

## Management Discussion and Analysis For the First Quarter ended March 31, 2008

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2008)

### Movement of Money Market and Capital Market

In the first quarter of 2008, global economy was continually affected by U.S. sub-prime crisis. The U.S. Federal Reserve lowered its policy rate 3 times from 4.25% at the end of 2007 to 2.25% as of 31 March, 2008. However, Bank of Thailand (BoT) still maintained its policy rate (Repo 1-day) at 3.25% with positive economic outlook following improvement in private sector confidence and government's economic stimulation plan in alleviating the negative effect of sub-prime crisis. Meanwhile, average 1-year fixed deposit rates of commercial banks continuously declined from 2.52% at the end of 2007 to 2.40% at the end of this quarter.

The SET index declined by 41.07 points from December 2007, closed at 817.03 points. Despite the improvement in political climate and the announcement of government's economic stimulation programs, the capital market was somewhat negatively affected by U.S. sub-prime crisis especially in foreign investor segment. As a result, the average daily turnover decreased by 575.51 million baht to 18,846.24 million baht.

**The Management Discussion and Analysis compares operating performance for the first quarter of 2008 with those of the first quarter of 2007. Meanwhile, financial position is a comparison between the financial positions as of March 31, 2008 and December 31, 2007.**

### Operating Results

In the first quarter of 2008, the Bank and its subsidiaries recorded net profit of 429.09 million baht, increased by 73.25 million baht (20.6% YoY) contributed by an increase in interest and dividend income of 38.0% following strong expansion in corporate and retail lending businesses of 15.3% together with an improvement in loan spread from 3.0% to 4.0%. Non-interest income increased by 12.9% following growth in fee income from asset management business of 44.3% and growth in fee income from bancassurance business.

Diluted earnings per share for the first-three-month period of 2008 were 0.53 baht, increased from 0.50 baht (YoY). Return on average equity (ROAE) was 13.7% compared with 11.1% (YoY).

### Net Interest and Dividend Income

Net interest and dividend income in this quarter was 1,043.93 million baht, increased by 287.58 million baht (38.0% YoY), interest and dividend income was 1,804.25 million baht, increased by 118.57 million baht (7.0% YoY). Meanwhile, interest expense decreased by 169.00 million baht (18.2% YoY).

Comparing on year-on-year basis, the Bank was able to widen loan spread from 3.0% to 4.0% as the Bank has well-managed its asset and liabilities mix in line with change in interest rate environment. The Bank has pursued the strategy to penetrate in high-yield loan segments under prudent risk management. Meanwhile, cost of fund declined following an increase in retail deposit base through various deposit products corresponding to client's needs.

The Bank and its subsidiaries reported net interest and dividend income after bad debts and doubtful account of 811.65 million baht, increased by 183.80 million baht (29.3% YoY). Bad debts and doubtful account was 232.28 million baht, which is considered as normal level in supporting future loan growth, compared to 128.50 million baht YoY. In the first quarter of 2007, the Bank recorded bad debts and doubtful accounts at lower-than-normal level due to excess reserve from the change in new provisioning standard (IAS 39). Net interest and dividend income to total income ratio was 64.9%, up from 60.2% YoY.

### **Non-interest Income**

Non-interest income for the first quarter of 2008 was 565.49 million baht, increased by 64.78 million baht (12.9% YoY), mainly as a result of an increase in asset management fee of 34.08 million baht (44.3% YoY) in line with growth in assets under management. Additionally, higher banking fee was contributed by successful alliance with American International Assurance Co., Ltd. (Thailand) in operating life bancassurance business.

### **Non-interest Expenses**

Non-interest expenses for this quarter were 780.78 million baht, increased by 147.52 million baht (23.3% YoY). The increase was due to higher personnel expenses associated with higher income, and premises and equipment expenses from the investment in information technology and infrastructure in supporting increased business volume and service coverage.

### **Corporate Income Tax**

In the first quarter of 2008, the corporate income tax was 167.27 million baht, equivalent to the effective tax rate of 28.0%, compared to 28.1% YoY.

## **Financial Status**

### **Assets**

The Bank and its subsidiaries' total assets as of March 31, 2008 were 109,017.13 million baht, increased by 10,064.04 million baht (10.2% QoQ) following strong loan growth from 86,420.41 million baht to 90,261.34 million baht (4.4% QoQ). In addition, investment was 7,296.04 million baht, increased by 1,515.48 million baht (26.2% QoQ), following improvement in market conditions.

