

## Management Discussion and Analysis

### For the First Quarter ended March 31, 2007

(This report discusses principal changes in the reviewed consolidated financial statement for the first quarter ended March 31, 2007)

#### Movement of Money Market and Capital Market

Growth in private consumption and investment has been slowdown during the first quarter of 2007 mainly due to the ongoing sluggish economy, the political instability, and the resignation of the former Finance Minister. The GDP growth forecast had been revised down from 4.0% -5.0% to 4.0%-4.5%. In January, the Bank of Thailand (BoT) replaced the policy rate from the 14-day RP rate to the 1-day RP rate and consecutively decreased the policy rate from 4.94% to 4.75% and 4.50% respectively.

The SET index slightly declined from the end of 2006 by 6.13 points to 673.71 at the end of this quarter. As for the trading activity, the average daily turnover shrank by 4,480.83 million baht to 11,800.08 million baht mainly due to the deterioration in investor confidence.

**The Management Discussion and Analysis compares operating performance for the first quarter of 2007 with those of the first quarter of 2006. Meanwhile, financial position is a comparison between the financial positions as of March 31, 2007 and December 31, 2006.**

#### Operating Results

For the first quarter of 2007, the Bank and its subsidiaries reported a net profit of 355.84 million baht, decreased by 188.16 million baht (34.6% YoY). However, net profit increased by 11.9% when compared with the net profit in the previous quarter of 317.98 million baht.

During this year, net profit declined owing to the effect of interest rate surge during the second quarter of 2006 together with slowdown in capital market. The Bank and its subsidiaries recorded an increase in interest and dividend income by 342.12 million baht (25.5% YoY). However, the substantial difference in interest rate environment between the comparable periods resulted in a significant increase in interest expenses by 378.55 million baht (68.7% YoY). Therefore, net interest and dividend slightly declined.

As the Bank anticipated the direction of interest rate movement, the slowdown strategy for hire purchase portfolio was adopted during the first quarter of 2006, and switched to aggressive growth strategy from the second quarter of 2006 onwards. As a result, loan spread continuously improved since the second quarter of 2006. Specifically, loan spread significantly increased from 2.7% to 3.2% QoQ. Owing to ongoing slowdown in capital market, trading income declined from 274.01 million baht to 98.50 million baht YoY, together with lower brokerage income, resulted in the decline in non-interest income from 755.15 to 500.01 million baht YoY.

Diluted earnings per share for the first quarter of 2007 was 0.42 baht, decreased from 0.50 baht in the first quarter of 2006. The average return on equity (ROAE) was 11.0 %.

### Net Interest and Dividend Income

Net interest and dividend income for the first quarter of 2007 was 756.36 million baht, declined by 36.42 million baht (4.6% YoY). Despite the interest and dividend income grew by 342.12 million baht (25.5% YoY), the gain was offset by an increase in the interest expense amounting 378.55 million baht (68.7% YoY) as a result of the rise in deposit rates during the past year together with the continuous expansion of deposit base in support of strong loan growth. Cost of deposit was 628.57 million baht, increased by 200.10 million baht (46.7% YoY).

Total net interest and dividend income after bad debt and doubtful accounts decreased by 63.06 million baht or 8.7% to 658.82 million baht as bad debts and doubtful accounts rose by 26.64 million baht or 37.6% to 97.54 million baht. However, the ratio of net interest and dividend income to total income was 60.2%, compared to 51.2% YoY.

### Non-interest Income

For the first quarter of 2007, the bank and its subsidiaries had non-interest income of 500.01 million baht, decreased by 255.15 million baht (33.8% YoY), mainly resulted from the decline in the gain from investments from 274.01 to 98.50 million baht, or 175.51 million baht (64.1% YoY). In addition, brokerage fee income decreased by 71.67 million baht (37.4% YoY) mainly affected from the bearish capital market.

### Non-interest Expenses

Non-interest expenses in the first quarter of 2007 were 663.53 million baht, decreased by 95.35 million baht (12.6% YoY) owing to the decline in personnel expense, which corresponded to the level of income, and the reduction in fees and service expenses in hire purchase business, which resulted from change in accounting method from upfront expense booking to amortization, effective this year.

### Corporate Income Tax

For the first quarter of 2007, the corporate income tax was 139.39 million baht, equivalent to the effective tax rate of 28.1%.

