

Management Discussion and Analysis

For the year ended December 31, 2006

(This report discusses principal changes in the unaudited consolidated financial statement for the year ended December 31, 2006)

Movement of Money Market and Capital Market

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 2.83% in the third 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 and compares operating performance of the fourth quarter of year 2006 with that of the fourth quarter of year 2005.

Operating Results

In 2006, interest income significantly increased by 27.4% 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 9.4%. Meanwhile, non-interest income increased by 11.4% 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 2.20 baht in 2005. The average return on equity (ROAE) was 12.0% compared with 14.0% at the end of 2005.

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.

Non-interest Income

Non-interest income for 2006 was 2,290.72 million baht, increased by 233.67 million baht (11.4% 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 10.20 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 295.05 million baht; up by 73.14 million baht (33.0% YoY), mainly from sale of property foreclosed.

Non-interest Expenses

Non-interest expenses for 2006 were 3,116.11 million baht, increased by 223.27 million baht, (7.7% YoY). The key elements were:

- ❑ 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.
- ❑ 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.

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.

Corporate Income Tax

In 2006, the corporate income tax declined from 635.01 to 633.42 million baht, equivalent to the effective tax rate of 28.8% (25.9% in 2005).

Financial Status

Assets

The Bank and its subsidiaries' total assets as of December 31, 2006 were 84,781.42 million baht, increased by 9,498.60 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.

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.

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 17.52 baht, decreased from 18.12 baht as at December 31, 2005.

Business Segment Performance

(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.

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 car sales during the first 11 months of 2006 reported at 597,487 units lower from 625,562 units in 2005, resulting in higher penetration rate from 7.1% to 8.8%.

In the fourth quarter of 2006, car new business value increased by 4,812.32 million baht (68.0% YoY) ending at 11,888.84 million baht, and the average penetration rate for the October and November 2006 was 14.3%, up from 6.8% during the same period of 2005.

Deposit and Short-Term Borrowings

Total deposit and short-term borrowings totaled 66,288.14 million baht, increased by 19,514.55 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.

Loans to Deposits and Short-term Borrowings Ratio

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

Non-Performing Loans (NPLs) and Loan Loss Provision

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. Meanwhile, the NPL to total retail loans and NPL to total commercial loans were 2.2% and 8.6% respectively. NPLs of the Bank and its subsidiaries were 3,449.27 million baht (Bank's NPLs was 2,945.55 million baht and subsidiaries' NPLs was 503.72 million baht), increased by 536.36 million bath (18.4% YoY).

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,793.63 million baht, 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 exceeded the minimum requirement of the Bank of Thailand (BoT), which was 2,141.99 million baht, following the conservative provisioning policy and inclusive of new provisioning standard (IAS39), effectively implemented in the last quarter of 2006.

(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 648.52 million baht, up by 26.57 million baht (4.3% YoY). TISCO Securities' average market share for 2006 was 3.22%, improved from 2.97% 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 Co., Ltd. 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 November 30, 2006 was 5.5%, ranking 7th in the market. The market share of provident fund and private fund was 13.6% and 16.6%, ranking 2nd in the market for both fund types. For mutual fund, the market share was 0.7%, ranking 17th in the market.

Risk Management

At the end of 2006, the loan portfolio grew by 16.7% whereas the integrated risk capital mainly comprising of credit risk capital increased by 122.90 million baht or 1.9% from previous year to 6,467.23 million baht. However, capital surplus stood at 48.4% compared with total capital of 12,682.86 million baht, reflecting a continuously robust capital position to support future business expansion and a decrease in overall risk level. In terms of regulatory capital requirement for Bank and Securities Company, the regulatory capital adequacy ratio (BIS ratio) dropped from 15.9% to 13.4% and Tier-I capital also decreased from 14.3% to 12.7%. However, they remained higher than the 8.5% and 4.3% required by the Bank of Thailand. Additionally, in 2006 the Bank still had 1,545.53 million baht of retained earning which was not included in capital adequacy calculation. And, the net capital rule (NCR) of TISCO Securities Co., Ltd. rose from 103.0% to 176.7%, still greatly higher than the minimum required ratio by the SEC of 7.0%.

Comparing with the end of 2005, the market risk capital declined by 218.01 million baht from 2,432.78 million baht to 2,214.77 million baht as a result of liquidation of equity portfolio and lower market volatility. The credit risk capital rose by 334.78 million baht to 3,517.09 million baht following an expansion in hire purchase business. Meanwhile, the difference in the duration of assets and liabilities moved in the range between 10 to 11 months, which was considered acceptable given less volatility and declining trend of interest rate level.

Progress of the holding company restructuring plan

Under the holding restructuring plan, TISCO Corporation Public Company Limited is set up as a holding company and become the parent company of TISCO Group instead of TISCO Bank Public Company Limited. The objective and justification for holding company restructuring can be categorized into 3 areas which are 1) risk reduction, 2) lower capital requirement and, 3) increase business opportunity. The restructuring plan is in line with the upcoming Consolidated Supervision regulation scheduled to be launched by the Bank of Thailand in 2006.

