

Management Discussion and Analysis

For the Third Quarter ended September 30, 2007

(This report discusses principal changes in the reviewed consolidated financial statement for the third quarter ended September 30, 2007)

Movement of Money Market and Capital Market

In the third quarter of 2007, the Bank of Thailand (BoT), lowered the policy rate (Repo 1-day) from 3.50% to 3.25% in attempt to stimulate domestic economy, and alleviate the baht appreciation resulting from foreign capital inflows.

The SET index significantly improved from the last quarter ending at 845.50 points, increased by 68.71 points. In terms of the trading activity, the average daily turnover totaled 21,917.34 million baht, increased by 6,804.57 million baht mainly due to the increase in trading volume from foreign sector and improved investment climate. Despite Thai capital market was affected by sub prime crisis in the U.S., domestic political situation was improved with more clarity on the new drafted constitution and the national election which was expected to take place within this year.

The Management Discussion and Analysis compares operating performance for the third quarter of 2007 with those of the second quarter of 2007 and the third quarter of 2006. Meanwhile, financial position is a comparison between the financial positions as of September 30, 2007 and June 30, 2007.

Operating Results

For the third quarter of 2007, the Bank and its subsidiaries reported a net profit of 440.23 million baht compared with 332.39 million baht, increased by 107.84 million baht (32.4% YoY) mainly contributed by the improvement in loan spread from 3.0% to 3.7% (YoY). Consequently, net interest and dividend income increased by 33.5% while non-interest income increased by 42.0% following the growth in fee income of 51.1% mainly from bancassurance, asset management, and investment banking businesses.

For the performance of the first nine month of 2007, the Bank and its subsidiaries reported a net profit of 1,233.86 million baht, remained in the same level compared with the net profit for the first nine month of 2006 amounting 1,227.56 million baht. The net interest and dividend income rose by 17.1% from 2,156.96 million baht to 2,526.28 million baht mainly contributed by the improvement in loan spread. Meanwhile, non-interest income remained stable as increase in banking fee income was counterbalanced by the decrease in brokerage fees and gain from investment following bearish capital market in the first half of 2007. In addition, provision expense for doubtful accounts increased following strong expansion in hire purchase portfolio while non-interest expense increased mainly due to higher loss from sales of repossessed assets in line with aggressive hire purchase loan growth, higher contribution to FIDF following higher deposit base, and higher operating costs incurred from new branch operations.

Diluted earnings per share for the third quarter and the first nine-month of 2007 are 0.54 baht and 1.50 baht respectively compared with those in the same period of 0.39 baht and 1.49 baht respectively. The average return on equity (ROAE) was 14.75% up from 14.16% (QoQ).

Net Interest and Dividend Income

Net interest and dividend income for the third quarter of 2007 was 885.25 million baht, increased by 222.07 million baht (33.5% YoY) mainly contributed by the increase in interest and dividend income of 240.32 million baht (16.6% YoY). Interest expenses increased by 18.25 million baht (2.3% YoY) in support of continuous growth in loan portfolio.

In comparison with the second quarter of 2007, cost of fund declined from 4.3% to 3.7% following the decline in market interest rate while loan yield dropped at the slower pace as the Bank managed to maintain loan yield by increasing the proportion of used-car high yield in the hire purchase portfolio. In effect, loan spread improved from 3.6% to 3.7%.

Total net interest and dividend income after bad debt and doubtful accounts amounted 702.81 million baht, increased by 42.54 million baht (6.4% YoY) with the amount of bad debts and doubtful accounts of 182.43 million baht, increased by 179.53 million baht. Meanwhile, the ratio of net interest and dividend income to total income decreased from 56.5% to 55.0% YoY.

Non-interest Income

In this quarter, the bank and its subsidiaries recorded non-interest income of 723.74 million baht, increased by 214.18 million baht (42.0% YoY), mainly resulted from the increase in the fees and services income in the areas of banking business and asset management business by 107.13 million baht (51.1% YoY). In addition, brokerage fees increased by 68.27 million baht (51.7% YoY) and gain from investment increased by 44.25 million baht (41.0% YoY) following improved capital market condition in this quarter.