## Financial Status

### Assets

The Bank and its subsidiaries' total assets as of March 31, 2007 were 105,090.76 million baht, increased by 20,309.34 million baht (24.0% QoQ) due to a temporary increase in securities under repurchase agreements by 13,282.00 million baht (773.1% QoQ) together with the growth in loan portfolio of 3,649.49 million baht (4.9% QoQ). In March, the Bank has received the transfer of hire purchase portfolio from subsidiary company, namely Thai Commercial Auto Co., Ltd., amounting 1,086.00 million baht, which was recorded as investment according to the accounting standard. By including this investment, loan portfolio would otherwise increase by 4,735.49 million baht (6.3% QoQ)

## Liabilities

Total liabilities as of March 31, 2007 were 92,069.19 million baht, increased by 19,970.63 million baht (27.7% QoQ) mainly driven by an increase in deposit and short-term borrowings to support strong expansion in loan portfolio. In addition, long-term borrowing increased by 3,630.99 million baht owing to the issuance of long-term debenture with average maturity between 1 – 3 years in replacing the 5-year long-term debenture, which will be matured during this year.

## Shareholders' Equity

Shareholder's equity and unappropriated retained earnings as of March 31, 2007 were 13,021.57 million baht and 4,070.92 million baht, increased from 12,682.86 million baht (2.7% QoQ) and 3,715.08 million baht (9.6% QoQ) respectively.

## Business Segment Performance

### (1) Banking Business

#### Loans

Total consolidated loans and receivables were 78,290.72 million baht, improved by 3,649.49 million baht (4.9% QoQ) mainly contributed by the continued aggressive expansion of hire purchase business since the second quarter of 2006.

The composition of loan portfolio was 18.5% of corporate loans, 76.3% of retail loans, and 5.2% of other loans.

**Corporate lending** portfolio of the Bank and its subsidiaries totaled 14,453.28 million baht, down by 120.36 million baht (0.8% QoQ), mainly due to the decline in loans to public utilities and services.

**Retail lending** portfolio consisted of 96.7% car, motorcycle, and other hire purchase and 3.3% mortgage loans. The outstanding hire purchase loans equaled 57,765.08 million baht, rose by 3,520.43 million baht (6.5% QoQ). Car new business in this quarter amounted 10,776.44 million baht, increased by 6,375.45 million baht (144.9% YoY). The domestic car sales in the first two months of 2007 reported at 82,248 units lower from 103,901 units YoY, resulting in a higher penetration rate from 6.0% to 18.1% YoY.

#### Deposit and Short-Term Borrowings

Total deposit and short-term borrowings totaled 81,560.13 million baht, increased by 15,271.99 million baht (23.0% QoQ). The portion of saving accounts and current accounts contributed to 11.0% of total deposits and short-term borrowings, increased from 4.3% in December 31, 2006. The Bank and its subsidiaries boosted up the portion of short-term deposit to be in line with a declining trend of interest rate.

The ratio of loans to deposits and short-term borrowings decreased from 112.6% to 96.0% QoQ. The decrease was resulted from increasing in funding activities for supporting strong loan growth.

### **Non-Performing Loans (NPLs) and Loan Loss Provision**

Non-performing loans (NPLs) to total loans ratio was 4.5%, slightly decreased from 4.6% at the end of the previous year. Meanwhile, the NPL to total retail loans and NPL to total commercial loans were 2.2% and 9.2% respectively. NPLs of the Bank and its subsidiaries were 3,573.92 million baht, increased by 124.65 million baht (3.6% QoQ), which is considered normal following strong loan growth.

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,807.54 million baht, the ratio of the allowance to NPLs was 2.2%. The Bank's allowance was 2,496.54 million baht, consisting of specific reserve of 2,156.80 million baht and general reserve of 339.74 million baht. The Bank's allowance exceeded the minimum requirement of the Bank of Thailand (BoT), which was 1,932.14 million baht.

### **(2) Securities Business**

At the end of the first quarter, the SET index ended at 673.71 points and average daily trading turnover equaled 11,800.08 million baht, dropped from 20,916.46 million YoY as the investor confidence was weakened by political uncertainty.

For the first quarter of 2007, TISCO Securities' average market share was 3.3%, improved from 2.8% compared to the first quarter of 2006. Meanwhile, the daily average turnover of TISCO Securities equaled 786.48 million baht, decreased from 1,168.10 million baht (32.7% YoY) resulting in a decline of brokerage fee to 119.74 million baht, down by 71.67 million baht (37.4% YoY).

Fee income from investment banking substantially improved from last quarter after realigning business strategy to be in line with current capital market situation. The investment banking fee increased by 3.45 million baht (270.40% QoQ) to 4.72 million baht in this quarter.