**Liabilities**

Total liabilities as of March 31, 2008 were 96,413.08 million baht, increased by 9,833.59 million baht (11.4% QoQ) following an increase in deposit base to support strong growth in loan portfolio and continuous expansion in retail deposit base since the beginning of 2007.

**Shareholders' Equity**

Shareholder's equity as of March 31, 2008 were 12,604.05 million baht, increased by 230.45 million baht (1.9% QoQ) arising from retained earnings in the first quarter of 2008. As a result, book value per share (BVPS) as of March 31, 2008 was 17.31 baht per share, increased from 17.01 baht per share (QoQ). In the first quarter of 2008, the Bank had paid-up shares amounting 728.05 million shares, comprising 544.61 million common shares and 183.44 million preference shares.

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

Total consolidated loans and receivables were 90,261.34 million baht, up by 3,840.93 million baht (4.4% QoQ), following growth in corporate and retail loan. The composition of loan portfolio was 77.0% of retail loans, 18.1% of corporate loans, and 4.9% of other loans.

**Retail lending** portfolio consisted of 97.4% car, motorcycle, and other hire purchase and 2.6% mortgage loans. The outstanding hire purchase loans equaled 67,743.89 million baht, rose by 3,059.49 million baht (4.7% QoQ). Car hire purchase new business volume amounted 10,259.23 million baht, decreased by 517.21 million baht (4.8% YoY). The domestic car sales in the first 2 months of 2008 reported at 94,679 units increased from 82,249 units (15.1% YoY), resulting in car penetration rate of 10.1%, comparing with average penetration rate of 9.4% in 2007.

**Corporate lending** portfolio of the Bank and its subsidiaries totaled 16,313.31 million baht, up by 696.76 million baht (4.5% QoQ), mainly due to an increase in loans to public utilities and services, real estate and construction industry, and agricultural and mining.

**Deposit and Short-Term Borrowings**

Total deposit and short-term borrowings totaled 83,888.36 million baht, increased by 15,429.40 million baht (22.5% QoQ). The portion of saving accounts and current accounts contributed to 13.1% of total deposits and short-term borrowings, increased from 6.2% (QoQ). Strong expansion in saving accounts and current accounts was resulted from the Bank's success in launching deposit products that correspond to client's needs. Additionally, strong expansion in retail deposit base was supported by bank branch network and TISCO@Post located nationwide.

### **Loans to Deposits and Short-term Borrowings Ratio**

The loans to deposits and short-term borrowings ratio decreased from 126.2% to 107.6% (QoQ) as a result of active fund raising in support of future loan growth.

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

As of March 31, 2008, non-performing loans (NPLs) to total loans ratio was 4.0%, declined from 4.3% (QoQ). Meanwhile, the NPL to total retail loans and NPL to total commercial loans were 2.2% and 7.2% respectively, in which the entire commercial NPL amount was occurred during the economic crisis. NPLs of the Bank and its subsidiaries were 3,640.16 million baht (Bank's NPLs was 3,154.19 million baht and subsidiaries' NPLs was 485.97 million baht), decreased by 111.25 million baht (QoQ) as a result of effective credit management.

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,893.48 million baht, the ratio of the allowance to NPLs was 79.5%. The Bank's allowance was 2,570.85 million baht, consisting of specific reserve of 2,291.61 million baht and general reserve of 279.24 million baht. The Bank's allowance exceeded the minimum requirement of the Bank of Thailand (BoT), which was 2,138.39 million baht.

## **(2) Securities Business**

At the end of the first quarter, the SET index ended at 817.03 points, decreased from 858.10 points at the end of previous year, with average daily turnover of 18,846.24 million baht, increased from 11,800.08 million baht (YoY). The improvement of SET index was due to improvement in investor confidence toward more stable political situation.

