773,993
Other securities – unit trusts	103,158,046	122,931,002	188,945,143	209,833,092
Total	2,605,570,066	2,458,872,189	2,809,201,845	3,138,607,085
Add (less) : Allowance for changes in value	(146,697,877)		329,405,240	
Net equity securities	2,458,872,189		3,138,607,085	
Total available-for-sales securities	2,560,692,079		3,239,130,585	
<b>Held-to-maturity debt securities</b>				
Debt securities :				
Government and state enterprise securities	337,173,113		337,210,727	
Debt securities of private sector	-		4,000	
Total held-to-maturity debt securities	337,173,113		337,214,727	
<b>Other investment</b>				
Equity securities :				
Domestic non-marketable equity securities	956,701,623		1,042,888,354	
Investment in receivables	6,256,324		7,626,324	
Less : Allowance for impairment	(242,282,590)		(248,080,148)	
Total other investment	720,675,357		802,434,530	
Net long-term investments	3,618,540,549		4,378,779,842	
Net investments	4,393,201,217		5,205,372,973	

(Unit : Baht)

## The Bank Only as at

	31 December 2006		31 December 2005	
	Cost / Book value	Fair value	Cost / Book value	Fair value
<b><u>Current investment</u></b>				
<b>Available-for-sales securities</b>				
Debt securities :				
Government and state enterprise securities	459,637,516	459,519,824	406,626,435	406,576,628
Debt securities of private sector	237,568,301	178,608,804	285,452,078	223,094,316
Total	697,205,817	638,128,628	692,078,513	629,670,944
Add (less) : Allowance for changes in value	1,336,811		(1,993,569)	
Less : Allowance for impairment	(60,414,000)		(60,414,000)	
Debt securities – net	638,128,628		629,670,944	
Equity securities :				
Domestic marketable equity securities	129,506,441	85,163,448	124,491,790	86,108,412
Add (less) : Allowance for changes in value	(44,342,993)		(38,383,378)	
Net equity securities	85,163,448		86,108,412	
Total available-for-sales securities	723,292,076		715,779,356	
Net current investments	723,292,076		715,779,356	
<b><u>Long-term investment</u></b>				
<b>Available-for-sales securities</b>				
Debt securities :				
Debt securities of private sector	100,000,000	101,819,890	100,000,000	100,523,500
Add (less) : Allowance for changes in value	1,819,890		523,500	
Debt securities – net	101,819,890		100,523,500	
Equity securities :				
Domestic marketable equity securities	2,072,455,233	1,857,613,060	2,604,165,076	2,909,412,865
Other securities – unit trusts	-	-	5,948,876	5,977,197
Total	2,072,455,233	1,857,613,060	2,610,113,952	2,915,390,062
Add (less) : Allowance for changes in value	(214,842,173)		305,276,110	
Net equity securities	1,857,613,060		2,915,390,062	
Total available-for-sales securities	1,959,432,950		3,015,913,562	

(Unit : Baht)

	The Bank Only as at			
	31 December 2006		31 December 2005	
	Cost / Book value	Fair value	Cost / Book value	Fair value
<b>Held-to-maturity debt securities</b>				
Debt securities :				
Government and state enterprise securities	335,000,000		335,000,000	
Total held-to-maturity debt securities	335,000,000		335,000,000	
<b>Other investment</b>				
Equity securities :				
Domestic non-marketable equity securities	946,588,430		1,032,775,160	
Investment in receivables	8,883,246		10,253,247	
Less : Allowance for impairment	(242,282,590)		(248,080,148)	
Total other investment	713,189,086		794,948,259	
Net long-term investments	3,007,622,036		4,145,861,821	
<b>Investment in subsidiaries</b>				
Investment in subsidiaries	3,986,406,393		3,566,055,931	
Net investments	7,717,320,505		8,427,697,108	

### 3.4.1 Held-to-maturity debt securities with the Ministry of Finance under the Tier I and Tier II capital support scheme

(Unit : Million Baht)

	Consolidated/the Bank Only		Remark
	As at		
	31 December 2006	31 December 2005	
Government bonds	335	335	These bonds are redeemable within a 10-year period, maturing in 2009 and carry interest at rates of 4% and 5% per annum.

### 3.4.2 Investments subject to restriction

(Unit : Million Baht)

Type of investment	Consolidated		The Bank Only		Type of restriction
	As at		As at		
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	
Domestic marketable equity securities	21	35	21	35	Have a specific terms for being sold in accordance with a condition of troubled debt restructuring agreements made with restructured receivables
Domestic non-marketable equity securities	13	13	13	13	Pledged as security for short-term loan from a company
Government debt securities	5	5	3	3	Pledged for electricity usage
Government debt securities	63	63	63	63	Pledged under agreement to swap a floating interest rate for a fixed interest rate, described in Note 3.30.2
Foreign debt securities	-	109	-	-	Pledged to secure credit facility

### 3.4.3 Investment in debt securities classified by remaining periods of contracts

(Unit : Baht)

	Consolidated as at 31 December 2006			
	Maturity			Total
	1 year	Over 1 - 5 years	Over 5 years	
<b>Available-for-sale securities</b>				
Government and state enterprise securities	460,230,153	-	-	460,230,153
Debt securities of private sector	95,927,925	241,640,376	-	337,568,301
Total	556,158,078	241,640,376	-	797,798,454
Add (less) : Allowance for changes in value	74,512	3,081,375	-	3,155,887
Less : Allowance for impairment	(60,414,000)	-	-	(60,414,000)
Total	495,818,590	244,721,751	-	740,540,341
<b>Held-to-maturities debt securities</b>				
Government and state enterprise securities	772,165	337,173,113	-	337,945,278
Debt securities of private sector	4,000	-	-	4,000
Total	776,165	337,173,113	-	337,949,278
<b>Total debt securities</b>	<b>496,594,755</b>	<b>581,894,864</b>	<b>-</b>	<b>1,078,489,619</b>

(Unit : Baht)

Consolidated as at 31 December 2005

	Maturity			Total
	Over		Over	
	1 year	1 - 5 years	5 years	
<b>Available-for-sale securities</b>				
Government and state enterprise securities	407,956,994	-	-	407,956,994
Debt securities of private sector	80,254,236	107,500,500	197,697,343	385,452,079
Total	488,211,230	107,500,500	197,697,343	793,409,073
Add (less) : Allowance for changes in value	(1,475,444)	(2,323,991)	1,037,617	(2,761,818)
Less : Allowance for impairment	(60,414,000)	-	-	(60,414,000)
Total	426,321,786	105,176,509	198,734,960	730,233,255
<b>Held-to-maturities debt securities</b>				
Government and state enterprise securities	1,570,129	337,210,727	-	338,780,856
Debt securities of private sector	-	4,000	-	4,000
Foreign debt securities	109,203,835	-	-	109,203,835
Total	110,773,964	337,214,727	-	447,988,691
<b>Total debt securities</b>	<b>537,095,750</b>	<b>442,391,236</b>	<b>198,734,960</b>	<b>1,178,221,946</b>

(Unit : Baht)

The Bank Only as at 31 December 2006

	Maturity			Total
	Over		Over	
	1 year	1 - 5 years	5 years	
<b>Available-for-sale securities</b>				
Government and state enterprise securities	459,637,516	-	-	459,637,516
Debt securities of private sector	95,927,925	241,640,376	-	337,568,301
Total	555,565,441	241,640,376	-	797,205,817
Add (less) : Allowance for changes in value	75,326	3,081,375	-	3,156,701
Less : Allowance for impairment	(60,414,000)	-	-	(60,414,000)
Total	495,226,767	244,721,751	-	739,948,518
<b>Held-to-maturities debt securities</b>				
Government and state enterprise securities	-	335,000,000	-	335,000,000
Total	-	335,000,000	-	335,000,000
<b>Total debt securities</b>	<b>495,226,767</b>	<b>579,721,751</b>	<b>-</b>	<b>1,074,948,518</b>

(Unit : Baht)

## The Bank Only as at 31 December 2005

	Maturity			Total
	1 year	Over 1 - 5 years	Over 5 years	
	<b>Available-for-sale securities</b>			
Government and state enterprise securities	406,626,435	-	-	406,626,435
Debt securities of private sector	80,254,236	107,500,500	197,697,342	385,452,078
Total	486,880,671	107,500,500	197,697,342	792,078,513
Add (less) : Allowance for changes in value	(183,695)	(2,323,991)	1,037,617	(1,470,069)
Less : Allowance for impairment	(60,414,000)	-	-	(60,414,000)
Total	426,282,976	105,176,509	198,734,959	730,194,444
<b>Held-to-maturities debt securities</b>				
Government and state enterprise securities	-	335,000,000	-	335,000,000
Total	-	335,000,000	-	335,000,000
<b>Total debt securities</b>	<b>426,282,976</b>	<b>440,176,509</b>	<b>198,734,959</b>	<b>1,065,194,444</b>

## 3.4.4 Investment in companies with weak financial position and poor operating results

(Unit : Baht)

## Consolidated / The Bank Only

As at 31 December 2006

	Allowance for changes in Value <sup>(1)</sup>		
	Cost	Fair value	
Companies having problems with debt repayment or in default	67,873,030	-	67,873,030

<sup>(1)</sup> Allowance for changes in value of investment is calculated at cost less collateral value.

3.4.5 Investments whereby the Bank and its subsidiaries hold not less than 10 percent of the equity of the investees

(Unit : Baht)

Name	Consolidated as at					
	31 December 2006			31 December 2005		
	Book value	Unpaid amounts	Percentage of holding	Book value	Unpaid amounts	Percentage of holding
			%			%
<b>Insurance :</b>						
GITC Co., Ltd.	13,200,000	-	40	13,200,000	-	40
AXA Insurance Plc.	58,887,016	-	11	58,887,016	-	11
<b>Services :</b>						
Jiji Press (Thailand) Co., Ltd.	813,823	300,000	10	1,627,646	600,000	20
K. Line (Thailand) Co., Ltd.	37,334,990	-	10	37,334,990	-	10
<b>Leasing and hire purchase :</b>						
Mizuho Corporate Leasing (Thailand) Co., Ltd.	1,849,050	-	21	1,849,050	-	21
<b>Trading import and export :</b>						
Shin Thai Enterprises Co., Ltd.	5,707,044	-	10	5,707,044	-	10
PDTL Trading Co., Ltd.	13,904,710	-	15	13,904,710	-	15
Wattana Inter - Trade Co., Ltd.	3,527,400	-	10	3,654,300	-	10
<b>Real estate :</b>						
Prosperity Industrial Estate Co., Ltd.	45,342,186	-	10	45,342,186	-	10
UMI Property Co., Ltd.	10,029,000	-	10	10,422,000	-	10
<b>Industrial :</b>						
Siam Art Ceramic Co., Ltd.	15,697,000	-	10	14,762,000	-	10



(Unit : Baht)

