

## Management Discussion and Analysis For the Third Quarter ended September 30, 2008

(This report discusses principal changes in the unreviewed consolidated financial statement for the third quarter ended September 30, 2008)

### Movement of Money Market and Capital Market

In the third quarter of 2008, Thai economy was sluggish relative to the second quarter owing to slowdown in domestic consumption, investment, and export. The inflation rate lowered from 7.5% to 7.2% (QoQ) as a result of continual decline in global oil price. For the money market, the Bank of Thailand (BoT) announced its policy rate cut (Repo 1-day) twice from 3.25% to 3.75% by the end of the third quarter in order to alleviate soaring inflation rate. Meanwhile, average 1-year fixed deposit rates of commercial banks increased from 2.95% at the end of the second quarter to 3.13% at the end of this quarter.

The SET index declined by 768.59 points from the end of the second quarter, closed at 596.54 points as a result of U.S. financial crisis affecting capital market in every regions, together with local political turmoil. Consequently, the average daily turnover decreased from 19,959.32 million baht to 12,211.95 million baht.

**The Management Discussion and Analysis compares operating performance for the third quarter of 2008 with those of the third quarter of 2007. Meanwhile, financial position is a comparison between the financial positions as of September 30, 2008 and June 30, 2008.**

### Operating Results

In the third quarter of 2008, the Bank and its subsidiaries recorded net profit of 397.92 million baht, decreased by 42.31 million baht (9.6% YoY). Net interest and dividend income increased by 18.4% (YoY) following strong growth in corporate and retail lending businesses of 16.9% (YoY) together with a steady loan spread at 3.7% compared to 3.8% in the third quarter of 2007. Non-interest income excluding trading gain from securities investment increased by 1.3% (YoY). However, trading gain from securities investment decreased by 95.9% (YoY) following bearish capital market, resulting in a decline in overall non-interest income by 19.0% (YoY).

For the performance of the first nine months of 2008, the Bank and its subsidiaries reported a net profit of 1,328.29 million baht, increased by 94.44 million baht or 7.7% compared with the net profit for the first nine months of 2007 amounting 1,233.86 million baht. Net interest and dividend income increased by 25.6% (YoY) following expansion in corporate and retail lending businesses of 16.9% (YoY) together with an improvement in loan spread from 3.4% to 3.8% (YoY). In addition, non-interest income increased by 144.23 million baht (8.3% YoY) as contributed by an increase in fee income comprising of bancassurance business of 105.32 million baht (39.6% YoY), financial advisory service of 35.98 million baht (138.6% YoY), and asset management business of 23.03 million baht (7.0% YoY).

Diluted earnings per share for the third quarter and the first nine months of 2008 were 0.48 baht and 1.63 baht respectively compared with those in the same period in 2007 of 0.54 baht and 1.50 baht respectively. The average return on equity (ROAE) for the third and the first nine months of 2008 were 14.0% and 14.9% respectively compared with those in the same period in 2007 of 14.8% and 13.2% respectively.

### **Net Interest and Dividend Income**

Net interest and dividend income for the third quarter was 1,048.27 million baht, increased by 163.03 million baht (18.4% YoY), interest and dividend income was 1,938.30 million baht, increased by 253.96 million baht (15.1% YoY). Meanwhile, interest expense increased by 90.93 million baht (11.4% YoY) following continuous loan growth.

Despite increasing market interest rate, the Bank and its subsidiaries was able to maintain loan spread at 3.7% compared to 3.8% (YoY) as the Bank has pursued the strategy to penetrate in high-yield loan segments under prudent risk management.

The Bank and its subsidiaries reported net interest and dividend income after bad debts and doubtful account of 717.30 million baht, increased by 81.31 million baht (12.8% YoY). Bad debts and doubtful account was 330.97 million baht, which is considered normal level in supporting future loan growth, compared to 249.26 million baht (YoY).