Average daily turnover of TISCO Securities Co., Ltd. was 861.97 million baht, increased from 786.48 million baht (YoY). Average market share decreased from 3.31% to 2.25% (YoY), mainly due to a decrease in market share of local institutional investor sector from 7.56% to 3.86% as overall institutional investors had lower trading volume comparing to total trading volume in the market. In addition, the majority of TISCO's client emphasized on long-term investment and seldom traded on regular basis. Brokerage commission income increased to 135.32 million baht from 119.74 million baht (YoY). Meanwhile, TISCO brokerage volume comprised of 26.1% of foreign institutions, 27.2% of local institutions, and 46.7% of retail customers.

Following business partnership agreement with Sacombank Securities Co., Ltd. signed in September 2007, in expanding investment banking business opportunity to Vietnam's capital market, the '1<sup>st</sup> Vietnam Corporate Day in Thailand' was arranged to allow TISCO's institutional investor to get an opportunity to meet representatives from Vietnam. There were 7 companies from Vietnam participated in this event.

Fee income from investment banking business continuously improved since the second quarter of 2007 after realigning business strategy to be in line with current capital market situation. Investment banking fee significantly increased by 13.18 million baht to 17.90 million baht YoY from underwriting of debenture for Mitr Phol Group amounting 350 million baht and financial advisory fee from M&A deals in several industrial sectors.

### (3) Asset Management Business

Fee income from asset management totaled 111.03 million baht, increased by 34.08 million baht (44.3% YoY), contributed by strong growth in asset under management and improvement in market pricing. As of 31 March, 2008, TISCO Asset Management Co., Ltd. had assets under management of 112,279.81 million baht, increased by 4,566.50 million baht (4.2% QoQ). The composition of total asset under management was 57.3% of provident fund, 28.2% of private fund, and 14.5% of mutual fund. In this quarter, TISCO Asset Management was appointed by Olic (Thailand) Co. to manage its provident fund. Also, there were 93 new corporate clients joined TISCO pooled funds e.g. Mahidol University (The Heart by Siriraj), Siam Hitachi Automotive Products Co., Ltd., Allied Products (Thailand) Ltd., Charoen Aksorn Group, Music Copyright (Thailand) Co., Ltd., and Thai Entertainment Content Trade Association). In this quarter, mutual fund business successfully launched Foreign Investment Funds (FIF), which were well-responded from investors. Those FIFs were TISCO New Zealand Bond Fund #1-4 and TISCO Australia Bond Fund #2-3, which carried on their success from 2007.

Total market share of TISCO Asset Management Co., Ltd. as of February 29, 2008 was 5.1%, ranking 8th in the market. Provident fund business has stepped up to be the 1st in the market since January 2008 onwards with market share of 14.3%. The market share of private fund was 17.6%, ranking 2nd in the market. For mutual fund, the market share was 1.1%, ranking 16th in the market.

In addition, TISCO Asset Management has been well-known for exceptional fund performance, particularly equity funds i.e. TISCO Equity Dividend Fund and TISCO Equity Growth Fund, which had year-to-date fund performance ranked 1<sup>st</sup> and 4<sup>th</sup> among Top 10 Equity fund performance as of 31 March, 2008, respectively. TISCO also had an outstanding fund performance in fixed income fund invested in structured note, such as TISCO China Link Capital Protected Fund, TISCO Japan Link Capital Protected Fund, and TISCO SET 50 Link Fund, which generated good investment returns amid sluggish global capital market environment.

### Risk Management

In the first quarter of 2008, the integrated risk capital mainly comprising of credit risk capital stood at 7,635.17 million Baht, increasing by 210.06 million Baht or 2.75% owing to loan growth during the quarter. However, the capital surplus remained strong at 39.53% compared with total capital of 12,625.36 million Baht, reflecting a continuously robust capital position to support future business expansion.

Compared to the end of 2007, the market risk capital decreased by 75.74 million Baht from 2,538.59 million Baht to 2,462.85 million Baht, primarily resulting from declining market value along with SET contraction. However, the credit risk capital rose by 196.55 million Baht to 4,312.20 million Baht following the expansion of hire purchase business, SME and corporate lending.

In the meantime, the interest rate risk increased from widening BPV due to hire purchase loan growth with longer maturity and shorter deposit and local borrowing profile. Despite of a widening interest rate gap (BPV) from the last year, the difference in the duration of assets and liabilities remained in manageable level between 10 to 11 months.