Non-interest Expenses

Non-interest expenses in this quarter were 820.23 million baht, increased by 122.88 million baht (17.6% YoY) mainly resulted from the increase in personnel expense associated with higher revenue. In addition, operating expense increased mainly due to higher loss from sales of repossessed assets in line with aggressive hire purchase loan growth, higher contribution to FIDF following higher deposit base, and higher operating costs incurred from new branch operations.

Corporate Income Tax

For the third quarter of 2007, the corporate income tax was 166.10 million baht, equivalent to the effective tax rate of 27.4%, compared with the effective tax rate of 28.5% (YoY).

Financial Status

Assets

The Bank and its subsidiaries' total assets as of September 30, 2007 were 98,940.60 million baht, decreased by 5,106.49 million baht (4.9% QoQ) mainly due to a decrease of securities purchased under resale agreements by 8,915.00 million baht (70.9% QoQ) as a result of continuous decline in short-term excess liquidity following the issuance of long-term debentures in the previous quarter in replacement of matured debenture in this quarter.

Liabilities

Total liabilities as of September 30, 2007 were 86,779.93 million baht, decreased by 5,561.15 million baht (6.0% QoQ) mainly due to the matured short-term and long-term debenture; namely 5-year debenture of 3,000 million baht with interest rate of 4.83%, and 1-year debenture of 339.00 million baht with interest rate of 5.10%. In the second quarter of 2007, the Bank and its subsidiaries issued long-term debentures in replacement of matured debenture in this quarter with lower costs. Specifically, these new debentures comprised of 3-year debenture of 3,000 million baht with interest rate of 3.75%, and 5-year debenture of 1,000 million baht with interest rate of 4.04%.

Shareholders' Equity

Shareholder's equity and as of September 30, 2007 were 12,160.68 million baht increased from 11,706.02 million baht (3.9% QoQ). Book value per share (BVPS) as of September 30, 2007 was 16.72 baht, up from 16.10 baht as of June 30, 2007

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables were 83,655.99 million baht, increased by 2,913.39 million baht (3.6% QoQ) mainly contributed by strong growth in hire purchase business since the second quarter of 2006.

The composition of loan portfolio was 18.3% of corporate loans, 76.5% of retail loans, and 5.2% of other loans.

Corporate lending portfolio of the Bank and its subsidiaries totaled 15,306.77 million baht, increased by 378.32 million baht (2.5% QoQ), mainly from an increase in real estate and construction sector of 393.83 million baht (8.1% QoQ), ending at 5,252.46 million baht.

Retail lending portfolio consisted of 97.0% car, motorcycle, and other hire purchase and 3.0% mortgage loans. The outstanding hire purchase loans totaled 62,067.77 million baht, increased by 2,149.86 million baht (3.6% QoQ). Car new business in this quarter amounted 8,763.01 million baht increased by 894.95 million baht (11.4% YoY), consisted of new-car hire purchase of 6,938.98 million baht and used-car hire purchase of 1,824.03 million baht. The

domestic car sales for the first eight-month of 2007 was reported at 397,834 units down from 438,912 units (9.4% YoY), resulting in a dramatic increase of penetration rate from 6.5% to 10.2% YoY.

Deposit and Short-Term Borrowings

Total deposit and short-term borrowings were 71,377.63 million baht, down by 5,452.74 million baht (7.1% QoQ). The portion of saving accounts and current accounts contributed to 12.4% of total deposits and short-term borrowings, up from 4.8% as of June 30, 2007.

The ratio of loans to deposits and short-term borrowings increased from 105.1% to 117.2% QoQ, following the continuous decline in short-term excess liquidity.