Name	The Bank Only as at					
	31 December 2006			31 December 2005		
	Book value	Unpaid amounts	Percentage of holding	Book value	Unpaid amounts	Percentage of holding
		%			%	
<b><u>Insurance :</u></b>						
GITC Co., Ltd.	13,200,000	-	40	13,200,000	-	40
AXA Insurance Plc.	58,887,016	-	11	58,887,016	-	11
<b><u>Services :</u></b>						
TISCO Securities Hong Kong Limited	91,964,825	-	100	243,097,170	-	100
TISCO Securities Co., Ltd.	1,875,538,490	-	99.99	1,581,799,090	-	99.99
TISCO Asset Management Co., Ltd.	214,123,391	-	99.99	118,057,131	-	99.99
TISCO Information Technology Co., Ltd.	14,571,823	-	99.99	7,669,227	-	99.99
Jiji Press (Thailand) Co., Ltd.	813,823	300,000	10	1,627,646	600,000	20
K. Line (Thailand) Co., Ltd.	37,334,990	-	10	37,334,990	-	10
<b><u>Leasing and hire purchase :</u></b>						
Thai Commercial Auto Co., Ltd.	426,717,020	100,000,000	50	430,843,955	100,000,000	50
Hi-Way Co., Ltd.						
(ordinary shares and preference shares)	233,665,334	-	99.99	114,575,472	-	99.99
TISCO Leasing Co., Ltd.	1,057,727,860	-	99.99	998,653,779	-	99.99
Mizuho Corporate Leasing (Thailand) Co., Ltd.	1,849,050	-	21	1,849,050	-	21
<b><u>Trading import and export :</u></b>						
Shin Thai Enterprises Co., Ltd.	5,707,044	-	10	5,707,044	-	10
PDTL Trading Co., Ltd.	13,904,710	-	15	13,904,710	-	15
Wattana Inter - Trade Co., Ltd.	3,527,400	-	10	3,654,300	-	10
<b><u>Real estate :</u></b>						
Prosperity Industrial Estate Co., Ltd.	45,342,186	-	10	45,342,186	-	10
UMI Property Co., Ltd.	10,029,000	-	10	10,422,000	-	10
<b><u>Industrial :</u></b>						
Siam Art Ceramic Co., Ltd.	15,697,000	-	10	14,762,000	-	10
<b><u>Holding :</u></b>						
TISCO Group Co., Ltd.	73,920,892	-	99.99	71,428,607	-	99.99
TISCO Corporation Plc.	(1,822,839)	-	95	(68,500)	-	95

3.4.6 The Bank does not record investments by the equity method for any investments which had been transferred as the result of debt restructuring, and the Bank holds not less than 20% of the equity. The Bank is obliged to dispose of these investments within a period stipulated in the Bank of Thailand's regulations.

Name	Consolidated/The Bank Only	
	As at 31 December 2006	
	Book value	Percentage of holding
	Baht	%
GITC Co., Ltd.	13,200,000	40
Mizuho Corporate Leasing (Thailand) Co., Ltd.	1,849,050	21

### 3.5 Investment in subsidiary companies

Company's name	Nature of Business	Paid-up share capital		Cost method		Equity method <sup>(1)</sup>		(Unit : Million Baht) Dividend received <sup>(2)</sup>	
		As at		As at		As at		for the year ended	
		31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
		2006	2005	2006	2005	2006	2005	2006	2005
<b>Subsidiary companies directly held by the Bank :</b>									
TISCO Securities Hong Kong Limited	Services	HKD 20 million	HKD 20 million	66	66	92	243	106	-
TISCO Securities Co., Ltd.	Services	1,500	1,500	1,500	1,500	1,875	1,582	-	395
TISCO Asset Management Co., Ltd.	Services	100	100	220	220	214	118	-	200
TISCO Leasing Co., Ltd.	Leasing	890	890	864	864	1,058	999	-	351
Hi-Way Co., Ltd.	Hire purchase	100	100	273	273	234	114	-	590
TISCO Information Technology Co., Ltd.	Services	20	20	44	44	14	8	-	-
Thai Commercial Auto Co., Ltd.	Hire purchase	800	800	434	434	427	431	38	28
TISCO Group Co., Ltd.	Holdings	150	150	150	150	74	71	-	-
TISCO Corporation Plc.	Holdings	-	-	-	-	(2)	-	-	-
						3,986	3,566	144	1,564

<sup>(1)</sup> Calculated by including share of profit in subsidiaries in which the Bank has indirect holdings.

<sup>(2)</sup> Including dividend received from subsidiary companies which indirectly held by the Bank.

On 28 November 2003, the Bank received approval from the Bank of Thailand to accept the transfer of business from Tru-Way Company Limited (which is a subsidiary company), in accordance with the resolutions of the annual general meeting of the Bank's shareholders held on 24 April 2003. Tru-Way Company Limited was deregistered with the Ministry of Commerce on 29 December 2003 and is currently in the process of liquidation.

### 3.6 Loans, receivable and accrued interest receivable

#### 3.6.1 Classified by type of loan and receivable

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<b><u>Loans and receivable</u></b>				
Loans	15,149,089,266	13,892,440,686	15,132,494,034	13,833,778,155
Hire - purchase and financial lease receivable	59,492,141,835	50,055,971,159	53,748,173,438	43,965,539,275
Total loans and receivable	74,641,231,101	63,948,411,845	68,880,667,472	57,799,317,430
Add : Accrued interest receivable	143,399,168	113,987,295	98,862,425	77,532,932
Less : Allowance for doubtful accounts	(2,767,471,240)	(3,122,949,106)	(2,463,410,866)	(2,865,571,288)
Less : Allowance for loss on debt restructuring	(22,403,970)	(303,731,217)	(22,403,970)	(303,731,217)
Net loans, receivable and accrued interest receivable	71,994,755,059	60,635,718,817	66,493,715,061	54,707,547,857
<b><u>Securities and derivative business receivable</u></b>				
<u>Securities business receivable</u>				
Customer's cash accounts	664,599,739	1,207,205,796	-	-
Customer's securities borrowings and lending accounts	-	10,560,000	-	-
Other receivable				
Overdue customers' accounts	34,012	123,421	-	-
Receivables under litigation	110,671	-	-	-
Installment receivable	2,505,803	57,380,118	-	-
Total securities business receivable	667,250,225	1,275,269,335	-	-
Less : Allowance for doubtful accounts	(3,752,236)	(58,052,235)	-	-
Net securities business receivable	663,497,989	1,217,217,100	-	-
Net loans, receivable and accrued interest receivable	72,658,253,048	61,852,935,917	66,493,715,061	54,707,547,857

### 3.6.2 Classified by remaining periods of contracts

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Loans and receivable				
Not over 1 year (included contract which are due)	10,114,758,619	9,167,098,100	8,890,792,947	7,860,977,349
Over 1 year	64,526,472,482	54,781,313,745	59,989,874,525	49,938,340,081
Total loans and receivable	74,641,231,101	63,948,411,845	68,880,667,472	57,799,317,430
Add : Accrued interest receivable	143,399,168	113,987,295	98,862,425	77,532,932
Total loans, receivable and accrued interest receivable	74,784,630,269	64,062,399,140	68,979,529,897	57,876,850,362

### 3.6.3 Classified by type of business

(Unit : Baht)

	Consolidated as at 31 December 2006						Subsidiaries	Total
	The Bank Only							
	Pass	Special-mentioned	Sub-standard	Doubtful	Doubtful of loss	Total		
Agricultural and mining	95,216,539	1,835,259	862,229	-	-	97,914,027	-	97,914,027
Manufacturing and commerce	6,834,202,845	56,314,221	21,343,787	10,016,933	392,094,372	7,313,972,158	15,482,400	7,329,454,558
Real estate and construction	3,951,390,490	44,345,620	4,919,291	4,293,824	803,845,135	4,808,794,360	-	4,808,794,360
Public utilities and services	2,315,842,763	9,016,899	1,572,746	5,601,011	5,446,106	2,337,479,525	-	2,337,479,525
Personal use								
Hire - purchase	45,265,266,228	2,737,629,683	331,432,252	80,220,276	86,130,847	48,500,679,286	5,743,968,397	54,244,647,683
Housing loans	1,701,840,025	39,731,252	23,261,418	27,912,828	212,134,513	2,004,880,036	-	2,004,880,036
Securities	-	-	-	-	-	-	667,250,225	667,250,225
Others	2,836,481,158	46,008,510	22,955,600	3,260,659	908,242,153	3,816,948,080	1,112,832	3,818,060,912
Total loans, receivable and securities business receivable	63,000,240,048	2,934,881,444	406,347,323	131,305,531	2,407,893,126	68,880,667,472	6,427,813,854	75,308,481,326
Add : Accrued interest receivable	58,208,466	40,653,959	-	-	-	98,862,425	44,536,743	143,399,168
Total loans, receivable and securities business receivable and accrued interest receivable	63,058,448,514	2,975,535,403	406,347,323	131,305,531	2,407,893,126	68,979,529,897	6,472,350,597	75,451,880,494

(Unit : Baht)

	The Bank Only as at 31 December 2006					
	Pass	Special-mentioned	Sub-standard	Doubtful	Doubtful of loss	Total
	Agricultural and mining	95,216,539	1,835,259	862,229	-	-
Manufacturing and commerce	6,834,202,845	56,314,221	21,343,787	10,016,933	392,094,372	7,313,972,158
Real estate and construction	3,951,390,490	44,345,620	4,919,291	4,293,824	803,845,135	4,808,794,360
Public utilities and services	2,315,842,763	9,016,899	1,572,746	5,601,011	5,446,106	2,337,479,525
Personal use						
Hire - purchase	45,265,266,228	2,737,629,683	331,432,252	80,220,276	86,130,847	48,500,679,286
Housing loans	1,701,840,025	39,731,252	23,261,418	27,912,828	212,134,513	2,004,880,036
Others	2,836,481,158	46,008,510	22,955,600	3,260,659	908,242,153	3,816,948,080
Total loans and receivable	63,000,240,048	2,934,881,444	406,347,323	131,305,531	2,407,893,126	68,880,667,472
Add : Accrued interest receivable	58,208,466	40,653,959	-	-	-	98,862,425
Total loans, receivable and accrued interest receivable	63,058,448,514	2,975,535,403	406,347,323	131,305,531	2,407,893,126	68,979,529,897

(Unit : Baht)

Consolidated as at 31 December 2005								
	The Bank Only					Subsidiaries	Total	
	Pass	Special-mentioned	Sub-standard	Doubtful	Doubtful of loss			Total
Agricultural and mining	113,355,635	5,976,712	820,700	706,416	-	120,859,463	-	120,859,463
Manufacturing and commerce	6,253,538,280	89,443,787	35,559,494	32,225,147	311,436,943	6,722,203,651	57,182,642	6,779,386,293
Real estate and construction	3,485,656,094	61,787,700	6,806,840	5,083,530	589,489,581	4,148,823,745	-	4,148,823,745
Public utilities and services	1,626,220,139	15,359,737	4,743,668	3,869,538	5,426,503	1,655,619,585	-	1,655,619,585
Personal use								
Hire - purchase	36,537,560,414	1,932,716,890	268,879,049	143,132,988	101,347,000	38,983,636,341	6,090,431,883	45,074,068,224
Housing loans	1,826,070,709	35,253,718	13,565,038	14,515,558	285,412,455	2,174,817,478	-	2,174,817,478
Securities	-	-	-	-	-	-	1,275,269,335	1,275,269,335
Others	3,289,606,159	33,677,168	15,915,379	31,357,066	622,801,395	3,993,357,167	1,479,890	3,994,837,057
Total loans, receivable and securities business receivable	53,132,007,430	2,174,215,712	346,290,168	230,890,243	1,915,913,877	57,799,317,430	7,424,363,750	65,223,681,180
Add : Accrued interest receivable	48,962,617	28,570,315	-	-	-	77,532,932	36,454,363	113,987,295
Total loans, receivable and securities business receivable and accrued interest receivable	53,180,970,047	2,202,786,027	346,290,168	230,890,243	1,915,913,877	57,876,850,362	7,460,818,113	65,337,668,475