### **(3) Asset Management Business**

The total asset under management of TISCO Asset Management Co., Ltd. was 88,938.17 million baht, increased by 4,201.40 million baht (5.0% QoQ). The composition of total asset under management is 62.1% of provident fund, 28.8% of private fund, and 9.1% of mutual fund.

The fee from asset management was 77.06 million baht, slightly declined from the first quarter of 2006 owing to the deterioration in asset value from declined market price.

Total market share of TISCO Asset Management Co., Ltd. as of February 2007 was 5.3%, ranking 8th in the market. The market share of provident fund and private fund was 13.7% and 17.0%, 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

In the first quarter of 2007, the integrated risk capital mainly comprising of credit risk capital stood at 6,362.60 million baht, decreasing by 104.63 million baht or 1.62%. However, capital surplus remained strong at 48.94% compared with total capital of 13,021.57 million baht, reflecting a continuously robust capital position to support future business expansion.

The integrated risk capital mainly comprises of the market risk capital and the credit risk capital. The market risk declined by 216.68 million baht from 2,214.77 million baht to 1,998.08 million baht as a result of equity portfolio liquidation as well as a decrease of the difference in the duration of assets and liabilities from 10 months to 8 months mainly from a strong growth in borrowing portfolio with longer maturity profile which decreased the average duration. Additionally, in the current circumstances interest rate level tends to decline. Meanwhile, the credit risk capital rose by 126.82 million baht to 3,643.90 million baht following an expansion in hire purchase business as the total loan portfolio grew by 4.9% compared with that of the end of 2006.

In terms of regulatory capital requirement for Bank and Securities Company, the regulatory capital adequacy ratio (BIS ratio) dropped from 13.42% to 12.07% following strong hire purchase loan portfolio expansion as well as a slight decrease in Tier II capital from decreasing specific reserve of Pass Loan and Tier-I capital also decreased from 12.7% to 11.86%. However, they remained higher than the 8.5% and 4.3% required by the Bank of Thailand. Additionally, in the first quarter of 2007, the Bank still had 355.84 million baht of retained earning which was not included in capital adequacy calculation. And, the net capital rule (NCR) of TISCO Securities Co., Ltd. declined from 181.18% to 126.11% as a result of declaring annual dividend of TISCO Securities amounted for 240.00 million baht, still greatly higher than the minimum required ratio by the SEC of 7.0%.

## Supplemental explanation on the effect of changing investment accounting method

The company would like to report on the effect of the change in accounting for investment in subsidiary as follows:

In the three-month period ended March 31, 2007, the company changed its accounting policy regarding investment in a subsidiary so that the separate financial statement, which formerly reported investment using the equity method, now reports using the cost method. This is to comply with TAS 44. Thus the company restated its financial statement by using the historical cost as the cost of the investment in a subsidiary of the separate financial statement. This adjustment caused the net income on the separate financial statement to differ from the reposted in the consolidated financial statement. The company had net income of 355.84 million baht for the three-month period ended March 31, 2007, according to the consolidated financial statement. However, the separate financial statement over the same period showed a net income of 533.36 million baht with the additional information as follows:

1. Net income for the three-month period ended March 31, 2007 and March 31, 2006 increased by 177.52 million baht and decreased by 158.94 million baht (That is, increased by 0.24 baht per share and decreased 0.22 baht per share) respectively, since the separate financial statement did not include any share of profits from investment.

2. The separate balance sheet for the quarter ended March 31, 2007 showed an investment in subsidiary decreased by 325.32 million baht and the retained earnings increased by 586.42 million baht. The cumulative effect of the accounting policy has been presented under the heading of “Cumulative effect of the change in accounting policy for investments in subsidiaries in the separate financial statements” in the statement of changes in shareholders’ equity.

The change of accounting policy did not have any effect on the consolidated financial statements or business fundamentals.

### **Progress of the holding company restructuring plan**

Reference is made to the application submitted to the Bank of Thailand (“BoT”) on November 11, 2005 regarding the holding company restructuring plan of TISCO Group, with TISCO Corporation as the holding and parent company. The plan was afterward endorsed by the BoT and brought up for a final approval by Finance Minister on February 7, 2006.

On January 18, 2007, the BoT has issued the letter No. TorPorTor. ForKorThor. (21) 84/2550 informing TISCO Bank of the suspension of the plan consideration as the Finance Minister declined a condition in the proposed plan for allowing TISCO Corporation to hold more than 5% of shares in TISCO Bank.