In this matter, TISCO Bank submitted the holding restructuring plan to the Bank of Thailand on November 11, 2005. The Bank of Thailand approved and had recommended the restructuring

plan to the Ministry of Finance for consideration and approval since the beginning of February 2006. Currently, it is under consideration of the Ministry of Finance.

Table 1: Consolidated Revenue Structure

Type of Revenue	4Q06		Change		2006		Change
	Amount (Bt. million)	%	%QoQ	% YoY	Amount (Bt. Million)	%	% YoY
Interest and dividend income							
Interest on loans	261.38	21.4	(1.5)	65.3	943.33	18.5	60.0
Interest on interbank and money market items.	104.41	8.6	3.1	89.7	438.04	8.6	202.4
Hire purchase and financial lease income	1,112.33	91.2	8.6	18.5	4,068.35	79.8	14.8
Investments	20.10	1.6	(62.0)	(22.8)	255.59	5.0	(11.5)
Total interest and dividend income	1,498.22	122.8	3.8	27.2	5,705.31	111.9	24.9
Interest expenses	(849.11)	(69.6)	8.7	92.7	(2,899.24)	(56.8)	98.0
Net interest and dividend income	649.11	53.2	(2.1)	(12.0)	2,806.07	55.1	(9.6)
Non-interest income							
Brokerage Fees	170.33	14.0	29.0	27.9	648.52	12.7	4.3
Gain on securities	56.89	4.7	(47.2)	378.4	455.38	8.9	36.3
Fees and services income	242.55	19.9	15.6	13.4	887.05	17.4	1.2
Others	100.73	8.2	68.0	213.8	299.77	5.9	33.7
Total non-interest income	570.50	46.8	12.0	45.9	2,290.72	44.9	11.4
Total income before bad debts and doubtful accounts	1,219.61	100.0	4.0	8.0	5,096.79	100.0	(1.2)
Bad debt and doubtful accounts	(125.68)		51.6	(1131.2)	(377.45)		29.8
Bad debt written back revenue	410.00		412.5	39.4	599.30		25.6
Total income – net of bad debts and doubtful accounts	1,503.93		28.6	4.8	5,318.64		(0.5)
Non-interest expenses	(967.10)		38.7	7.3	(3,116.11)		7.7
Profit before income tax and minority interest	536.83		13.6	0.6	2,202.53		(10.2)
Corporate income tax	(213.79)		58.5	31.7	(633.42)		(0.3)
Minority interest in net earnings in subsidiary company	(5.06)		(3.6)	(7.4)	(23.58)		(15.3)
Net Profit	317.98		(4.3)	(13.1)	1,545.53		(13.7)

Table 2: Interest spread

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

Table 3: Assets Breakdown

Assets	December 31, 2006		December 31, 2005		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	210.22	0.2	203.95	0.3	3.1
Interbank and Money Market Items	1,024.24	1.2	1,505.41	2.0	(32.0)
Securities purchased under resale agreements	1,718.00	2.0	2,000.00	2.6	(14.1)
Fixed income	1,168.58	1.4	1,177.59	1.6	(0.8)
Equity	3,224.62	3.8	4,027.78	5.4	(19.9)
Corporate Loans	14,573.64	17.2	12,704.69	16.9	14.7
Retail Loans	56,249.53	66.3	47,248.89	62.8	19.0
Other Loans	3,818.06	4.5	3,994.84	5.3	(4.4)
Allowance for doubtful accounts and for loss on debt restructuring	(2,793.63)	(3.3)	(3,484.73)	(4.6)	(19.8)
Other Assets	5,588.16	6.7	5,904.34	7.7	(5.4)
Total – The Bank and Subsidiaries	84,781.42	100.0	75,282.76	100.0	12.6

Table 4: Liabilities Breakdown by Area

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

Table 5: Loans and Receivables Breakdown

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

Table 6: Deposits Structure

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

Table 7: NPL Breakdown by Area

Type of Business	December 31, 2006			December 31, 2005			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	5.8	423.46	12.3	5.6	379.22	13.0	11.7
Real estate and construction	16.9	813.06	23.6	14.5	601.38	20.6	35.2
Public utilities and services.	0.5	12.62	0.3	0.8	14.04	0.5	(10.1)
Agriculture and mining	0.9	0.86	0.0	1.3	1.53	0.1	(43.5)
Commercial Lending	8.6	1,250.00	36.2	7.8	996.17	34.2	25.5
Hire purchase	1.8	997.96	28.9	1.9	874.51	30.0	14.1
Housing	13.1	263.31	7.7	14.4	313.50	10.8	(16.0)
Retail Lending	2.2	1,261.27	36.6	2.5	1,188.01	40.8	6.2
Others	20.9	938.00	27.2	13.8	728.73	25.0	28.7
Total – The Bank and Subsidiaries	4.6	3,449.27	100.0	4.5	2,912.91	100.0	18.4

Table 8: Assets under Management Breakdown by Type of Fund

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

Table 9: Average Duration Mismatch of Assets and Liabilities and Its Impact

Type of Fund	Duration (years)		1-Y Net interest income change to 1% interest rate increase	
	2005	2006	2005	2006
	Assets	1.23	1.30	250.69
Liabilities	0.48	0.40	(377.60)	(431.05)
Net Gap	0.75	0.90	(126.91)	(151.23)