(Unit : Baht)

The Bank Only as at 31 December 2005						
	Pass	Special-mentioned	Sub-standard	Doubtful	Doubtful of loss	Total
Agricultural and mining	113,355,635	5,976,712	820,700	706,416	-	120,859,463
Manufacturing and commerce	6,253,538,280	89,443,787	35,559,494	32,225,147	311,436,943	6,722,203,651
Real estate and construction	3,485,656,094	61,787,700	6,806,840	5,083,530	589,489,581	4,148,823,745
Public utilities and services	1,626,220,139	15,359,737	4,743,668	3,869,538	5,426,503	1,655,619,585
Personal use						
Hire - purchase	36,537,560,414	1,932,716,890	268,879,049	143,132,988	101,347,000	38,983,636,341
Housing loans	1,826,070,709	35,253,718	13,565,038	14,515,558	285,412,455	2,174,817,478
Others	3,289,606,159	33,677,168	15,915,379	31,357,066	622,801,395	3,993,357,167
Total loans and receivable	53,132,007,430	2,174,215,712	346,290,168	230,890,243	1,915,913,877	57,799,317,430
Add : Accrued interest receivable	48,962,617	28,570,315	-	-	-	77,532,932
Total loans, receivable and accrued interest receivable	53,180,970,047	2,202,786,027	346,290,168	230,890,243	1,915,913,877	57,876,850,362

### 3.6.4 Loans and receivable for which the recognition of interest income has ceased

(Unit : Million Baht)

The Bank	Amounts calculated under BOT's guideline <sup>(2)</sup>		Amounts calculated under the Bank's policy	
	The Bank Only		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Loans and receivable for which the recognition of interest income has ceased <sup>(1)</sup>	2,340	2,229	3,114 <sup>(3)</sup>	4,534 <sup>(3)</sup>

<sup>(1)</sup> These amounts are calculated on an account by account basis.<sup>(2)</sup> Accrual of interest ceases when interest payments have been defaulted on for more than three months, counting from the due date.<sup>(3)</sup> Loans and receivables totaling Baht 2,602 million (2005 : Baht 3,842 million), for which a 100 percent allowance for doubtful debts has been provided against the unsecured portion. The above amounts are calculated on an account by account basis.

Subsidiaries	(Unit : Million Baht)	
	As at	
	31 December 2006	31 December 2005
Securities business loans and receivables, hire-purchase receivables, financial lease receivables and other loans and receivables for which the recognition of interest income has ceased	504 <sup>(1)</sup>	446 <sup>(1)</sup>

<sup>(1)</sup> Baht 129 million of such amount being loans and receivables (2005 : Baht 108 million), for which a 100 percent allowance for doubtful debts has been provided.

### 3.6.5 Unearned interest income which is presented as a deduction against loans and receivable

	(Unit : Million Baht)			
	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Unearned interest income	8,774	6,308	7,307	4,986

### 3.6.6 Outstanding balances (net of collateral) of restructured loans and receivables and receivables which are being restructured

	(Unit : Million Baht)
	The Bank Only
	As at 31 December 2006
Restructured loans and receivable <sup>(1)</sup>	628
Loans and receivable which are being restructured <sup>(2)</sup>	52

<sup>(1)</sup> As a result of restructuring, the due date for the first repayment of these restructured loans and receivable has been rescheduled.

<sup>(2)</sup> The Bank sets up an allowance for the possible loan loss of approximately Baht 26 million.

### 3.6.7 Troubled debt restructuring

#### - Debt restructuring during the year

	The Bank Only	
	For the year ended 31 December	
	2006	2005
Number of debtors (number)	28	63
Loan balances before restructuring (Million Baht)	1,150	1,196
Interest income on restructured receivables (Million Baht)	81	44
Receipt of principal and interest (Million Baht)	990	991
Loss on troubled debt restructuring (Million Baht)	-	-

- Debtors which were subjected to debt restructuring

The Bank Only as at 31 December 2006				
Type of restructuring	Number of receivables	Outstanding loan	Type of assets transferred	Fair value
		balance before restructuring		of transferred assets
		(Million Baht)	(Million Baht)	
Transfer of assets	23	2,600	Land	20
			Land and premises	2,468
Transfer of equity securities	5	789	Equity securities	414
Transfer of assets and equity securities and modification of terms	3	898	Land	198
			Equity securities	14
			Machinery	22
Transfer of equity securities and modification of terms	45	4,071	Equity securities	1,237
			Debt securities	21
Transfer of assets and modification of terms	12	2,191	Land and premises	465
			Equity securities	190
			Air conditioners	2
Modification of terms	1,113	23,120		
Total	1,201	33,669		5,051

- The balance of the restructured debts

(Unit : Million Baht)

The Bank Only		
As at		
	31 December 2006	31 December 2005
The balance of the restructured debts	2,389	3,135

### 3.7 Allowance for doubtful accounts / allowance for loss on debt restructuring

(Unit : Million Baht)

Allowance for doubtful accounts / allowance for loss on debt restructuring	The Bank Only	
	As at	
	31 December 2006	31 December 2005
Amounts to be provided under BOT's guidelines	2,142	2,276
Amounts already set up by the Bank	2,486 <sup>(1)</sup>	3,169 <sup>(1)</sup>
Amounts in excess of the required amount	344	893

<sup>(1)</sup> The allowance for doubtful debts consists of allowance for doubtful debts of Baht 1,644 million (2005 : Baht 2,293 million) set aside for the unsecured portion of loans amounting Baht 2,602 million (2005 : Baht 3,842 million) at the rate of 100 percent (the difference is the secured portion) and other allowances for doubtful debts amounting to Baht 842 million (2005 : Baht 876 million) set up for the other loans and receivables.

#### 3.7.1 Allowance for doubtful accounts

(Unit : Baht)

	Consolidated as at 31 December 2006						Total
	Pass	Special- mentioned	Sub- standard	Doubtful	Doubtful of loss	General reserve	
Balance - beginning of year	694,345,871	62,207,792	114,009,817	200,804,431	1,557,135,712	552,497,718	3,181,001,341
Increase (decrease) in allowance for doubtful accounts during the year	(41,750,714)	9,936,547	8,857,169	21,541,000	574,255,322	(445,362,590)	127,476,734
Bad debt written - off	(27,143,075)	(123,374)	(3,207,347)	(82,209,600)	(411,666,697)	(12,904,506)	(537,254,599)
Balance - end of year	625,452,082	72,020,965	119,659,639	140,135,831	1,719,724,337	94,230,622	2,771,223,476

(Unit : Baht)

	Consolidated as at 31 December 2005						Total
	Pass	Special- mentioned	Sub- standard	Doubtful	Doubtful of loss	General reserve	
Balance - beginning of year	763,477,090	38,367,951	104,331,637	295,255,259	1,830,234,568	897,205,431	3,928,871,936
Increase (decrease) in allowance for doubtful accounts during the year	(69,131,219)	23,839,841	9,941,617	(88,783,272)	357,154,466	(344,707,713)	(111,686,280)
Bad debt written - off	-	-	(263,437)	(5,667,556)	(630,253,322)	-	(636,184,315)
Balance - end of year	694,345,871	62,207,792	114,009,817	200,804,431	1,557,135,712	552,497,718	3,181,001,341



(Unit : Baht)

## The Bank Only as at 31 December 2006

	Pass	Special- mentioned	Sub- standard	Doubtful	Doubtful of loss	General reserve	Total
Balance - beginning of year	641,958,818	51,792,603	79,230,554	145,897,725	1,449,193,869	497,497,719	2,865,571,288
Increase (decrease) in allowance for doubtful accounts during the year	(35,527,017)	7,524,911	(3,095,198)	2,182,297	480,868,485	(391,597,964)	60,355,514
Bad debt written - off	(27,143,076)	(123,374)	(2,900,475)	(78,386,417)	(341,058,087)	(12,904,507)	(462,515,936)
Balance - end of year	579,288,725	59,194,140	73,234,881	69,693,605	1,589,004,267	92,995,248	2,463,410,866

(Unit : Baht)

## The Bank Only as at 31 December 2005

	Pass	Special- mentioned	Sub- standard	Doubtful	Doubtful of loss	General reserve	Total
Balance - beginning of year	704,169,329	29,826,615	80,183,486	271,006,463	1,321,584,128	824,278,635	3,231,048,656
Increase (decrease) in allowance for doubtful accounts during the year	(62,210,511)	21,965,988	(689,495)	(119,535,412)	324,257,019	(326,780,916)	(162,993,327)
Bad debt written - off	-	-	(263,437)	(5,573,326)	(196,647,278)	-	(202,484,041)
Balance - end of year	641,958,818	51,792,603	79,230,554	145,897,725	1,449,193,869	497,497,719	2,865,571,288

## 3.7.2 Allowance for loss on debt restructuring

(Unit : Baht)

## Consolidated/The Bank Only

As at

	31 December 2006	31 December 2005
Balance - beginning of year	303,731,217	359,502,073
Increase during the year	3,020,768	14,634,083
Written - off	(284,348,015)	(70,404,939)
Balance - end of year	22,403,970	303,731,217

## 3.7.3 Non - performing loans and receivables

(Unit : Million Baht)

## The Bank Only

As at

	31 December 2006	31 December 2005
Non - performing loans and receivables	2,946	2,493
Allowance for doubtful accounts	1,732	1,660

### 3.8 Classification of assets

#### 3.8.1 Investment in companies with weak financial position and poor operating results

(Unit : Million Baht)

	Cost		Fair value		Allowance for possible loss provided in the accounts <sup>(1)</sup>	
	As at		As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Debt instruments - debentures <sup>(2)</sup>	60	60	-	-	60	60
Equity instruments - ordinary shares <sup>(3)</sup>	6	6	-	-	6	6
Equity instruments - preference shares <sup>(3)</sup>	2	2	-	-	2	2

(1) Allowance for possible losses is determined based on the investment cost less collateral value.

(2) Investment in subordinated debentures issued by a financial institution which the Bank of Thailand ordered closed on 8 December 1997.

(3) Investments in securities of the companies which are vulnerable to delisting, of the companies of which the auditors have expressed their opinions with the going concern issue, or of the companies which have defaulted on their interest payments.