In effect, TISCO Bank has pursued the current structure of being the parent company holding shares in all subsidiaries companies. In this regard, TISCO Bank has submitted the application for setting up TISCO Financial Group under the Consolidated Supervision Regulation to the BoT in March 2007.

Regarding the plan submitted under the Consolidated Supervision Regulation, setting up of the financial group would boost risk diversification and increase capital efficiency as initially planned, providing the TISCO Bank the ability to pursue the dividend policy and business strategies and operations as in the holding company structure plan.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	1Q07		1Q06		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	253.13	20.1	192.68	12.4	31.4
Interest on interbank and money market items.	117.48	9.4	79.61	5.1	47.6
Hire purchase and financial lease income	1,251.34	99.6	963.35	62.2	29.9
Investments	63.73	5.1	107.91	7.0	(40.9)
<b>Total interest and dividend income</b>	<b>1,685.67</b>	<b>134.2</b>	<b>1,343.55</b>	<b>86.8</b>	<b>25.5</b>
Interest expenses	929.32	74.0	550.77	35.6	68.7
<b>Net interest and dividend income</b>	<b>756.36</b>	<b>60.2</b>	<b>792.78</b>	<b>51.2</b>	<b>(4.6)</b>
Non-interest income					
Brokerage Fees	119.74	9.5	191.41	12.4	(37.4)
Gain on securities	98.50	7.8	274.01	17.7	(64.1)
Fees and services income	232.30	18.5	243.95	15.8	(4.8)
Others	49.47	3.9	45.78	3.0	8.0
<b>Total non-interest income</b>	<b>500.01</b>	<b>39.8</b>	<b>755.15</b>	<b>48.8</b>	<b>(33.8)</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>1,256.36</b>	<b>100.0</b>	<b>1,547.93</b>	<b>100.0</b>	<b>(18.8)</b>
Bad debt and doubtful accounts	(97.54)	0	(70.90)		
Bad debt written back revenue	-	-	-		
<b>Total income – net of bad debts and doubtful accounts</b>	<b>1,158.82</b>	<b>0</b>	<b>1,477.03</b>		
Non-interest expenses	(663.53)	-	(758.88)		
<b>Profit before income tax and minority interest</b>	<b>495.30</b>	<b>0</b>	<b>2,235.91</b>		
Corporate income tax	139.39	0	166.89		
Minority interest in net earnings in subsidiary company	(0.07)	-	(7.26)		
<b>Net Profit</b>	<b>355.84</b>	<b>0</b>	<b>544.00</b>		

**Table 2: Interest spread**

%	1Q07	4Q06	1Q06
Yield on Loans	7.9	7.7	7.1
Cost of fund	4.7	5.0	3.0
<b>Loan spread</b>	<b>3.2</b>	<b>2.7</b>	<b>4.1</b>

**Table 3: Assets Breakdown**

Assets	March 31, 2007		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	251.90	0.2	210.22	0.2	19.8
Interbank and Money Market Items	3,139.47	3.0	1,024.24	1.2	206.5
Securities purchased under resale agreements	15,000.00	14.3	1,718.00	2.0	773.1
Fixed income	1,321.49	1.3	1,168.58	1.4	13.1
Equity	4,088.43	3.9	3,224.62	3.8	26.8
Corporate Loans	14,453.28	13.8	14,573.64	17.2	(0.8)
Retail Loans	59,765.63	56.9	56,249.53	66.3	6.3
Other Loans	4,071.82	3.9	3,818.06	4.5	6.6
Allowance for doubtful accounts and for loss on debt restructuring	(2,807.54)	(2.7)	(2,793.63)	(3.3)	0.5
Other Assets	<b>5,806.30</b>	<b>5.5</b>	<b>5,588.16</b>	<b>6.6</b>	<b>3.9</b>
<b>Total – The Bank and Subsidiaries</b>	<b>105,090.76</b>	<b>100.0</b>	<b>84,781.42</b>	<b>100.0</b>	<b>24.0</b>

**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	March 31, 2007		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	81,560.13	88.6	66,288.14	91.9	23.0
Interbank and money market items	3,044.21	3.3	2,156.98	3.0	41.1
Long-term borrowings	3,992.69	4.3	361.70	0.5	1,003.9
Others	3,472.16	3.8	3,291.74	4.6	5.5
<b>Total – The Bank and Subsidiaries</b>	<b>92,069.19</b>	<b>100.0</b>	<b>72,098.56</b>	<b>100.0</b>	<b>27.7</b>