### **Non-interest Income**

Non-interest income excluding trading gain from securities investment increased by 7.21 million baht (1.3% YoY) as contributed by an increase of fee income from core businesses i.e. income from hire purchase business up by 44.78 million baht (75.5% YoY), income from bancassurance business up by 29.43 million baht (31.2% YoY), and financial advisory business up by 3.38 million baht (28.0% YoY). Meanwhile, brokerage fee income lowered by 93.35 million baht (46.6% YoY). Trading gain from securities investment decreased by 145.79 million baht (95.9% YoY) following sluggish capital market, resulting in a decline in overall non-interest income by 138.58 million baht (19.0% YoY), ending at 589.95 million baht.

### **Non-interest Expenses**

Non-interest expenses for this quarter were 755.12 million baht, which stood at the same level as in the third quarter in 2007 at 758.19 million baht.

### **Corporate Income Tax**

In the third quarter of 2008, the corporate income tax was 154.21 million baht, equivalent to the effective tax rate of 27.9%, compared to 27.4% (YoY).

## **Financial Status**

### **Assets**

The Bank and its subsidiaries' total assets as of September 30, 2008 were 116,059.47 million baht, increased by 6,182.71 million baht (5.6% QoQ) following strong loan growth from 95,267.76 million baht to 97,838.88 million baht (2.7% QoQ).

### **Liabilities**

Total liabilities as of September 30, 2008 were 104,704.32 million baht, increased by 6,139.48 million baht (6.2% QoQ) following an increase in deposit and short-term borrowing of 8,392.67 million baht (9.9% QoQ).

### **Shareholders' Equity**

Shareholder's equity as of September 30, 2008 was 11,355.15 million baht, compared to 11,311.93 million baht as of June 30, 2008. Book value per share (BVPS) as of September 30, 2008 was 15.59 baht up from 15.54 baht (QoQ). In the third quarter of 2008, the Bank had paid-up shares amounting 728.15 million shares, comprising 544.65 million common shares and 183.50 million preference shares.

## **Business Segment Performance**

### **(1) Banking Business**

#### **Loans**

Total consolidated loans and receivables were 97,833.88 million baht, up by 2,566.12 million baht (2.7% QoQ), following growth in corporate and retail loan. The composition of loan portfolio was 75.1% of retail loans, 19.4% of corporate loans, and 5.5% of other loans.

**Retail lending** portfolio consisted of 97.6% car, motorcycle, and other hire purchase and 2.4% mortgage loans. The outstanding hire purchase loans equaled 71,658.79 million baht, rose by 595.58 million baht (0.8% QoQ). Car hire purchase new business volume amounted 9,299.40 million baht, increased by 536.39 million baht (6.1% YoY). The domestic car sales in the first 8 months of 2008 reported at 412,186 units increased from 397,834 units (3.6% YoY), resulting in car penetration rate of 9.9%, compared with average penetration rate of 9.4% in 2007.

**Corporate lending** portfolio of the Bank and its subsidiaries totaled 18,998.44 million baht, up by 1,487.57 million baht (8.5% QoQ), mainly due to an increase in loans to public utilities and services, real estate and construction industry, manufacturing and commerce, and agricultural and mining.

#### **Deposit and Short-Term Borrowings**

Total deposit and short-term borrowings totaled 93,565.58 million baht, increased by 8,392.67 million baht (9.9% QoQ). The portion of saving accounts and current accounts contributed to 8.8% of total deposits and short-term borrowings, increased from 6.7% (QoQ).

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

The loans to deposits and short-term borrowings ratio decreased from 111.9% to 104.6% (QoQ) as a result of active fund raising in support of future loan growth.

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

As of September 30, 2008, non-performing loans (NPLs) to total loans ratio was 3.9%, decreased from 4.1% (QoQ). Meanwhile, the NPL to total retail loans and NPL to total commercial loans were 2.5% and 6.4% respectively, in which majority of commercial NPL amount occurred during the economic crisis. NPLs of the Bank and its subsidiaries were 3,873.98 million baht (Bank's NPLs was 3,410.54 million baht and subsidiaries' NPLs was 463.44 million baht), decreased by 83.30 million baht (2.1% QoQ) as a result of effective credit management.

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,950.41 million baht, the ratio of the allowance to NPLs was 76.2%. The Bank's allowance was 2,700.70 million baht, consisting of specific reserve of 2,412.80 million baht and general reserve of 287.90 million baht. The Bank's allowance exceeded the minimum requirement of the Bank of Thailand (BoT), which was 2,344.44 million baht.