#### 3.8.2 Classification of assets under the Bank of Thailand's guidelines

(Unit : Million Baht)

	Debt balance		Debt balance after net off collateral		Amounts to be provided under BOT's guidelines		Amounts already set up by the Bank	
	As at		As at		As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<b>Loans and receivable<sup>(1)(2)(3)</sup></b>								
Pass	63,000	53,132	52,019	43,060	520	421	580	642
Special mentioned	2,935	2,174	2,883	2,120	58	42	59	51
Substandard	407	346	361	326	73	74	73	79
Doubtful	131	231	107	209	70	136	70	146
Doubtful of loss	2,408	1,916	1,399	1,299	1,399	1,299	1,589	1,449
Total	68,881	57,799	56,769	47,014	2,120	1,972	2,371	2,367
Loss on receivable under troubled debt restructuring	-	-	-	-	22	304	22	304
Total	68,881	57,799	56,769	47,014	2,142	2,276	2,393	2,671
General reserve							93	498
Total							2,486	3,169
<b>Investment in securities</b>								
Doubtful of loss								
Debt instruments	61	62	61	62	61	62	61	62
Equity instruments	717	510	717	510	717	510	717	510
Total	778	572	778	572	778	572	778	572

(Unit : Million Baht)

	Allowance for doubtful accounts							
	Debt balance		Debt balance after		Amounts to be provided under		Amounts already set up	
	As at		net off collateral		BOT's guidelines		by the Bank	
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
2006	2005	2006	2005	2006	2005	2006	2005	
<b>Investment in receivables</b>								
Pass	-	4	-	4	-	-	-	-
Doubtful	2	-	1	-	1	-	1	-
Doubtful of loss	7	7	-	-	-	-	-	-
Total	9	11	1	4	1	-	1	-
<b>Properties foreclosed</b>								
Doubtful of loss								
Land	16	51	16	51	16	51	16	51
Total classified assets	69,684	58,433	57,564	47,641	2,937	2,899	3,281	3,792

<sup>(1)</sup> Allowance for doubtful accounts for loans and receivable is determined based on debt balance less collateral value in accordance with the BOT's guidelines.

<sup>(2)</sup> Interest receivable are not included in pass and special mentioned debt balance.

<sup>(3)</sup> Loans and receivable include loan to financial institution (which presented as part of interbank and money market items in the balance sheet).

For the financial statements for the year ended 31 December 2006, the Bank set provision at 100% on receivables for which a court judgment has already been issued, for which a court order is being executed, and against which legal actions have been brought, in accordance with the new guidelines of the BOT (as described in Note 1.3.8). For the remaining non-performing loans which are classified as doubtful of loss, doubtful and substandard loans, the Bank still apply provisioning rate of 100%, at least 50% and at least 20%, respectively, in accordance with the prior guidelines. The Bank believes that the provision the Bank is required to make for doubtful of loss, doubtful and substandard loans in accordance with the new guidelines of the BOT will not have any significant impact on the 2007 financial statements.

### 3.8.3 Loans and receivable includes debts due from companies with weak financial position and operating results

	Number of debtors		Debt balance		Collateral value		Allowance for doubtful accounts provided in the accounts	
	As at		As at		As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
				Million Baht	Million Baht	Million Baht	Million Baht	Million Baht
1. Listed companies vulnerable to delisting from the SET	-	-	-	-	-	-	-	-
2. Non - listed companies with similar operating results and financial positions to listed companies vulnerable to delisting from the SET	15	13	627	868	72	313	531	552
3. Listed companies of which shares have been suspended for trading	1	1	15	15	-	-	15	15
4. Listed companies under rehabilitation	4	11	58	561	5	353	46	359
5. Companies which have loan settlement problems or have defaulted on payment of debts	25	24	1,330	1,003	706	383	808	666
6. Companies whose auditor's report cited going concern issues	-	-	-	-	-	-	-	-
<b>Total</b>	<b>45</b>	<b>49</b>	<b>2,030</b>	<b>2,447</b>	<b>783</b>	<b>1,049</b>	<b>1,400</b>	<b>1,592</b>

### 3.8.4 Classification of assets of securities business of a local subsidiary in accordance with the Notification of the Office of the Securities and Exchange Commission

(Unit : Million Baht)

	Securities business receivable and accrued interest		Allowance for doubtful accounts as required by SEC		Allowance for doubtful accounts provided in the accounts	
	As at		As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Substandard	-	55	-	-	-	-
Doubtful	3	3	3	3	3	3
<b>Total</b>	<b>3</b>	<b>58</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
General reserve					1	55
<b>Total</b>					<b>4</b>	<b>58</b>

Substandard debts represent the receivable balances with a value equivalent to that of their collateral.

3.8.5 Hire - purchase receivable/financial lease receivable and other loan receivable of the subsidiaries  
classified by the due date of the contracts

(Unit : Million Baht)

	Debt balances		Percentage of	Allowance for doubtful account		Debt balances - net	
	As at		allowance for doubtful	As at		As at	
	31 December	31 December	accounts set up	31 December	31 December	31 December	31 December
	2006	2005		2006	2005	2006	2005
Current	3,907	4,588	1	39	46	3,868	4,542
Overdue							
1 month	711	652	1	7	7	704	645
2 - 3 months	642	521	2	13	10	629	511
4 - 6 months	232	174	20	46	35	186	139
7 - 12 months	141	110	50	71	55	70	55
Over 12 months	89	62	100	89	62	-	-
Debtors under litigation	39	42	100	39	42	-	-
Total	5,761	6,149		304	257	5,457	5,892

3.9 Property foreclosed

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Foreclosed assets				
Immovable assets				
Balance - beginning of year	1,249,079,279	1,311,210,578	1,260,889,279	1,323,020,578
Additions	47,106	-	47,106	-
Disposals	(209,305,035)	(62,131,299)	(209,305,035)	(62,131,299)
Transfer to land, premises and equipment	(20,018,354)	-	(20,018,354)	-
Balance - end of year	1,019,802,996	1,249,079,279	1,031,612,996	1,260,889,279
Movable assets				
Balance - beginning of year	12,315,885	6,263,944	891,453	819,060
Additions	1,096,591,280	941,134,509	463,969,171	427,886,329
Disposals	(1,064,696,709)	(935,082,568)	(435,239,335)	(427,813,936)
Balance - end of year	44,210,456	12,315,885	29,621,289	891,453
Allowance for impairment				
Balance - beginning of year	54,700,401	87,116,467	50,521,892	85,819,839
Increase	25,228,486	7,046,968	6,669,166	1,096,012
Decrease	(58,718,730)	(39,463,034)	(40,897,512)	(36,393,959)
Balance - end of year	21,210,157	54,700,401	16,293,546	50,521,892
Property foreclosed - net	1,042,803,295	1,206,694,763	1,044,940,739	1,211,258,840

### 3.10 Land, premises and equipment

(Unit : Baht)

	Consolidated					Total
	Land	Building and office condominium unit	Furniture, fixtures and equipment	Office improvement	Motor vehicles	
<b>Cost :</b>						
31 December 2005	491,717,671	988,420,329	500,482,924	386,879,508	104,584,037	2,472,084,469
Additions	23,103,853	51,121,256	90,479,484	28,979,151	14,900,990	208,584,734
Transfer from property foreclosed	7,218,423	12,799,931	-	-	-	20,018,354
Disposals	-	-	(38,125,875)	(2,722,223)	(5,883,897)	(46,731,995)
Translation adjustment	-	-	(2,798,199)	-	-	(2,798,199)
31 December 2006	522,039,947	1,052,341,516	550,038,334	413,136,436	113,601,130	2,651,157,363
<b>Accumulated depreciation :</b>						
31 December 2005	-	273,527,575	406,434,421	189,616,625	43,009,778	912,588,399
Depreciation for the year	-	59,342,338	72,444,190	31,595,067	19,864,887	183,246,482
Depreciation on disposals	-	-	(37,124,637)	(2,647,716)	(5,883,897)	(45,656,250)
Translation adjustment	-	-	(1,821,415)	-	-	(1,821,415)
31 December 2006	-	332,869,913	439,932,559	218,563,976	56,990,768	1,048,357,216
<b>Net book value :</b>						
31 December 2005	491,717,671	714,892,754	94,048,503	197,262,883	61,574,259	1,559,496,070
31 December 2006	522,039,947	719,471,603	110,105,775	194,572,460	56,610,362	1,602,800,147
<b>Depreciation for the year :</b>						
2005						151,472,764
2006						183,246,482

(Unit : Baht)

	The Bank Only					Total
	Land	Building and office condominium unit	Furniture, fixtures and equipment	Office improvement	Motor vehicles	
<b>Cost :</b>						
31 December 2005	314,682,491	634,618,749	249,846,227	290,542,999	65,020,549	1,554,711,015
Additions	23,103,853	51,121,256	81,485,668	24,667,185	7,332,990	187,710,952
Transfer from property foreclosed	7,218,423	12,799,931	-	-	-	20,018,354
Disposals	-	-	(6,686,264)	-	(1,038,240)	(7,724,504)
31 December 2006	345,004,767	698,539,936	324,645,631	315,210,184	71,315,299	1,754,715,817
<b>Accumulated depreciation :</b>						
31 December 2005	-	220,932,054	198,378,994	107,645,462	23,506,302	550,462,812
Depreciation for the year	-	36,005,209	55,120,963	26,719,266	12,998,970	130,844,408
Depreciation on disposals	-	-	(6,403,805)	-	(1,038,240)	(7,442,045)
31 December 2006	-	256,937,263	247,096,152	134,364,728	35,467,032	673,865,175
<b>Net book value :</b>						
31 December 2005	314,682,491	413,686,695	51,467,233	182,897,537	41,514,247	1,004,248,203
31 December 2006	345,004,767	441,602,673	77,549,479	180,845,456	35,848,267	1,080,850,642
<b>Depreciation for the year :</b>						
2005						96,827,337
2006						130,844,408

### 3.11 Other assets

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Value added tax - net	523,590,252	450,470,841	519,857,462	442,981,610
Accrued interest receivable	22,512,661	16,569,309	22,499,042	15,871,270
Fee and charges receivable	176,480,838	207,662,041	101,021,971	153,852,931
Prepaid income tax	13,125,164	35,848,015	-	26,846,233
Deferred computer system development cost - net	88,760,196	61,513,787	73,344,558	44,487,005
Deposits	15,091,391	17,881,435	8,083,060	7,447,554
Other receivables	220,096,165	92,135,621	225,819,905	78,296,522
Other assets	159,765,211	122,769,505	84,760,755	64,096,230
Total other assets	1,219,421,878	1,004,850,554	1,035,386,753	833,879,355

### 3.12 Deposits

#### 3.12.1 Classified by type of deposits

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Promissory notes	4,972,402,081	13,327,892,554	4,972,402,081	13,327,892,554
Deposits				
Current accounts	1,389,973,194	1,133,873,942	1,490,229,310	1,294,335,669
Saving accounts	1,464,161,529	259,871,948	1,464,161,529	259,871,948
Fixed accounts				
- not over 6 months	33,232,365	554,311,076	33,232,365	554,311,076
- over 6 months and less than 1 year	103,974,469	263,257,956	103,974,469	263,257,956
- over 1 year	217,059,533	110,058,551	217,059,533	110,058,551
Negotiated certificate deposit	32,387,056,987	18,801,535,208	32,387,056,987	18,801,535,208
Total	40,567,860,158	34,450,801,235	40,668,116,274	34,611,262,962

#### 3.12.2 Classified by the remaining period of contract

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Not over 1 year	35,222,632,063	28,862,182,333	35,322,888,179	29,022,644,060
Over 1 year	5,345,228,095	5,588,618,902	5,345,228,095	5,588,618,902
Total deposits	40,567,860,158	34,450,801,235	40,668,116,274	34,611,262,962

### 3.13 Interbank and money market items (liabilities)

(Unit : Baht)

	Consolidated as at					
	31 December 2006			31 December 2005		
	At call	Term	Total	At call	Term	Total
Commercial banks	441,354,517	785,925,917	1,227,280,434	512,908,225	3,283,379,666	3,796,287,891
Other banks and financial institutions	159,700,692	770,000,000	929,700,692	1,048,964,930	1,570,000,000	2,618,964,930
Total	601,055,209	1,555,925,917	2,156,981,126	1,561,873,155	4,853,379,666	6,415,252,821