**Table 5: Loans and Receivables Breakdown**

Type of Business	March 31, 2007		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,487.23	9.6	7,329.45	9.8	2.2
Real estate and construction	4,891.54	6.2	4,808.79	6.4	1.7
Public utilities and services.	1,967.45	2.5	2,337.48	3.1	(15.8)
Agriculture and mining.	107.06	0.1	97.91	0.1	9.3
<b>Commercial Lending</b>	<b>14,453.28</b>	<b>18.5</b>	<b>14,573.64</b>	<b>19.5</b>	<b>(0.8)</b>
Hire purchase	57,765.08	73.8	54,244.65	72.7	6.5
Housing	2,000.55	2.6	2,004.88	2.7	(0.2)
<b>Retail Lending</b>	<b>59,765.63</b>	<b>76.3</b>	<b>56,249.53</b>	<b>75.4</b>	<b>6.3</b>
<i>Others</i>	4,071.82	5.2	3,818.06	5.1	6.6
<b>Total – The Bank and Subsidiaries</b>	<b>78,290.72</b>	<b>100.0</b>	<b>74,641.23</b>	<b>100.0</b>	<b>4.9</b>



**Table 6: Deposits Structure**

Type of Deposits	March 31, 2007		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount million)	%	
Current accounts	5,629.38	6.9	1,389.98	2.1	305.0
Saving accounts	3,305.97	4.1	1464.16	2.2	125.8
Fixed accounts	48,542.81	59.5	32,194.22	48.6	50.8
Negotiate certificate deposit	851.945476	1.0	547.1	0.8	55.7
Promissory notes and Bill of exchange	3,454.61	4.2	4,972.40	7.5	(30.5)
<b>Total deposits</b>	<b>61,784.73</b>	<b>75.8</b>	<b>40,567.86</b>	<b>61.2</b>	<b>52.3</b>
<b>Short-term borrowings</b>	<b>19,775.40</b>	<b>24.2</b>	<b>25,720.28</b>	<b>38.8</b>	<b>(23.1)</b>
<b>Total</b>	<b>81,560.13</b>	<b>100.0</b>	<b>66,288.14</b>	<b>100.0</b>	<b>23.0</b>

**Table 7: NPL Breakdown by Area**

Type of Business	March 31, 2007			December 31, 2006			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	6.5	487.94	13.7	5.8	423.46	12.3	15.2
Real estate and construction	16.7	817.14	22.9	16.9	813.06	23.6	0.5
Public utilities and services.	1.2	24.09	0.7	0.5	12.62	0.4	90.9
Agriculture and mining	0.8	0.83	0.0	0.9	0.86	0.0	(3.2)
<b>Commercial Lending</b>	<b>9.2</b>	<b>1,330.00</b>	<b>37.2</b>	<b>8.6</b>	<b>1,250.00</b>	<b>36.2</b>	<b>6.4</b>
Hire purchase	1.8	1,050.85	29.4	1.8	997.96	28.9	5.3
Housing	12.6	251.37	7.0	13.1	263.31	7.6	(4.5)
<b>Retail Lending</b>	<b>2.2</b>	<b>1,302.22</b>	<b>36.4</b>	<b>2.2</b>	<b>1,261.27</b>	<b>36.6</b>	<b>3.2</b>
<b>Others</b>	<b>19.0</b>	<b>941.69</b>	<b>26.3</b>	<b>20.9</b>	<b>938.00</b>	<b>27.2</b>	<b>0.4</b>
<b>Total – The Bank and Subsidiaries</b>	<b>4.5</b>	<b>3,573.92</b>	<b>100.0</b>	<b>4.6</b>	<b>3,449.27</b>	<b>100.0</b>	<b>3.6</b>

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

Type of Fund	March 31, 2007		December 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	55,227.98	62.1	53,016.04	62.6	4.2
Private Fund	25,599.03	28.8	24,392.50	28.8	4.9
Mutual Fund	8,111.15	9.1	7,328.23	8.6	10.7
<b>Total</b>	<b>88,938.17</b>	<b>100.0</b>	<b>84,736.77</b>	<b>100.0</b>	<b>5.0</b>

**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	
	1Q07	4Q06	1Q07	4Q06
	Assets	1.18	1.3	428.3
Liabilities	0.51	0.4	(517.7)	(431.1)
<b>Net Gap</b>	<b>0.67</b>	<b>0.9</b>	<b>(89.4)</b>	<b>(151.2)</b>