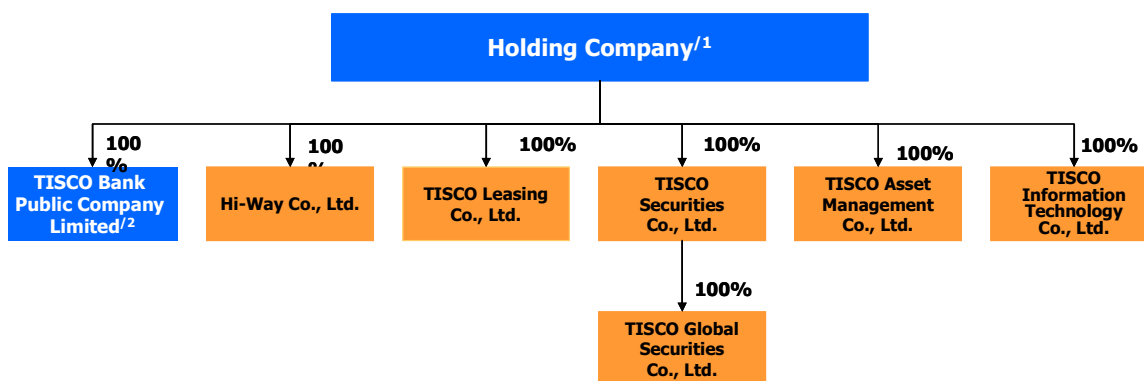
In terms of regulatory capital requirement of the Bank of Thailand and the Securities and Exchange Commission, the capital level was still in strong position and sufficient to support future asset growth. Despite strong loan growth of 4.4% (QoQ), the capital adequacy ratio (BIS ratio) slightly reduced from 11.94% to 11.43% with Tier-I capital adequacy ratio stood at 11.10%. Nevertheless, the ratios remained higher than the 8.50% and 4.25% required by the Bank of Thailand. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. remained strong at 91.83%, greatly higher than the minimum required ratio by the SEC of 7.00%.

**The Holding Company Restructuring Plan**

In February 2008, the Board of Directors of TISCO Bank resolved the approval of the Holding Company Restructuring plan whereby a non-bank public company limited will be set up as a holding company and become the parent company in place of TISCO Bank. Holding company will hold all shares in TISCO Bank and its subsidiary companies, and list its share in the Stock Exchange of Thailand in place of TISCO Bank shares. The objectives for holding company restructuring are risk reduction, capital efficiency, and business opportunity.

Moreover, the new shareholding structure will be synchronized with the upcoming Consolidated Supervision Regulation of the Bank of Thailand, which aims to build more flexibility and competitiveness among financial institutions. Also, operating risks will be reduced, which enhances the stability of the institutions and the overall market.

In the restructuring process, Holding Company shall make a Tender Offer for all securities of TISCO Bank in exchange for the same type of holding company’s newly issued securities. The planned shareholding structure when the restructuring process is complete is presented below.



/1 Listed on the Stock Exchange of Thailand

/2 Delisted from the Stock Exchange of Thailand

The entire restructuring process is expected to complete by October 2008, with plan schedule as follows;

<b>Period</b>	<b>Process</b>
February 26, 2008	The Board of directors approved the Holding Company Restructuring Plan
April 2008	Submit the application to the Bank of Thailand
April 2008	Setup of Holding Company
April 25, 2008 at 1.30 pm	2008 Annual Shareholders' Meeting for approval of the Holding Company Restructuring Plan
April 25, 2008 at 4.00 pm	2008 Shareholders' Extra-Ordinary General Meeting for approval of the delisting of TISCO Bank shares with the listing of Holding Company shares
August 2008	The Bank of Thailand's approval on the Holding Company Restructuring Plan*
September – October 2008	Holding Company makes a tender offer for all securities of TISCO Bank from TISCO Bank's shareholders
October 2008	Holding Company buys all shares of subsidiaries from TISCO Bank, with related resources and staff transferred to Holding Company
October 2008	Listing of Holding Company shares on the Stock Exchange of Thailand and simultaneously delisting of TISCO Bank shares from the Stock Exchange of Thailand

\* The Financial Institutions Business Act B.E. 2551 becomes effective on August 3, 2008