Non-Performing Loans (NPLs) and Loan Loss Provision

Non-performing loans (NPLs) to total loans ratio was 4.3%, slightly decreased from 4.5% at the end of the previous quarter. Meanwhile, the NPL to total retail loans was 2.4%, and NPL to total commercial loans was 7.8%, in which the entire NPL amount was occurred during the economic crisis. NPLs of the Bank and its subsidiaries were 3,649.97 million baht, increased by 5.01 million baht (0.1% 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 2,799.34 million baht, the ratio of the allowance to NPLs was 76.7%. The Bank's allowance was 2,451.07 million baht, consisting of specific reserve of 2,315.44 million baht and general reserve of 135.62 million baht. The Bank's allowance exceeded the minimum requirement of the Bank of Thailand (BoT), which was 2,156.55 million baht.

(2) Securities Business

At the end of the third quarter, the SET index surged from 776.79 to 845.50 points with average daily trading turnover increased from 15,112.76 to 21,917.34 million baht (YoY) following bullish capital market as contributed by foreign investors attracted by the baht appreciation and the improvement in economic condition and more stable political situation.

For the third quarter of 2007, TISCO Securities' average market share stable at 2.9%. Meanwhile, the average daily turnover of TISCO Securities equaled 1,305.36 million baht, increased from 909.75 million baht (43.5% QoQ) resulting in a significant growth in brokerage fee by 69.03 million baht, ending at 200.29 million baht (52.6% QoQ).

Fee income from investment banking further improved after realigning business strategy to be in line with current capital market situation. The investment banking fee amounted 8.85 million baht, increased by 6.79 million baht (329.6% QoQ).

(3) Asset Management Business

The total asset under management of TISCO Asset Management Co., Ltd. was 103,026.60 million baht, increased by 7,439.98 million baht (7.8% QoQ). The composition of total asset under management was 58.6% from provident fund, 28.6% from private fund, and 12.8% from mutual fund. The company extensively offered wide range of products such as Short Term Fixed Income Fund, as well as foreign investment funds.

The fee from asset management was 143.89 million baht, increased from the second quarter of 2007 by 21.47 million baht (17.5% QoQ) following the increase of net asset value under management and improvement in market pricing.

Total market share of TISCO Asset Management Co., Ltd. as of August 2007 was 4.8%, ranking 8th in the market. The market share of provident fund and private fund was 13.9% and 16.8%, ranked 2nd in the market for both fund types. For mutual fund, the market share was 0.8%, ranked 17th in the market.

Branch expansion in 2007

For year 2007, the Bank has a clear policy to extend distribution coverage and increase serviceability for TISCO customers nationwide. During the first nine month of 2007, the bank has officially operated new bank branches totaling 11 branches nationwide, namely New Petchaburi Sub Branch, Rattanatibet, Nakhon Pathom, Srinakarin, Central World Sub Branch, Rangsit, Fashion Island Sub Branch, The Old Siam Sub Branch, Si Racha Sub Branch, Rayong, and Ayutthaya.

At present, the Bank has operated 25 bank branches nationwide (excluding head office).

Risk Management

In the third quarter of 2007, the integrated risk capital mainly comprising of credit risk capital stood at 7,329.29 million Baht, increasing by 411.86 million Baht or 5.95% from the previous quarter following strong expansion in hire purchase portfolio. However, the capital surplus remained strong at 37.55% compared with total capital of 12,160.68 million Baht, reflecting a continuously robust capital position to support future business expansion.

Compared to the second quarter of 2007, the market risk capital increased by 21.41 million Baht from 2,154.89 million Baht to 2,176.30 million Baht, primarily resulted from decreasing equity portfolio from profit taking following the uptrend of SET Index during the quarter and increasing interest rate as well as a widening interest rate gap (BPV) from the previous quarter which still could be in the manageable level. The difference in the duration of assets and liabilities was in range between 8 to 10 months as a result of decreased average duration of liabilities from the shorter maturity profile of deposit portfolio comparing to longer maturity profile from hire purchase portfolio in the assets side. Meanwhile, the credit risk capital rose by 367.76 million Baht to 4,395.48 million Baht following strong expansion in hire purchase portfolio.

In terms of regulatory capital requirement of Bank and Securities Company, the regulatory capital adequacy ratio (BIS ratio) rose from 11.54% to 12.37% following an increase of Tier-I capital resulting in Tier-I capital adequacy ratio to increase from 11.02% to 11.85% as well. Nevertheless, they remained higher than the 8.5% and 4.3% required by the Bank of Thailand. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. remained strong at 119.09%, greatly higher than the minimum required ratio by the SEC of 7.0%.