(Unit : Baht)

	The Bank Only as at					
	31 December 2006			31 December 2005		
	At call	Term	Total	At call	Term	Total
Commercial banks	269,589,351	150,000,000	419,589,351	347,393,970	1,800,000,000	2,147,393,970
Other banks and financial institutions	1,376,489,108	770,000,000	2,146,489,108	2,513,830,000	1,570,000,000	4,083,830,000
Total	1,646,078,459	920,000,000	2,566,078,459	2,861,223,970	3,370,000,000	6,231,223,970

### 3.14 Borrowings

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<u>Domestic borrowings</u>				
Subordinated debentures	331,000,000	331,000,000	331,000,000	331,000,000
Unsubordinated unsecured debentures	7,884,000,000	15,608,000,000	7,884,000,000	14,798,000,000
Bill of exchange - fixed rate	17,853,783,810	1,538,339,648	15,288,578,314	-
Others	13,200,000	13,200,000	13,200,000	13,200,000
	26,081,983,810	17,490,539,648	23,516,778,314	15,142,200,000

#### 3.14.1 Subordinated debentures

During 1999 the Bank issued Baht 331 million of unsecured subordinated debentures (331 units with a par value of Baht 1,000,000 each) which were sold to the Ministry of Finance under the Tier II capital support scheme. The Ministry of Finance assisted the Bank by purchasing the Bank's newly issued subordinated debentures in order to increase its Tier II capital fund to a level in accordance with the regulations of the Bank of Thailand. The debentures bear interest at rates of 5% and 6% per annum and mature in 2009. The Bank immediately used the money from the sale of these debentures to invest in government bonds issued by the Ministry of Finance, in accordance with the conditions of the Tier II capital support scheme.

### 3.14.2 Unsubordinated and unsecured debentures

Year	Issuer	Type of debenture	Units	Face value per unit (Baht)	Balance as at (Million Baht)		Maturity in the year	Interest rate	Remark
					31 December 2006	31 December 2005			
2002	The Bank	Unsubordinated and unsecured	2 million	1,000	2,000	2,000	2007	At a rate of 4.25 percent per annum.	-
2002	The Bank	Unsubordinated and unsecured	1 million	1,000	1,000	1,000	2007	At a rate of 3.5 percent per annum in the first and second years and thereafter at a floating rate equivalent to the reference rate plus 0.5 percent per annum, which rate shall not be less than 3.75 percent per annum and shall not exceed 5 percent, 5.5 percent and 6 percent per annum in the third, fourth and fifth years, respectively.	The Bank entered into interest rate swap agreements to swap the floating interest rate to a fixed interest rate. The agreement expires in 2007.
2002	The Bank	Unsubordinated and unsecured	1.8 million	1,000	1,800	1,800	2007	At a floating rate equivalent to a rate of 6 percent minus the reference rate per annum in the first, second and third years and thereafter at a rate of 3.8 percent per annum.	The Bank entered into interest rate swap agreements to swap the floating interest rate to a fixed interest rate. The agreement expires in 2007.
2003	Subsidiary	Unsubordinated and unsecured	0.4 million	1,000	-	400	2006	At a rate of 3.25 percent per annum.	The subsidiary company is required to comply with debenture issuance conditions and maintain certain financial ratio. In addition, an another subsidiary company has invested a total of Baht 90 million in these debentures (During 2006, the subsidiary repaid full amount of these debenture).
2003	Subsidiary	Unsubordinated and unsecured installment debenture	0.5 million	1,000	-	500	2006	At a rate of 3.2 percent per annum.	The issuer will repay the principal of the debentures in four periods, the first of which will start on 6 January 2006 and interest will be paid quarterly beginning 6 January 2004. Such subsidiary company is required to comply with debenture issuance conditions and maintain certain financial ratio. (During 2006, the subsidiary repaid full amount of these debentures).
2005	The Bank	Unsubordinated and unsecured short term debenture	9.9 million	1,000	-	9,998	2006	At a rate between 2.5 to 4.0 percent per annum.	-
2006	The Bank	Unsubordinated and unsecured short term debenture	3.1 million	1,000	3,084	-	2007	At a rate between 5.00 to 5.25 percent per annum	-

### 3.14.3 Bills of exchange - fixed rate

As of 31 December 2006, the Bank had outstanding bills of exchange amounting to Baht 15,289 million (2005 : Nil), bearing interest at fixed rates of 4.00 to 5.25 percent per annum and maturing between 2007 to 2008.

As of 31 December 2006, two subsidiary companies had outstanding bills of exchange amounting to Baht 2,565 million (2005 : Baht 1,538 million), bearing interest at fixed rates of 4.50 to 6.25 percent per annum and maturing in 2007.

### 3.15 Other liabilities

(Unit : Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Liabilities under commercial papers sold	145,000,000	545,000,000	145,000,000	545,000,000
Corporate income tax payable	146,340,036	180,931,729	33,277,202	70,463,591
Withholding income tax and other tax payable	157,773,034	142,360,334	101,929,455	83,416,835
Accrued insurance premium	574,554,389	355,076,136	553,569,838	292,243,404
Other liabilities	252,588,501	212,928,303	153,222,311	110,889,261
Total other liabilities	<u>1,276,255,960</u>	<u>1,436,296,502</u>	<u>986,998,806</u>	<u>1,102,013,091</u>

### 3.16 Preference shares converted to ordinary shares

Up to 31 December 2006, 441,077,120 preference shares had been converted into ordinary shares, and such conversion registered with the Ministry of Commerce.

As at 31 December 2006, there are 185,127,630 preference shares which are convertible to ordinary shares.

### 3.17 Warrants

	The Bank Only as at					
	31 December 2006			31 December 2005		
	No. of shares	Exercised		No. of shares	Exercised	
		price	Total		price	Total
shares	Baht per share	Baht	shares	Baht per share	Baht	
Exercised warrants						
Allocation in year 2000	8,820,000	10.00	88,200,000	8,820,000	10.00	88,200,000
Allocation in year 2001	4,763,000	11.31	53,869,530	4,678,000	11.31	52,908,180
Allocation in year 2002	5,454,000	13.20	71,992,800	4,594,000	13.20	60,640,800
Allocation in year 2003	5,137,500	14.94	76,754,250	3,079,000	14.94	46,000,260
Allocation in year 2004	2,030,250	21.88	44,421,870	596,750	21.88	13,056,890
	26,204,750		335,238,450	21,767,750		260,806,130
Unexercised warrants	2,751,750			7,249,750		
Warrants received from resigned employees	930,000			872,500		
Expired warrants	113,500			110,000		
Allocated warrants	30,000,000			30,000,000		

The Bank registered the preference shares which were converted from the above exercised warrants with the Ministry of Commerce.

### 3.18 Capital fund

	(Unit : Thousand Baht)	
	The Bank Only	
	As at	
	31 December 2006	31 December 2005
<u>Tier I</u>		
Issued and fully paid up share capital	7,264,048	7,219,677
Premium on share capital	109,691	79,629
Statutory reserve	344,800	344,800
Retained earnings - unappropriated	1,873,334	1,512,051
Total Tier I	9,591,873	9,156,157
<u>Tier II</u>		
Subordinated debentures	198,600	264,800
Reserve for loans classified as pass	579,289	641,959
Surplus for revaluation of equity securities - available for sales	-	120,177
Total Tier II	777,889	1,026,936
Less : Deficit for revaluation of equity securities - available for sales	(262,528)	-
Total capital fund	10,107,234	10,183,093

The capital ratios	The Bank Only as at			
	31 December 2006		31 December 2005	
	The Bank	Requirement	The Bank	Requirement
Tier I capital to risk assets	12.73%	4.25%	14.25%	4.25%
Total capital to risk assets	13.42%	8.50%	15.85%	8.50%
Total capital to issued and paid-up share capital	139.14%	75.00%	141.05%	75.00%

### 3.19 Surplus on changes in the value of investments

(Unit : Baht)

	Consolidated/The Bank Only	
	As at	
	31 December 2006	31 December 2005
Balance - beginning of year	1,100,980,635	1,365,419,480
Decrease in changes in the value of securities during the year	(492,721,094)	(264,438,845)
	608,259,541	1,100,980,635
Add (less) : The effect of deferred tax liabilities	54,696,595	(89,199,989)
Balance - end of year	662,956,136	1,011,780,646

### 3.20 Gain on investments

(Unit : Baht)

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Unrealised gain (loss) on investments	5,797,226	(13,876,397)	5,797,556	(13,964,083)
Realised gain on investments	449,578,737	347,938,920	442,816,883	115,257,723
Total	455,375,963	334,062,523	448,614,439	101,293,640

### 3.21 Other income

(Unit : Baht)

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Penalty fee income from loans	100,408,686	70,618,702	78,801,178	55,624,113
Reversal of allowance for impairment of property foreclosed	34,228,347	34,168,243	34,228,347	34,168,243
Gains on disposal of property foreclosed	-	-	66,448,665	-
Rental income	13,934,993	25,264,298	17,361,179	31,907,751
Others	77,950,538	91,850,825	37,575,757	48,156,095
<b>Total</b>	<b>226,522,564</b>	<b>221,902,068</b>	<b>234,415,126</b>	<b>169,856,202</b>

### 3.22 Other expenses

(Unit : Baht)

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Contributions to the Financial Institutions				
Development Fund	137,102,716	128,656,618	137,102,716	128,656,618
Losses on disposal of property foreclosed	100,516,073	187,406,361	-	23,421,852
Mailing expenses	28,712,260	39,858,346	17,576,405	26,650,510
Loan losses from court - ordered execution	28,893,004	25,987,677	12,964,977	13,643,598
Transportation expenses	50,811,754	44,794,100	35,173,635	29,414,438
Advertising and promotion expenses	9,524,968	21,095,538	7,442,413	17,024,046
Others	186,528,176	154,837,232	76,176,189	35,317,680
<b>Total</b>	<b>542,088,951</b>	<b>602,635,872</b>	<b>286,436,335</b>	<b>274,128,742</b>

### 3.23 Corporate income tax

(Unit : Baht)

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Income tax payable on taxable profit for year	450,620,429	458,256,104	180,456,473	186,960,293
Add (less) : Net decrease (increased) in deferred tax on temporary differences	182,799,738	176,754,079	205,839,899	210,032,600
Income tax expenses - net	<u>633,420,167</u>	<u>635,010,183</u>	<u>386,296,372</u>	<u>396,992,893</u>

The temporary differences of deferred tax assets and deferred tax liabilities arose from the following.