**Table 1: Consolidated Revenue Structure**

Type of Revenue	1Q08		1Q07		% Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	
Interest and dividend income					
Interest on loans	268.74	16.7	253.13	20.1	6.2
Interest on interbank and money market items.	64.74	4.0	117.48	9.3	(44.9)
Hire purchase and financial lease income	1,381.64	85.8	1,251.34	99.5	10.4
Investments	89.13	5.5	63.73	5.1	39.9
<b>Total interest and dividend income</b>	<b>1,804.25</b>	<b>112.1</b>	<b>1,685.67</b>	<b>134.1</b>	<b>7.0</b>
Interest expenses	(760.32)	(47.2)	(929.32)	(73.9)	(18.2)
<b>Net interest and dividend income</b>	<b>1,043.93</b>	<b>64.9</b>	<b>756.36</b>	<b>60.2</b>	<b>38.0</b>
Non-interest income					
Brokerage Fees	135.32	8.4	119.74	9.5	13.0
Gain on securities	9.02	0.6	98.50	7.8	(90.8)
Fees and services income	340.57	21.2	232.30	18.5	46.6
Others	80.57	5.0	50.17	4.0	60.6
<b>Total non-interest income</b>	<b>565.49</b>	<b>35.1</b>	<b>500.71</b>	<b>39.8</b>	<b>12.9</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>1,609.42</b>	<b>100.0</b>	<b>1,257.06</b>	<b>100.0</b>	<b>28.0</b>
Bad debt and doubtful accounts	(232.28)		(128.50)		80.8
Bad debt written back revenue	0.00		0.00		0.0
<b>Total income – net of bad debts and doubtful accounts</b>	<b>1,377.14</b>		<b>1,128.56</b>		<b>22.0</b>
Non-interest expenses	(780.78)		(633.26)		23.3
<b>Profit before income tax and minority interest</b>	<b>596.36</b>		<b>495.30</b>		<b>20.4</b>
Corporate income tax	(167.27)		(139.39)		20.0
Minority interest in net earnings in subsidiary company	0.00		(0.07)		(100.0)
<b>Net Profit</b>	<b>429.09</b>		<b>355.84</b>		<b>20.6</b>

**Table2: Interest Spread**

	%	1Q08	4Q07	1Q07
Yield on Loans		7.5	7.5	7.8
Cost of fund		3.5	3.5	4.8
<b>Loan spread</b>		<b>4.0</b>	<b>4.0</b>	<b>3.0</b>



**Table 3: Assets Breakdown**

Assets	March 31, 2008		December 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	359.33	0.3	439.90	0.4	(18.3)
Interbank and Money Market Items	8,799.49	8.1	1,050.15	1.1	737.9
Securities purchased under resale agreements	0.00	0.0	2,400.00	2.4	(100.0)
Fixed income	3,669.50	3.4	1,390.83	1.4	163.8
Equity	3,626.54	3.3	4,389.73	4.4	(17.4)
Corporate Loans	16,313.31	15.0	15,616.55	15.8	4.5
Retail Loans	69,569.07	63.8	66,572.29	67.3	4.5
Other Loans	4,378.96	4.0	4,231.56	4.3	3.5
Allowance for doubtful accounts and for loss on debt restructuring	(2,892.73)	(2.7)	(2,805.96)	(2.8)	3.1
Other Assets	<b>5,193.67</b>	<b>4.8</b>	<b>5,668.02</b>	<b>5.7</b>	<b>(8.4)</b>
<b>Total – The Bank and Subsidiaries</b>	<b>109,017.13</b>	<b>100.0</b>	<b>98,953.09</b>	<b>100.0</b>	<b>10.2</b>

**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	March 31, 2008		December 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	83,888.36	87.0	68,458.96	79.1	22.5
Interbank and money market items	3,897.26	4.0	5,852.19	6.8	(33.4)
Long-term borrowings	4,692.43	4.9	8,005.05	9.2	(41.4)
Others	3,935.04	4.1	4,263.29	4.9	(7.7)
<b>Total – The Bank and Subsidiaries</b>	<b>96,413.08</b>	<b>100.0</b>	<b>86,579.49</b>	<b>100.0</b>	<b>11.4</b>