## **(2) Securities Business**

At the end of the third quarter, the SET index ended at 596.54 points, decreased from 845.50 points (YoY), with average daily turnover of 12,211.95 million baht, decreased from 21,917.34 million baht (YoY) following bearish capital market as affected by global capital market.

Average daily turnover of TISCO Securities Co., Ltd. decreased from 1,305.36 million baht to 669.31 million baht (YoY). Average market share decreased from 2.9% to 2.7% (YoY), mainly due to a decrease in market share of local institutional sector from 4.9% to 4.0% 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. In terms of revenue, brokerage commission income decreased from 200.29 million baht to 106.94 million baht (YoY) in which during the third quarter of 2007, the capital market was in the recovery stage with no significant impact from sub-prime crisis. Meanwhile, TISCO brokerage volume in the third quarter of 2008 comprised of 31.4% of foreign institutions, 26.1% of local institutions, and 42.5% of retail customers.

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 increased by 3.38 million baht to 15.43 million baht YoY.

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

Fee income from asset management totaled 125.97 million baht, decreased by 15.67 million baht (11.1% YoY). The asset management fee comprised of basic fee of 118.10 million baht, increased by 22.54 million baht (23.6% YoY) in line with growth in asset under management. However, performance and incentive fee declined by 38.21 million baht (82.9% YoY) following sluggish capital market environment.

TISCO Asset Management Co., Ltd. had assets under management of 113,870.10 million baht, increased by 10,843.50 million baht (10.5% YoY). The composition of total asset under management was

58.6% of provident fund, 27.1% of private fund, and 14.3% of mutual fund. In addition, mutual fund business successfully launched Foreign Investment Funds (FIF), which were well-responded from investors. Those FIFs were TISCO Korean Bond Fund #2, TISCO Sovereign Bond #1-2 and TISCO China Link Fund #3.

Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2008 was 5.7%, ranking 8<sup>th</sup> in the market. Provident fund business has stepped up to be the 1<sup>st</sup> in the market since January 2008 onwards with market share of 14.2%. The market share of private fund was 17.8%, ranking 2<sup>nd</sup> in the market. For mutual fund, the market share was 1.3%, ranking 16<sup>th</sup> in the market which was up from 17<sup>th</sup> ranking in December 2007 with market share of 0.9% following aggressive business strategy.

### **Risk Management**

In the third quarter of 2008, the integrated risk capital mainly comprising of credit risk capital stood at 8,657.33 million baht, decreased by 443.38 million baht or 4.9% due to continuing decline in market risk. The capital surplus remained strong at 25.1% compared with total capital of 11,355.15 million baht, reflecting a continuously robust capital position to support future business expansion.

The market risk capital declined by 651.66 million baht from 3,539.92 million baht to 2,888.26 million baht due mainly to reducing equity risk and interest rate risk. Equity risk decreased along with the lower investment exposure. Meanwhile the interest rate risk also subdued as the risk from upward interest rate has been reduced.

Additionally, the credit risk capital rose by 192.83 million baht, ending at 4,943.35 million baht following the expansion of loan portfolio especially hire purchase business which increased by 595.58 million baht or 0.8%, ending at 71,658.79 million baht, while its NPL stood at 2.0% of hire purchase loan.

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. With strong loan growth of 2.7% (QoQ), the capital adequacy ratio (BIS ratio) stood at 9.90%\*. Nevertheless, the ratio remained higher than the 8.50% required by the Bank of Thailand. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. remained strong at 156.44%, greatly higher than the minimum required ratio by the SEC of 7.00%.