(Unit : Thousand Baht)

	Consolidated		The Bank Only	
	As at		As at	
	31 December	31 December	31 December	31 December
	2006	2005	2006	2005
Allowance for doubtful accounts (general reserve)	397,056	754,876	92,995	497,497
Allowance for doubtful accounts for VAT receivables	61,110	42,288	-	-
Allowance for impairment of investments	350,228	357,584	350,177	357,534
Allowance for impairment of property foreclosed	21,210	54,720	16,294	50,522
Non - accrual of interest income	835,699	1,045,296	745,151	981,402
Depreciation of assets	61,389	47,332	42,023	34,821
Financial leases	201,170	230,243	-	-
Revaluation deficit (surplus) on changes in the value of investment	259,372	(265,590)	259,372	(265,590)
Others	(1,328)	9,432	(1,602)	9,395
	<u>2,185,906</u>	<u>2,276,181</u>	<u>1,504,410</u>	<u>1,665,581</u>
<b>Deferred tax assets (30%)</b>	<u>655,772</u>	<u>682,854</u>	<u>451,323</u>	<u>499,674</u>
Non - accrual of interest income	(31)	(1,942)	-	-
Depreciation of assets	(9,960)	(7,744)	-	-
Revaluation surplus on changes in the value of investment	77,050	31,744	-	-
Others	(2,236)	3,364	-	-
	<u>64,823</u>	<u>25,422</u>	<u>-</u>	<u>-</u>
<b>Deferred tax liabilities (30%)</b>	<u>19,447</u>	<u>7,627</u>	<u>-</u>	<u>-</u>

### 3.24 Provident fund

(Unit : Million Baht)

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Amounts contributed to the provident fund	49	44	25	23

### 3.25 Number of employees and related expenses

	Consolidated		The Bank Only	
	For the year ended		For the year ended	
	31 December		31 December	
	2006	2005	2006	2005
Number of employees at end of year (persons)	1,680	1,525	935	802
Employee expenses for the year (Million Baht)	1,216	1,205	672	647

### 3.26 Reconciliation of diluted earnings per share

	For the year ended 31 December					
	Net income		Weighted average number of ordinary shares		Earnings per share	
	2006	2005	2006	2005	2006	2005
	Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht
<b>Basic earnings per share</b>						
Net income	1,545,533	1,790,849				
Less: Dividend paid to preference shares in preference to the ordinary shares for the year	(183,901)	(182,621)				
	1,361,632	1,608,228	725,113	720,269	1.88	2.23
<b>Effect of dilutive potential ordinary shares</b>						
Warrants to purchase preferences shares	-	-	4,044	8,949*		
<b>Diluted earnings per share</b>						
Net income of ordinary shareholders assuming the conversion to ordinary shares	1,361,632	1,608,228	729,157	729,218	1.87	2.21

\* The Bank has recalculated diluted earnings per share for 2005 since it has recalculated the number of warrants to purchase preferences shares in 2005 by deducting the number of warrants which expired and received from resigned employees during the year.



### 3.27 Related party transactions

(Unit : Thousand Baht)

	The Bank Only			Balance - end of year
	Balance - beginning of year	Increase	Decrease	
<b>Outstanding balance as at 31 December 2006</b>				
<b>Subsidiary companies</b>				
Dividend receivables from subsidiaries :				
Hi-Way Co., Ltd.	490,000	-	-	490,000
TISCO Securities Co., Ltd.	225,000	-	(225,000)	-
TISCO Leasing Co., Ltd.	71,022	-	-	71,022
TISCO Asset Management Co., Ltd.	60,000	-	(30,000)	30,000
Other assets :				
TISCO Leasing Co., Ltd.	-	6,903	-	6,903
Thai Commercial Auto Co., Ltd.	-	13,477	-	13,477
TISCO Information Technology Co., Ltd.	8,000	83,643	(81,643)	10,000
TISCO Securities Co., Ltd.	-	19,370	(19,370)	-
Deposits in Baht :				
TISCO Securities Co., Ltd.	1,442,248	-	(238,367)	1,203,881
TISCO Group Co., Ltd.	83,481	2,326	-	85,807
Hi-Way Co., Ltd.	35,827	-	(34,275)	1,552
Other subsidiary companies	63,753	6,082	(44,030)	25,805
Borrowings :				
TISCO Group Co., Ltd.	-	80,000	(80,000)	-
Other liabilities :				
TISCO Securities Co., Ltd.	3,728	-	(3,728)	-
TISCO Leasing Co., Ltd.	-	1,143	-	1,143
Thai Commercial Auto Co., Ltd.	-	1,906	-	1,906

	(Unit : Thousand Baht)		
	The Bank Only		Terms and pricing policy
	2006	2005	(For the year 2006)
<b><u>Transactions occurred during the year ended 31 December</u></b>			
<b>Subsidiaries</b>			
Risk and financial management fee income and human resources management fee income	28,446	31,029	In accordance with the centralized policy for supporting activities of the Bank and subsidiary companies, which is in accordance with the Bank of Thailand's announcement
Accounts receivable management fee income and office administration fee income	41,436	52,980	Reference to the terms and price as charged to other customers
Other income	4,139	8,313	Reference to the terms and price as charged to other customers
Computer system advisory services expenses and office administration expenses	82,056	47,400	In accordance with the centralized policy for supporting activities of the Bank and subsidiary companies, which is in accordance with the Bank of Thailand's announcement
Insurance service expenses	14,710	-	Reference to the terms and price as charged to other customers
Interest expenses	12,253	8,411	Reference to the terms and rate as charged to other customers

Loans to management - level employees (departmental managers upward)

	(Unit : Thousand Baht)	
	Consolidated	The Bank Only
	As at 31 December 2006	As at 31 December 2006
Loans	4,758	4,758

Besides the above transactions, the Bank has additional related party transactions with its subsidiaries, which presented in Note 4.4 to the financial statements.

**Directors and management's remuneration**

In 2006, the Bank paid monthly remuneration, meeting allowances, salaries, provident fund contributions and bonuses to their directors and key management totaling Baht 146 million (2005 : Baht 184 million).

### 3.28 Financial information by segment

#### 3.28.1 Financial information by business segment

(Unit : Million Baht)

		For the year ended 31 December									
Bank business/financial		service business		Securities business		Other business		Elimination		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest and dividend income											
after bad debt and doubtful											
accounts		3,024	4,748	154	104	3	1	(153)	(1,564)	3,028	3,289
Non - interest income		1,337	995	982	1,002	129	81	(226)	(21)	2,222	2,057
Non - interest expenses		(2,517)	(2,309)	(659)	(682)	(123)	(108)	251	206	(3,048)	(2,893)
Corporate income tax		(484)	(503)	(149)	(132)	-	-	-	-	(633)	(635)
Minority interest in net income		-	-	-	-	-	-	(23)	(27)	(23)	(27)
Net income		1,360	2,931	328	292	9	(26)	(151)	(1,406)	1,546	1,791

(Unit : Million Baht)

		As at 31 December									
Bank business/financial		service business		Securities business		Other business		Elimination		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Investments		7,351	8,481	670	498	69	2	(3,697)	(3,776)	4,393	5,205
Loans, receivable and accrued											
interest receivable - net		72,055	60,846	709	1,217	-	-	(106)	(210)	72,658	61,853
Other assets		7,400	7,937	2,141	2,656	119	104	(1,930)	(2,472)	7,730	8,225
Total assets		86,806	77,264	3,520	4,371	188	106	(5,733)	(6,458)	84,781	75,283

### 3.28.2 Significant financial positions and operating results by domestic and foreign activities

#### 3.28.2.1 Financial positions by activities

(Unit : Million Baht)

	As at							
	31 December 2006				31 December 2005			
	Domestics	Foreign	Elimination	Total	Domestics	Foreign	Elimination	Total
Total assets	90,175	339	(5,733)	84,781	80,607	1,134	(6,458)	75,283
Interbank and money market items (assets)	2,094	247	(1,317)	1,024	2,369	762	(1,626)	1,505
Loans, receivable and accrued interest receivable - net	72,697	67	(106)	72,658	61,951	112	(210)	61,853
Investments	8,090	-	(3,697)	4,393	8,860	121	(3,776)	5,205
Deposits in Baht	40,668	-	(100)	40,568	34,611	-	(160)	34,451
Interbank and money market items (liabilities)	3,374	-	(1,217)	2,157	7,880	-	(1,465)	6,415
Borrowings	26,142	-	(60)	26,082	17,791	-	(300)	17,491
Commitments	6,194	-	-	6,194	5,646	-	-	5,646

#### 3.28.2.2 Operating results by activities

(Unit : Million Baht)

	For the year ended							
	31 December 2006				31 December 2005			
	Domestics	Foreign	Elimination	Total	Domestics	Foreign	Elimination	Total
Net interest and dividend income after bad debt and doubtful accounts	3,174	7	(153)	3,028	4,847	6	(1,564)	3,289
Non - interest income	2,405	43	(226)	2,222	2,024	54	(21)	2,057
Non - interest expenses	(3,229)	(70)	251	(3,048)	(3,025)	(74)	206	(2,893)
Corporate income tax	(633)	-	-	(633)	(635)	-	-	(635)
Minority interest in net income	-	-	(23)	(23)	-	-	(27)	(27)
Net income	1,717	(20)	(151)	1,546	3,211	(14)	(1,406)	1,791

### 3.29 Commitments and contingent liabilities

#### 3.29.1 Avals, guarantees and commitments

(Unit : Thousand Baht)

Consolidated/The Bank Only

As at

	31 December 2006	31 December 2005
Avals	326,625	361,000
Guarantees of loans	200,000	200,000
Other guarantees	617,693	135,318
Obligations covering principal under interest rate swap agreement (as mentioned in Note 3.30.2)	5,050,000	4,950,000
	<u>6,194,318</u>	<u>5,646,318</u>

#### 3.29.2 Litigation

As at 31 December 2006, the Bank and its subsidiaries have been sued for compensation totaling approximately Baht 151 million. A final judgment has not yet been reached in respect of these cases.

In December 2005, a foreign subsidiary received a letter from the solicitor of one of its clients, requesting payment of damages amounting to HKD 46.6 million (equivalent to Baht 216 million as at 31 December 2006). However, the suit has not been filed with a court in respect of this claim.

The management of the Bank and its subsidiaries believe that neither the Bank nor the subsidiaries will suffer material loss as a result of the above mentioned lawsuits and request for damages.

#### 3.29.3 Capital commitment

As at 31 December 2006, a subsidiary company had outstanding commitments of approximately Baht 100 million in respect of the uncalled portion of an investment in another subsidiary.

#### 3.29.4 Other commitments

- a) The Bank is obliged to make contributions to the Financial Institutions Development Fund, at the rate of 0.2 percent of the total outstanding balance of the Bank's deposits plus accrued interest as of the last day of the previous six-month period. Contributions are to be made every 30 June and 31 December.
- b) A subsidiary company is required to pay a membership fee to the Stock Exchange of Thailand on a monthly basis, at a rate of 0.005 percent of the trading volume of its stock.
- c) The Bank has commitments in relation to computer service agreement, whereby it is to pay both fixed fee and service fees which vary according to the quantity and type of service, as stipulated in the agreements.

### **3.30 Financial instruments**

As at 31 December 2006, the Bank and its subsidiaries have no policy to speculate or trade in any derivative financial instruments.

#### 3.30.1 Credit risk

The Bank and its subsidiaries are exposed to credit risk primarily with respect to loans and receivables and guarantees of loans and others.

The Bank and its subsidiaries manage credit risk by adopting appropriate credit control policies and procedures from the credit approval process, and the analysis of the risk factors and the ability of customers to service debt. For hire purchase receivables, the Bank and its subsidiaries have implemented a credit scoring system, in order to enhance efficiency in the credit approval process and better reflect the credit risk. They have also adopted a credit review process that examines and reviews the quality of loans so as to prevent and provide a remedy for problem loans in the future. The Bank and its subsidiaries therefore do not expect to incur material financial losses from loans and guarantees of loans. In addition, the Bank and its subsidiaries are not exposed to concentrations of credit risk because they have a varied customer base and large number of customers. The maximum exposure to credit risk is limited to the carrying amount of loans and receivables as stated in the balance sheet.