**Table 5: Loans and Receivables Breakdown**

Type of Business	March 31, 2008		December 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,457.01	8.3	7,821.51	8.7	(4.7)
Real estate and construction	5,482.92	6.1	5,041.33	5.6	8.8
Public utilities and services	3,260.08	3.6	2,648.16	2.9	23.1
Agriculture and mining	113.29	0.1	105.55	0.1	7.3
<b>Commercial Lending</b>	<b>16,313.31</b>	<b>18.1</b>	<b>15,616.55</b>	<b>17.3</b>	<b>4.5</b>
Hire purchase	67,743.89	75.1	64,684.40	71.7	4.7
Housing	1,825.17	2.0	1,887.89	2.1	(3.3)
<b>Retail Lending</b>	<b>69,569.07</b>	<b>77.1</b>	<b>66,572.29</b>	<b>73.8</b>	<b>4.5</b>
<i>Others</i>	4,378.96	4.9	4,231.56	4.7	3.5
<b>Total – The Bank and Subsidiaries</b>	<b>90,261.34</b>	<b>100.0</b>	<b>86,420.41</b>	<b>95.7</b>	<b>4.4</b>

**Table 6: Deposits Structure**

Type of Deposits	March 31, 2008		December 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	6,662.65	7.9	2,089.34	3.1	218.9
Saving accounts	4,355.95	5.2	2,157.76	3.2	101.9
Fixed accounts	4,214.25	5.0	2,224.45	3.2	89.5
Certificates of deposit/negotiable certificates of deposit	45,049.10	53.7	26,859.58	39.2	67.7
Promissory notes and Bill of exchange	1,364.67	1.6	2,383.05	3.5	(42.7)
<b>Total deposits</b>	<b>61,646.62</b>	<b>73.5</b>	<b>35,714.17</b>	<b>52.2</b>	<b>72.6</b>
<b>Short-term borrowings</b>	<b>22,241.75</b>	<b>26.5</b>	<b>32,744.79</b>	<b>47.8</b>	<b>(32.1)</b>
<b>Total</b>	<b>83,888.36</b>	<b>100.0</b>	<b>68,458.96</b>	<b>100.0</b>	<b>22.5</b>

**Table 7: NPL Breakdown by Area**

Type of Business	March 31, 2008			December 31, 2007			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	6.0	449.40	12.3	5.6	435.13	11.6	3.3
Real estate and construction	12.6	692.36	19.0	14.2	717.70	19.1	(3.5)
Public utilities and services	0.8	26.25	0.7	1.2	32.33	0.9	(18.8)
Agriculture and mining	0.0	0.0	0.0	0.3	0.35	0.0	(100.0)
<b>Commercial Lending</b>	<b>7.2</b>	<b>1,168.01</b>	<b>32.1</b>	<b>7.6</b>	<b>1,185.51</b>	<b>31.6</b>	<b>(1.5)</b>
Hire purchase	2.0	1,336.93	36.7	2.2	1,413.36	37.7	(5.4)
Housing	11.6	211.14	5.8	12.1	229.07	6.1	(7.8)
<b>Retail Lending</b>	<b>2.2</b>	<b>1,548.07</b>	<b>42.5</b>	<b>2.5</b>	<b>1,642.43</b>	<b>43.8</b>	<b>(5.7)</b>
<b>Others</b>	<b>18.6</b>	<b>924.08</b>	<b>25.4</b>	<b>16.4</b>	<b>923.46</b>	<b>24.6</b>	<b>0.1</b>
<b>Total – The Bank and Subsidiaries</b>	<b>4.0</b>	<b>3,640.16</b>	<b>100.0</b>	<b>4.3</b>	<b>3,751.41</b>	<b>100.0</b>	<b>(3.0)</b>

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

Type of Fund	March 31, 2008		December 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	64,394.25	57.4	62,702.81	58.2	2.7
Private Fund	31,659.59	28.2	30,416.85	28.2	4.1
Mutual Fund	16,225.97	14.5	14,593.65	13.5	11.2
<b>Total</b>	<b>112,279.81</b>	<b>100.0</b>	<b>107,713.31</b>	<b>100.0</b>	<b>4.2</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	
	1Q08	4Q07	1Q08	4Q07
Assets	1.38	1.41	354.60	292.05
Liabilities *	0.49	0.52	(505.64)	(498.14)
<b>Net Gap</b>	<b>0.89</b>	<b>0.89</b>	<b>(151.03)</b>	<b>(208.22)</b>

Note : \* Exclude saving and current account