Supplemental explanation on changing significant accounting policies

1. Investment in subsidiaries

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 reported in the consolidated financial statement. The company had net income of 440.23 million baht for the three-month period ended September 30, 2007, according to the consolidated financial statement. However, the separate financial statement over the same period showed a net income of 233.79 million baht with the additional information as follows:

1. Net income for the three-month period ended September 30, 2007 and September 30, 2006 decreased by 206.44 million baht and 24.92 million baht (That is, decreased by 0.28 baht per share and 0.03 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 September 30, 2007 showed an investment in subsidiary decreased by 676.59 million baht and the retained earnings increased by 244.19 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.

2. Commissions and direct expenses of the hire purchase business

The Bank has changed its accounting method for recognition of initial commissions and direct expenses arising in respect of hire purchase contracts originating from 1 January 2007, from recording them as expenses when they occur to amortizing them by the effective interest rate method, and deducting them from interest income over the installment period. Unearned interest income is stated net of commissions and direct expenses incurred at the initiation of the hire purchase contract. The effects to the financial statements are summarized as follows;

1. Profit and loss statement states the decrease in hire purchase and financial lease income and fees and service expenses, equivalent to the amount of realized commissions and direct expenses.

2. Balance sheet states the increase in loans and receivable, equivalent to deferred commissions and direct expenses.

Table 1: Consolidated Revenue Structure

Type of Revenue	3Q07		3Q06		Change
	Amount		Amount		
	(Bt. million)	%	(Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	215.54	13.4	265.32	22.6	(18.8)
Interest on interbank and money market items.	77.82	4.8	101.28	8.6	(23.2)
Hire purchase and financial lease income	1,316.85	81.8	1,024.56	87.4	28.5
Investments	74.13	4.6	52.87	4.5	40.2
Total interest and dividend income	1,684.34	104.7	1,444.02	123.1	16.6
Interest expenses	799.09	49.7	780.84	66.6	2.3
Net interest and dividend income	885.25	55.0	663.18	56.5	33.5
Non-interest income					
Brokerage Fees	200.29	12.4	132.02	11.3	51.7
Gain on securities	152.07	9.5	107.82	9.2	41.0
Fees and services income	316.88	19.7	209.75	17.9	51.1
Others	54.51	3.4	59.97	5.1	(9.1)
Total non-interest income	723.74	45.0	509.56	43.5	42.0
Total income before bad debts and doubtful accounts	1,608.99	100.0	1,172.74	100.0	37.2
Bad debt and doubtful accounts	(182.43)		(2.90)		
Bad debt written back revenue					
Total income – net of bad debts and doubtful accounts	1,426.56		1,169.84		
Non-interest expenses	(820.23)		(697.35)		
Profit before income tax and minority interest	606.33		472.49		
Corporate income tax	(166.10)		(134.85)		
Minority interest in net earnings in subsidiary company	0.00		(5.25)		
Net Profit	440.23		332.39		32.4%

Table 2: Interest spread

%	3Q07	2Q07	3Q06
Yield on Loans	7.4	7.9	7.7
Cost of fund	3.7	4.3	4.7
Loan spread	3.7	3.6	3.0

Table 3: Assets Breakdown

Assets	September 30, 2007		June 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	345.92	0.3	322.14	0.3	7.4
Interbank and Money Market Items	3,119.46	3.2	1,920.06	1.8	62.5
Securities purchased under resale agreements	3,665.00	3.7	12,580.00	12.1	(70.9)
Fixed income	1,354.67	1.4	1,010.32	1.0	34.1
Equity	3,856.81	3.9	4,257.53	4.1	(9.4)
Corporate Loans	15,306.77	15.5	14,928.45	14.3	2.5
Retail Loans	63,988.60	64.7	61,873.91	59.5	3.4
Other Loans	4,360.62	4.4	3,940.24	3.8	10.7
Allowance for doubtful accounts and for loss on debt restructuring	(2,799.34)	(2.8)	(2,784.51)	(2.7)	0.5
Other Assets	5,742.09	5.8	5,998.95	5.8	(4.3)
Total – The Bank and Subsidiaries	98,940.60	100.0	104,047.10	100.0	(4.9)