Remark : \* The net profit for the period of 2008 did not include into capital calculation where the remaining profit will be incorporated in capital after annual dividend allotment.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	3Q08		3Q07		% Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	
Interest and dividend income					
Interest on loans	331.00	20.2	215.54	13.4	53.6
Interest on interbank and money market items	83.80	5.1	77.81	4.8	7.7
Hire purchase and financial lease income	1,423.24	86.9	1,316.85	81.6	8.1
Investments	100.25	6.1	74.13	4.6	35.2
<b>Total interest and dividend income</b>	<b>1,938.30</b>	<b>118.3</b>	<b>1,684.34</b>	<b>104.4</b>	<b>15.1</b>
Interest expenses	(890.02)	(54.3)	(799.09)	(49.5)	11.4
<b>Net interest and dividend income</b>	<b>1,048.27</b>	<b>64.0</b>	<b>885.25</b>	<b>54.9</b>	<b>18.4</b>
Non-interest income					
Brokerage Fees	106.94	6.5	200.29	12.4	(46.6)
Gain on securities	6.28	0.4	152.07	9.4	(95.9)
Fees and services income	372.66	22.7	316.88	19.6	17.6
Others	104.08	6.4	59.29	3.7	75.5
<b>Total non-interest income</b>	<b>589.95</b>	<b>36.0</b>	<b>728.53</b>	<b>45.1</b>	<b>(19.0)</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>1,638.22</b>	<b>100.0</b>	<b>1,613.77</b>	<b>100.0</b>	<b>1.5</b>
Bad debt and doubtful accounts	(330.97)		(249.26)		32.8
Bad debt written back revenue	0.00		0.00		0.0
<b>Total income – net of bad debts and doubtful accounts</b>	<b>1,307.25</b>		<b>1,364.52</b>		<b>(4.2)</b>
Non-interest expenses	(755.12)		(758.19)		(0.4)
<b>Profit before income tax and minority interest</b>	<b>552.13</b>		<b>606.33</b>		<b>(8.9)</b>
Corporate income tax	(154.21)		(166.10)		(7.2)
Minority interest in net earnings in subsidiary company	0.00		0.00		0.0
<b>Net Profit</b>	<b>397.92</b>		<b>440.23</b>		<b>(9.6)</b>

**Table2: Interest Spread**

%	3Q08	2Q08	3Q07
Yield on Loans	7.3	7.3	7.6
Cost of fund	3.6	3.4	3.8
<b>Loan spread</b>	<b>3.7</b>	<b>3.9</b>	<b>3.8</b>

**Table 3: Assets Breakdown**

Assets	September 30, 2008		June 30, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	382.38	0.3	399.82	0.4	(4.4)
Interbank and Money Market Items	8,423.10	7.3	5,148.66	4.7	63.6
Securities purchased under resale agreements	0.00	0.0	0.00	0.0	0.0
Fixed income	3,387.62	2.9	3,800.40	3.5	(10.9)
Equity	3,530.92	3.0	2,963.73	2.7	19.1
Corporate Loans	18,998.44	16.4	17,510.86	15.9	8.5
Retail Loans	73,432.58	63.3	72,861.01	66.3	0.8
Other Loans	5,402.86	4.7	4,895.89	4.5	10.4
Allowance for doubtful accounts and for loss on debt restructuring	(2,950.41)	(2.5)	(2,887.78)	(2.6)	2.2
Other Assets	<b>5,451.98</b>	<b>4.7</b>	<b>5,184.18</b>	<b>4.7</b>	<b>5.2</b>
<b>Total – The Bank and Subsidiaries</b>	<b>116,059.47</b>	<b>100.0</b>	<b>109,876.76</b>	<b>100.0</b>	<b>5.6</b>

**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	September 30, 2008		June 30, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	93,565.58	89.4	85,172.90	86.4	9.9
Interbank and money market items	3,259.77	3.1	5,130.60	5.2	(36.5)
Long-term borrowings	4,407.90	4.2	4,425.09	4.5	(0.4)
Others	3,471.08	3.3	3,836.25	3.9	(9.5)
<b>Total – The Bank and Subsidiaries</b>	<b>104,704.32</b>	<b>100.0</b>	<b>98,564.84</b>	<b>100.0</b>	<b>6.2</b>