### 3.30.2 Interest rate risk

The Bank and its subsidiaries have the following significant exposure to interest rate risk, relating to financial instruments.

(Unit : Million Baht)

		Consolidated			
		As at 31 December 2006			
		Outstanding balances of financial instruments			
<u>Transactions</u>	<u>Floating</u>	<u>Fixed</u>	<u>Without</u>	<u>Total</u>	
	<u>interest rate</u>	<u>interest rate</u>	<u>interest</u>		
<b><u>Financial assets</u></b>					
Cash	-	-	210	210	
Interbank and money market items	357	32	635	1,024	
Securities purchased under resale agreements	-	1,718	-	1,718	
Investments - net	258	820	3,315	4,393	
Receivable from clearing house	-	-	257	257	
Loans and receivable	9,403	64,358	1,691	75,452	
	<u>10,018</u>	<u>66,928</u>	<u>6,108</u>	<u>83,054</u>	
<b><u>Financial liabilities</u></b>					
Deposits	2,784	37,713	71	40,568	
Interbank and money market items	60	2,097	-	2,157	
Liabilities payable on demand	-	-	478	478	
Borrowings	-	26,069	13	26,082	
Payable to clearing house	-	-	365	365	
Securities and derivative business payables	121	-	590	711	
	<u>2,965</u>	<u>65,879</u>	<u>1,517</u>	<u>70,361</u>	

(Unit : Million Baht)

Consolidated

As at 31 December 2005

<u>Transactions</u>	Outstanding balances of financial instruments			
	Floating interest rate	Fixed interest rate	Without interest	Total
<b>Financial assets</b>				
Cash	-	-	204	204
Interbank and money market items	90	797	618	1,505
Securities purchased under resale agreements	-	2,000	-	2,000
Investments - net	199	979	4,027	5,205
Receivable from clearing house	-	-	61	61
Loans and receivable	3,681	58,570	3,087	65,338
	<u>3,970</u>	<u>62,346</u>	<u>7,997</u>	<u>74,313</u>
<b>Financial liabilities</b>				
Deposits	1,338	33,057	56	34,451
Interbank and money market items	98	6,317	-	6,415
Liabilities payable on demand	-	-	247	247
Borrowings	-	17,478	13	17,491
Payable to clearing house	-	-	566	566
Securities and derivative business payables	618	-	729	1,347
	<u>2,054</u>	<u>56,852</u>	<u>1,611</u>	<u>60,517</u>



(Unit : Million Baht)

## The Bank Only

As at 31 December 2006

<u>Transactions</u>	Outstanding balances of financial instruments			
	Floating interest rate	Fixed interest rate	Without interest	Total
<b>Financial assets</b>				
Cash	-	-	209	209
Interbank and money market items	-	-	582	582
Securities purchased under resale agreements	-	1,718	-	1,718
Investments - net	258	817	6,642	7,717
Loans and receivable	9,387	58,567	1,026	68,980
	<u>9,645</u>	<u>61,102</u>	<u>8,459</u>	<u>79,206</u>
<b>Financial liabilities</b>				
Deposits	2,884	37,713	71	40,668
Interbank and money market items	23	2,543	-	2,566
Liabilities payable on demand	-	-	478	478
Borrowings	-	23,504	13	23,517
	<u>2,907</u>	<u>63,760</u>	<u>562</u>	<u>67,229</u>

(Unit : Million Baht)

## The Bank Only

As at 31 December 2005

<u>Transactions</u>	Outstanding balances of financial instruments			
	Floating interest rate	Fixed interest rate	Without interest	Total
<b>Financial assets</b>				
Cash	-	-	202	202
Interbank and money market items	-	-	490	490
Securities purchased under resale agreements	-	2,000	-	2,000
Investments - net	199	866	7,363	8,428
Loans and receivable	3,567	52,441	1,869	57,877
	<u>3,766</u>	<u>55,307</u>	<u>9,924</u>	<u>68,997</u>
<b>Financial liabilities</b>				
Deposits	1,498	33,057	56	34,611
Interbank and money market items	47	6,184	-	6,231
Liabilities payable on demand	-	-	247	247
Borrowings	-	15,129	13	15,142
	<u>1,545</u>	<u>54,370</u>	<u>316</u>	<u>56,231</u>

Financial instruments which bear interest rate at fixed rates are classified below by the period from the balance sheet date to the maturity date, or the repricing date if this occurs before the maturity date.

(Unit : Million Baht)

		Consolidated							
		As at 31 December 2006							
		Repricing or maturity date							
		0 - 3	3 - 12	1 - 5	Over 5			Interest	
Transactions	At call	months	months	years	years	Unspecified	Total	Rates (%)	
<b>Financial assets</b>									
Interbank and money market items	21	11	-	-	-	-	32	4.5858	
Securities purchased under resale agreements	-	1,718	-	-	-	-	1,718	4.8829	
Investments - net	-	160	323	337	-	-	820	5.1418	
Loans and receivable	1,161	9,966	18,528	34,616	86	1	64,358	8.6271	
	1,182	11,855	18,851	34,953	86	1	66,928		
<b>Financial liabilities</b>									
Deposits	218	16,030	16,120	5,345	-	-	37,713	4.7018	
Interbank and money market items	542	1,180	350	25	-	-	2,097	4.3204	
Borrowings	1,710	14,232	9,778	349	-	-	26,069	4.9360	
	2,470	31,442	26,248	5,719	-	-	65,879		

(Unit : Million Baht)

		Consolidated							
		As at 31 December 2005							
		Repricing or maturity date							
		0 - 3	3 - 12	1 - 5	Over 5			Interest	
Transactions	At call	months	months	years	years	Unspecified	Total	Rates (%)	
<b>Financial assets</b>									
Interbank and money market items	708	79	10	-	-	-	797	0.0837	
Securities purchased under resale agreements	-	2,000	-	-	-	-	2,000	3.1875	
Investments - net	-	5	532	442	-	-	979	4.2461	
Loans and receivable	1,904	8,534	16,311	29,804	2,016	1	58,570	8.0855	
	2,612	10,618	16,853	30,246	2,016	1	62,346		
<b>Financial liabilities</b>									
Deposits	11	20,136	7,321	5,589	-	-	33,057	2.9308	
Interbank and money market items	1,464	2,943	1,140	770	-	-	6,317	3.8490	
Borrowings	-	10,612	1,711	5,155	-	-	17,478	4.0418	
	1,475	33,691	10,172	11,514	-	-	56,852		

(Unit : Million Baht)

		The Bank Only						
		As at 31 December 2006						
		Repricing or maturity date						
Transactions	At call	0 - 3	3 - 12	1 - 5	Over 5	Unspecified	Total	Interest Rates (%)
		months	months	years	years			
<b>Financial assets</b>								
Securities purchased under resale agreements	-	1,718	-	-	-	-	1,718	4.8829
Investments - net	-	160	322	335	-	-	817	5.1492
Loans and receivable	1,077	8,759	16,283	32,362	86	-	58,567	6.9975
	1,077	10,637	16,605	32,697	86	-	61,102	
<b>Financial liabilities</b>								
Deposits	218	16,030	16,120	5,345	-	-	37,713	4.7018
Interbank and money market items	1,623	895	-	25	-	-	2,543	4.3962
Borrowings	1,710	13,441	8,004	349	-	-	23,504	4.7454
	3,551	30,366	24,124	5,719	-	-	63,760	

(Unit : Million Baht)

		The Bank Only						
		As at 31 December 2005						
		Repricing or maturity date						
Transactions	At call	0 - 3	3 - 12	1 - 5	Over 5	Unspecified	Total	Interest Rates (%)
		months	months	years	years			
<b>Financial assets</b>								
Securities purchased under resale agreements	-	2,000	-	-	-	-	2,000	3.1875
Investments - net	-	4	422	440	-	-	866	4.2382
Loans and receivable	1,825	7,469	13,941	27,190	2,016	-	52,441	6.4028
	1,825	9,473	14,363	27,630	2,016	-	55,307	
<b>Financial liabilities</b>								
Deposits	11	20,136	7,321	5,589	-	-	33,057	2.9308
Interbank and money market items	2,814	1,800	800	770	-	-	6,184	3.6548
Borrowings	-	9,998	-	5,131	-	-	15,129	3.9523
	2,825	31,934	8,121	11,490	-	-	54,370	

The balances of loans and receivable (include those on which interest recognition has been ceased) shown in the above table are presented before deducting allowance for doubtful accounts.

The Bank entered into interest rate swap agreements to manage risk associated with the financial liabilities carrying interest. The details of the interest rate swap agreements outstanding as at 31 December 2006 are as follows:

- The Bank has entered into interest rate swap agreements expiring in 2008 to swap a fixed rate interest for a floating interest rate for nominal principal of Baht 500 million, and to swap a floating interest rate for a fixed interest rate for nominal principal of Baht 500 million.
- The Bank has entered into interest rate swap agreement expiring in 2012 to swap a floating interest rate for a fixed interest rate for nominal principal Baht 300 million.
- The Bank has entered into interest rate swap agreements expiring in 2007 to swap the floating interest rate on Baht 2,800 million of debentures for a fixed interest rate, and agreements expiring in 2008 to swap the floating interest rates on borrowings and deposits amounting to Baht 950 million for fixed interest rate.

### 3.30.3 Liquidity risk

Counting from the balance sheet date, as at 31 December 2006 and 2005, the periods to maturity dates of financial instruments are as follows:

(Unit : Million Baht)

Transactions	Consolidated As at 31 December 2006							Total
	At call	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspecified	Non performing loans	
<b>Financial assets</b>								
Cash	210	-	-	-	-	-	-	210
Interbank and money market items	1,013	11	-	-	-	-	-	1,024
Securities purchased under resale agreements	-	1,718	-	-	-	-	-	1,718
Investments - net	791	210	336	585	-	2,471	-	4,393
Receivable from clearing house	-	257	-	-	-	-	-	257
Loans and receivable	1,187	10,784	19,871	38,398	2,368	-	2,844	75,452
	<u>3,201</u>	<u>12,980</u>	<u>20,207</u>	<u>38,983</u>	<u>2,368</u>	<u>2,471</u>	<u>2,844</u>	<u>83,054</u>
<b>Financial liabilities</b>								
Deposits	3,073	16,030	16,120	5,345	-	-	-	40,568
Interbank and money market items	601	1,180	351	25	-	-	-	2,157
Liabilities payable on demand	478	-	-	-	-	-	-	478
Borrowings	1,710	14,232	9,778	349	-	13	-	26,082
Payable to clearing house	-	365	-	-	-	-	-	365
Securities and derivative business payables	148	563	-	-	-	-	-	711
	<u>6,010</u>	<u>32,370</u>	<u>26,249</u>	<u>5,719</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>70,361</u>
<b>Off - balance sheet items</b>								
Aval to bills and guarantees of loans	200	316	10	-	-	-	-	526
Other commitments	15	1	3,230	1,950	300	172	-	5,668

(Unit : Million Baht)