Table 4: Liabilities Breakdown by Area

Type of Borrowings	September 30, 2007		June 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	71,377.63	82.3	76,830.37	83.2	(7.1)
Interbank and money market items	3,193.08	3.7	3,556.91	3.9	(10.2)
Long-term borrowings	8,192.30	9.4	8,162.56	8.8	0.4
Others	4,016.92	4.6	3,791.24	4.1	6.0
Total – The Bank and Subsidiaries	86,779.93	100.0	92,341.08	100.0	(6.0)

Table 5: Loans and Receivables Breakdown

Type of Business	September 30, 2007		June 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,434.52	8.9	7,496.80	9.3	(0.8)
Real estate and construction	5,252.46	6.3	4,858.63	6.0	8.1
Public utilities and services.	2,514.14	3.0	2,469.13	3.1	1.8
Agriculture and mining.	105.66	0.1	103.89	0.1	1.7
Commercial Lending	15,306.77	18.3	14,928.45	18.5	2.5
Hire purchase	62,067.77	74.2	59,917.91	74.2	3.6
Housing	1,920.83	2.3	1,955.99	2.4	(1.8)
Retail Lending	63,988.60	76.5	61,873.91	76.6	3.4
<i>Others</i>	4,360.62	5.2	3,940.24	4.9	10.7
Total – The Bank and Subsidiaries	83,655.99	100.0	80,742.60	100.0	3.6

Table 6: Deposits Structure

Type of Deposits	September 30, 2007		June 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	4,875.88	6.8	1,745.41	2.3	179.4
Saving accounts	3,957.63	5.5	1,980.19	2.6	99.9
Fixed accounts	42,756.60	59.9	36,274.56	47.2	17.9
Negotiate certificate deposit	1,119.71	1.6	797.14	1.0	40.5
Promissory notes and Bill of exchange	2,487.75	3.5	2,798.43	3.6	(11.1)
Total deposits	55,197.57	77.3	43,595.74	56.7	26.6
Short-term borrowings	16,180.06	22.7	33,234.63	43.3	(51.3)
Total	71,377.63	100.0	76,830.37	100.0	(7.1)

Table 7: NPL Breakdown by Area

Type of Business	September 30, 2007			June 30, 2007			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	6.0	443.47	12.1	6.4	476.08	13.1	(6.9)
Real estate and construction	13.6	714.79	19.6	14.6	711.68	19.5	0.4
Public utilities and services.	1.3	31.63	0.9	1.0	25.37	0.7	24.7
Agriculture and mining	0.0	-	0.0	0.4	0.45	0.0	(100.0)
Commercial Lending	7.8	1,189.88	32.6	8.1	1,213.58	33.3	(2.0)
Hire purchase	2.1	1,273.77	34.9	2.1	1,264.10	34.7	0.8
Housing	12.9	247.16	6.8	11.9	231.98	6.4	6.5
Retail Lending	2.4	1,520.92	41.7	2.4	1,496.08	41.0	1.7
Others	18.3	939.17	25.7	18.8	935.30	25.7	0.4
Total – The Bank and Subsidiaries	4.3	3,649.97	100.0	4.5	3,644.96	100.0	0.1

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	September 30, 2007		June 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	60,372.49	58.6	58,038.79	60.7	4.0
Private Fund	29,446.76	28.6	26,272.82	27.5	12.1
Mutual Fund	13,207.35	12.8	11,275.01	11.8	17.1
Total	103,026.60	100.0	95,586.62	100.0	7.8

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	
	3Q07	2Q07	3Q07	2Q07
	Assets	1.37	1.23	317.5
Liabilities	0.57	0.65	(493.1)	(500.3)
Net Gap	0.80	0.58	175.55	(93.53)