**Table 5: Loans and Receivables Breakdown**

Type of Business	September 30, 2008		June 30, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,301.13	7.5	7,206.25	7.6	1.3
Real estate and construction	8,239.02	8.4	7,243.51	7.6	13.7
Public utilities and services	3,339.23	3.4	2,948.06	3.1	13.3
Agriculture and mining	119.06	0.1	113.04	0.1	5.3
<b>Commercial Lending</b>	<b>18,998.44</b>	<b>19.4</b>	<b>17,510.86</b>	<b>18.4</b>	<b>8.5</b>
Hire purchase	71,658.79	73.2	71,063.22	74.6	0.8
Housing	1,773.79	1.8	1,797.79	1.9	(1.3)
<b>Retail Lending</b>	<b>73,432.58</b>	<b>75.1</b>	<b>72,861.01</b>	<b>76.5</b>	<b>0.8</b>
<i>Others</i>	5,402.86	5.5	4,895.89	5.1	10.4
<b>Total – The Bank and Subsidiaries</b>	<b>97,833.88</b>	<b>100.0</b>	<b>95,267.76</b>	<b>100.0</b>	<b>2.7</b>

**Table 6: Deposits Structure**

Type of Deposits	September 30, 2008		June 30, 2008		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	3,843.72	4.1	2,775.64	3.3	38.5
Saving accounts	4,361.00	4.7	2,896.38	3.4	50.6
Fixed accounts	4,043.79	4.3	4,148.61	4.9	(2.5)
Certificates of deposit/negotiable certificates of deposit	30,407.90	32.5	26,278.38	30.9	15.7
Promissory notes and Bill of exchange	4.40	0.0	596.89	0.7	(99.3)
<b>Total deposits</b>	<b>42,660.82</b>	<b>45.6</b>	<b>36,695.90</b>	<b>43.1</b>	<b>16.3</b>
<b>Short-term borrowings</b>	<b>50,904.75</b>	<b>54.4</b>	<b>48,477.01</b>	<b>56.9</b>	<b>5.0</b>
<b>Total</b>	<b>93,565.58</b>	<b>100.0</b>	<b>85,172.90</b>	<b>100.0</b>	<b>9.9</b>

**Table 7: NPL Breakdown by Area**

Type of Business	September 30, 2008			June 30, 2008			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	5.8	422.44	10.9	7.5	538.10	13.6	(21.5)
Real estate and construction	8.8	727.59	18.8	10.0	722.55	18.3	0.7
Public utilities and services	1.8	61.73	1.6	2.1	60.96	1.5	1.3
Agriculture and mining	0.4	0.49	0.0	1.0	1.14	0.0	0.0
<b>Commercial Lending</b>	<b>6.4</b>	<b>1,212.25</b>	<b>31.3</b>	<b>7.6</b>	<b>1,322.74</b>	<b>33.4</b>	<b>(8.4)</b>
Hire purchase	2.3	1,653.79	42.7	2.3	1,625.47	41.1	1.7
Housing	12.2	216.93	5.6	12.1	217.90	5.5	(0.4)
<b>Retail Lending</b>	<b>2.5</b>	<b>1,870.72</b>	<b>48.3</b>	<b>2.5</b>	<b>1,843.37</b>	<b>46.6</b>	<b>1.5</b>
<b>Others</b>	<b>13.5</b>	<b>791.01</b>	<b>20.4</b>	<b>13.7</b>	<b>791.17</b>	<b>20.0</b>	<b>(0.0)</b>
<b>Total – The Bank and Subsidiaries</b>	<b>3.9</b>	<b>3,873.98</b>	<b>100.0</b>	<b>4.1</b>	<b>3,957.28</b>	<b>100.0</b>	<b>(2.1)</b>

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

Type of Fund	September 30, 2008		September 30, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	66,762.35	58.6	60,372.49	58.6	10.6
Private Fund	30,879.11	27.1	29,446.76	28.6	4.9
Mutual Fund	16,228.64	14.3	13,207.35	12.8	<b>22.9</b>
<b>Total</b>	<b>113,870.10</b>	<b>100.0</b>	<b>103,026.60</b>	<b>100.0</b>	<b>10.5</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 (MB)	
	3Q08	2Q08	3Q08	2Q08
Assets	1.38	1.41	392.60	348.42
Liabilities*	0.32	0.36	(698.18)	(648.77)
<b>Net Gap</b>	<b>1.06</b>	<b>1.05</b>	<b>(305.58)</b>	<b>(300.35)</b>

Note : \* Exclude saving and current account