Consolidated  
As at 31 December 2005

Transactions	At call	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non performing		Total
						Unspecified	loans	
<b>Financial assets</b>								
Cash	204	-	-	-	-	-	-	204
Interbank and money market items	1,416	79	10	-	-	-	-	1,505
Securities purchased under resale agreements	-	2,000	-	-	-	-	-	2,000
Investments - net	3,002	5	532	445	209	1,012	-	5,205
Receivable from clearing house	-	61	-	-	-	-	-	61
Loans and receivable	2,147	9,811	17,354	31,049	2,302	-	2,675	65,338
	<u>6,769</u>	<u>11,956</u>	<u>17,896</u>	<u>31,494</u>	<u>2,511</u>	<u>1,012</u>	<u>2,675</u>	<u>74,313</u>
<b>Financial liabilities</b>								
Deposits	1,405	20,136	7,321	5,589	-	-	-	34,451
Interbank and money market items	1,562	2,943	1,140	770	-	-	-	6,415
Liabilities payable on demand	247	-	-	-	-	-	-	247
Borrowings	-	10,612	1,711	5,155	-	13	-	17,491
Payable to clearing house	-	566	-	-	-	-	-	566
Securities and derivative business payables	576	771	-	-	-	-	-	1,347
	<u>3,790</u>	<u>35,028</u>	<u>10,172</u>	<u>11,514</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>60,517</u>
<b>Off - balance sheet items</b>								
Aval to bills and guarantees of loans	200	311	50	-	-	-	-	561
Other commitments	-	-	215	4,751	-	119	-	5,085

(Unit : Million Baht)

The Bank Only  
As at 31 December 2006

Transactions	At call	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non performing		Total
						Unspecified	Loans*	
<b>Financial assets</b>								
Cash	209	-	-	-	-	-	-	209
Interbank and money market items	582	-	-	-	-	-	-	582
Securities purchased under resale agreements	-	1,718	-	-	-	-	-	1,718
Investments - net	791	160	335	580	-	5,851	-	7,717
Loans and receivable	1,142	8,897	17,626	36,607	2,368	-	2,340	68,980
	<u>2,724</u>	<u>10,775</u>	<u>17,961</u>	<u>37,187</u>	<u>2,368</u>	<u>5,851</u>	<u>2,340</u>	<u>79,206</u>
<i>* Non performing loans according to the BOT's guidelines</i>								
<b>Financial liabilities</b>								
Deposits	3,173	16,030	16,120	5,345	-	-	-	40,668
Interbank and money market items	1,646	895	-	25	-	-	-	2,566
Liabilities payable on demand	478	-	-	-	-	-	-	478
Borrowings	1,710	13,441	8,004	349	-	13	-	23,517
	<u>7,007</u>	<u>30,366</u>	<u>24,124</u>	<u>5,719</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>67,229</u>
<b>Off - balance sheet items</b>								
Aval to bills and guarantees of loans	200	316	10	-	-	-	-	526
Other commitments	15	1	3,230	1,950	300	172	-	5,668

(Unit : Million Baht)

The Bank Only  
As at 31 December 2005

Transactions	At call	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non performing		Total
						Unspecified	Loans*	
<b>Financial assets</b>								
Cash	202	-	-	-	-	-	-	202
Interbank and money market items	490	-	-	-	-	-	-	490
Securities purchased under resale agreement	-	2,000	-	-	-	-	-	2,000
Investments - net	3,002	4	422	440	209	4,351	-	8,428
Loans and receivable	2,110	7,482	14,974	28,780	2,302	-	2,229	57,877
	<u>5,804</u>	<u>9,486</u>	<u>15,396</u>	<u>29,220</u>	<u>2,511</u>	<u>4,351</u>	<u>2,229</u>	<u>68,997</u>
<i>* Non performing loans according to the BOT's guidelines</i>								
<b>Financial liabilities</b>								
Deposits	1,565	20,136	7,321	5,589	-	-	-	34,611
Interbank and money market items	2,861	1,800	800	770	-	-	-	6,231
Liabilities payable on demand	247	-	-	-	-	-	-	247
Borrowings	-	9,998	-	5,131	-	13	-	15,142
	<u>4,673</u>	<u>31,934</u>	<u>8,121</u>	<u>11,490</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>56,231</u>
<b>Off - balance sheet items</b>								
Aval to bills and guarantees of loans	200	311	50	-	-	-	-	561
Other commitments	-	-	215	4,751	-	119	-	5,085

### 3.30.4 Foreign exchange risk

As at 31 December 2006, the Bank did not have any financial instruments in foreign currencies except for its deposits at bank amounting to HKD 22 million (equivalent to Baht 102 million) and its investment in a subsidiary company amounting to HKD 20 million (under the equity method equivalent to Baht 92 million).

### 3.30.5 Fair value of financial instruments

As at 31 December 2006, fair value of significant financial instruments approximate their carrying amounts, with no material differences. Gains or losses on determining the fair value of interest rate swaps are immaterial.

## **4. SIGNIFICANT EVENTS DURING THE YEARS AND OTHER INFORMATION**

### **4.1 Plan to upgrade status to commercial bank**

On 22 October 2004, the Ministry of Finance gave consent for the Bank to upgrade its status to commercial bank. The Bank was informed by the letter from the Bank of Thailand dated 29 June 2005 that the Ministry of Finance issued the Commercial Banking business license dated 23 June 2005 for the Bank to operate banking business in the name of “TISCO Bank Public Company Limited”. The Bank can operate commercial banking business and foreign exchange business and have to comply with the conditions under the letter from the Bank of Thailand and the attached conditions of license. The significant conditions are related to the return of finance business licenses of TISCO Finance Public Company Limited and Thai Permsap Finance Company Limited (a subsidiary) to the Ministry of Finance and the minimum requirement of total Tier 1 capital of Baht 5,000 million, as of the commenced date of banking operations.

The Bank and Thai Permsap Finance Company Limited (a subsidiary) returned their finance business licenses to the Ministry of Finance, effective on 1 July 2005.

The Bank registered the change of its name from “TISCO Finance Public Company Limited” to “TISCO Bank Public Company Limited” with the Ministry of Commerce on 1 July 2005, and commenced its banking operations on 4 July 2005.

### **4.2 Holding restructuring**

On 14 November 2005, the Bank submitted a formal request to restructure its shareholding by setting up TISCO Corporation Public Company Limited as a holding company. TISCO Corporation Public Company Limited would thus become the parent company of the group, acquiring all shares of the Bank and other subsidiary companies. The Bank of Thailand subsequently granted consent for the Bank, and on 7 February 2006, the Bank of Thailand forwarded the plan to the Ministry of Finance for approval.

#### Subsequent events

On 18 January 2007, the Bank received a letter from the Bank of Thailand informing it that the Ministry of Finance had declined to approve the restructuring plan and that the Bank of Thailand would therefore subsequently discontinue consideration of the plan. The BOT also requested the Bank to reduce its shareholding in TISCO Corporation Public Company Limited. The Bank is either to restore the former structure whereby it is the parent company of the group, or to re-submit the plan for setting up TISCO Financial Group under a Consolidated Supervision to the Bank of Thailand.

On 1 February 2007, the Bank reduced its shareholding in TISCO Corporation Public Company Limited in accordance with BOT conditions discussed in that letter.

#### 4.3 Dividend payment

	Approved by	Dividend per share		Amounts of	Dividend
		Preference share	Ordinary share	dividend paid	Payment Period
		Baht per share	Baht per share	Million Baht	
Dividend for the year 2005	The 2005 Annual General Meeting of the Shareholders on 26 April 2005	2.30	1.30	1,120	May 2005
Dividend for the year 2006	The 2006 Annual General Meeting of the Shareholders on 28 April 2006	3.00	2.00	1,635	May 2006

#### 4.4 Related party transactions

Besides the related party transactions as described in Note 3.27 to the financial statements, the Bank had additional related party transactions with its subsidiaries which presented below.

For the year ended 31 December 2005 :

The Bank acquired investments in listed securities amounting to Baht 1,156 million from a subsidiary company. This subsidiary company recorded gain from this sales of investments amounting to Baht 28 million.

The Bank sold property foreclosed, which are office condominium units (net book value amounting to Baht 39 million), to a subsidiary company at a price of Baht 43 million. The Bank recorded a gain from disposal of such office condominium units amounting to Baht 4 million.

The Bank acquired receivables (net book value amounting to Baht 1 million) from a subsidiary company at a price of Baht 4 million. The subsidiary company recorded a gain from sale of such receivables amounting to Baht 3 million.

Gains or losses from the above mentioned related party transactions between the Bank and its subsidiaries have been eliminated in consolidated financial statements and the separate financial statements of the Bank under equity method.



#### **4.5 Share capital increase of a subsidiary**

A special resolution passed by the Extraordinary General Meeting of the shareholders of Hi-Way Co., Ltd. No. 2/2006 on 22 February 2006, approved the increase in the company's registered share capital from Baht 100 million to Baht 500 million, through the issuance of 4,000,000 new ordinary shares with a par value of Baht 100 each, to be fully paid. The shareholders also delegated authority to the Board of Directors to determine the timing of the issue and the number of additional shares to be additionally issued each time, as they deem appropriate for the business in the future.

#### **5. ADOPTION OF NEW ACCOUNTING STANDARD**

In October 2006, the Federation of Accounting Professions issued Notification No. 26/2549 regarding Accounting Standard No. 44 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" (Amendment No. 1), under which investments in subsidiaries, jointly controlled entities and associates are to be presented in the separate financial statements under the cost method rather than the equity method. Entities which are not ready to adopt the cost method in 2006 can continue to use the equity method through the end of 2006 and adopt the cost method as from 1 January 2007.

In this regard, the Bank has elected to adopt the change in 2007. Adoption of the change in 2007 will necessitate the restatement of the Bank's 2006 separate financial statements to be presented for comparative purposes along with the financial statements for 2007. The restatement will have the effect of decreasing net income in the separate income statement for 2006 by approximately Baht 432 million (Baht 0.60 per share) and decreasing net worth in the balance sheet at 31 December 2006 by approximately Baht 518 million.

#### **6. SUBSEQUENT EVENTS**

##### Thai Commercial Auto Company Limited

The Board of Directors of Thai Commercial Auto Company Limited No.1/2007 on 1 February 2007 passed resolutions to determine the date of the Ordinary General Meeting of the shareholders of the company of the year 2007 on 16 February 2007, and the Extraordinary General Meeting of the company No.1/2007 on 6 March 2007 to approve the following:

- The cancellation of the reduction of the company's registered share capital from Baht 1,000 million (10 million ordinary shares of Baht 100 each) to Baht 500 million (10 million ordinary shares of Baht 50 each), which was approved by a special resolution of the Extraordinary General Meeting of the company No.2/2005 on 2 November 2005
- The dissolution of the company

#### VLT Leasing Company Limited

The Board of Directors of VLT Leasing Company Limited No.1/2007 on 23 January 2007 passed resolution to determine the date of the Ordinary General Meeting of the shareholders of VLT Leasing Company Limited of the year 2007 on 16 February 2007, and the Extraordinary General Meeting of the shareholders of the company No.1/2007 on 6 March 2007, to approve the dissolution of the company.

#### TISCO Group Company Limited

The Board of Directors of TISCO Group Company Limited No.1/2007 on 16 February 2007 passed resolution to determine the date of the Ordinary General Meeting of the shareholders of TISCO Group Company Limited of the year 2007 on 8 March 2007, and the Extraordinary General Meeting of the shareholders of the company No.2/2007 on 26 March 2007 to approve the dissolution of the company.

### **7. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Bank's Audit Committee on 16 February 2007.



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