

Management Discussion and Analysis

For the year ended December 31, 2005

Year 2005 Highlights

TISCO Bank Public Company Limited was upgraded from TISCO Finance Public Company Limited, which was the first finance company to obtain the commercial banking license from the Ministry of Finance in accordance with the Financial Sector Master Plan. TISCO Bank commenced its banking business operation on July 1, 2005 and upgraded 14 provincial loan offices to be the Bank's branches.

TISCO Bank is currently in the holding company restructuring process, under which TISCO Corporation Public Company Limited ("TISCO Corporation Plc.") will be newly set up as a holding company and become the parent company of TISCO Group instead of TISCO Bank. TISCO Corporation will hold shares in all subsidiary companies, including TISCO Bank.

Movement of Money Market and Capital Market

Due to the continuing inflationary pressure and the upward trend of interest rate in 2005, the Bank of Thailand raised its policy rate (14-days repurchase) by 2.00% to 4.00%. Meanwhile, Thai stock market showed a slowdown with the daily average turnover in 2005 of Bt16,454.04mn compared with the daily average turnover in 2004 at Bt20,507.75mn. However, the SET Index as of December 31, 2005 closed at 713.73 points higher than 668.10 points at the end of 2004.

The Management's Discussion and Analysis compares operating performance and financial position of the year 2005 with those of the year 2004 and compares operating performance of the fourth quarter of year 2005 with that of the fourth quarter of year 2004.

Operating Results

For the year ended December 31, 2005, the Bank and its subsidiaries recorded the net profit of Bt1,790.85mn, decreased by Bt433.42mn from Bt2,224.27mn last year or 19.5%, mainly due to the reduction of fee income from securities brokerage business i.e. brokerage fees and investment banking fees as a result of the sluggish stock market and gains on investment in securities.

For the fourth quarter of 2005, the consolidated net profit equaled Bt366.06mn, dropped by Bt519.07mn from Bt885.13mn in the fourth quarter of 2004 or 58.6% as in 4Q04 the Bank divested shares of Thai Oil Plc. through its IPO, contributing to the total gains from investment of Bt567.10mn.

Diluted earnings per share in 2005 were Bt2.20 compared to Bt2.79 in 2004. The average return on equity (ROAE) was 14.0% in 2005 compared to 19.1% in 2004.

Table 1: Consolidated Revenue Structure

Type of Revenue	2004		2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Interest and dividend income					
Interest on loans	701.05	12.6	589.70	11.4	(15.9)
Interest on interbank and money market items	48.52	0.9	144.86	2.8	198.6
Hire purchase and financial lease income	2,957.02	53.2	3,544.06	68.7	19.9
Investments	206.77	3.7	288.78	5.6	39.7
Interest expenses	(1,082.98)	(19.5)	(1,464.16)	(28.4)	35.2
Net interest and dividend income	2,830.38	50.9	3,103.24	60.1	9.6
Bad debts and doubtful accounts	(174.81)	(3.1)	186.22	3.6	(206.5)
<i>Interest and dividend income - net of bad debts and doubtful accounts</i>	2,655.57	47.8	3,289.46	63.7	23.9
Non-interest income					
Brokerage Fees	902.78	16.2	621.95	12.1	(31.1)
Gain (loss) on securities	567.10	10.2	334.06	6.5	(41.1)
Fee and services income	1,098.65	19.8	876.86	17.0	(20.2)
Others	160.93	2.9	224.19	4.3	39.3
Total non-interest income	2,729.46	49.1	2,057.06	39.9	(24.6)
Total – The Bank and Subsidiaries	5,559.84	100.0	5,160.30	100.0	7.2

Note: Information of 2004 has been restated for the comparison purpose.

Net Interest and Dividend Income

Net interest and dividend income in 2005 continuously improved to Bt3,103.24mn, an increase of Bt272.86mn or 9.6%. For the fourth quarter of 2005, net interest and dividend income equaled Bt737.77mn, up Bt10.19mn or 1.4% in 4Q04.

Total interest and dividend income in 2005 increased by Bt654.04mn to Bt4,567.40mn, rose by 16.7%, mainly from the increase of hire purchase and financial lease income amounting to Bt3,544.06mn, up by 19.9% or Bt 587.04mn as a result of hire purchase business expansion. Additionally, interest income from interbank and money market increased by 198.6% following the rising short-term interest rate environment.

Considering interest expenses, the Bank and its subsidiaries stated an amount of Bt1,464.16mn increased by 35.2% or Bt381.18mn, owing to an increase of interest expenses on deposits from Bt 726.17mn to Bt1,049.81, or rose by 44.6%. The increase was resulting from the growth of short-term deposits during the year as well as the upward trend of interest rates. However, the ratio of net interest and dividend income to total income was 60.1%, compared to 50.9% in the previous year.

Total net interest and dividend income after bad debt and doubtful accounts and loss on debt restructuring increased by 23.9% to Bt3,289.46mn as the Bank and its subsidiaries recognized income from reversal of bad debts and doubtful account of Bt477.08mn.

Table 2: Interest spread (excluding dividend income from securities)

%	2004	2004 (excl. write back effect)	2005
Yield	6.94	6.51	6.74
Cost of fund	2.29	2.29	2.69
Interest spread	4.65	4.22	4.05

In 2004, there was the bad debt written back from stop-accrued interest income as interest income on debt restructuring. This matter should be excluded from 2004 actual yield, which would be then 6.51%. For the year 2005, the cost of fund rose faster than the yield did. Hence, the interest spread narrowed down to 4.05%.

Non-interest Income

Non-interest income in 2005 was Bt2,057.06mn, declined Bt672.41mn or 24.6% mainly contributed by lower advisory and brokerage fee income in brokerage business following the decline in the market trading volume. Moreover, gains on investment in securities also dropped 41.1% or Bt233.03mn to Bt334.06mn as the Bank recorded gains from selling Thai Oil shares through its IPO in 2004. However, the fees contributed by hire purchase business as well as asset management business was growing continuously.

In the fourth quarter of 2005, non-interest income equaled Bt391.00mn, a decrease of Bt749.79mn or 65.7% compared with the same quarter of 2004 caused by a drop in gains on securities.

Non-interest Expenses

Non-interest expenses in 2005 were Bt2,892.84mn, up by 9.3% or Bt 246.52mn, as direct expenses increased in accordance with higher business volumes and other operating expenses increased by 15.0% due to expenses on bank upgrade. Stripping the bank upgrade expenses out, the operating expenses increased by 4.0%. Whilst personnel expenses declined Bt53.57mn or 4.3% to Bt1,205.43mn proportionately to the business volumes and actual operating results.

In the fourth quarter of 2005, non-interest expenses reported Bt901.31mn, increased by 16.9% or Bt129.99mn compared to the same quarter of 2004. The increase was mainly from personnel expense including bonus expenses and higher number of staff.

The cost-to-income ratio in 2005 rose to 56.1% from 47.6% in 2004 because increased operating costs were more than increased income.

Corporate Income Tax

Started from 2005, the Bank and its subsidiaries pay corporate income tax at a normal rate. In 2005 the corporate income tax equaled Bt635.01mn or the effective tax rate of 25.9% higher than last year due to no tax loss carried forward.

Financial Status

Assets

The Bank and its subsidiaries' total assets as of December 31, 2005 were Bt75,282.76mn increased by Bt8,986.72mn or 13.6%. The increase contributed mainly from cash and loans. Cash increased from Bt3.77mn to Bt203.95mn and total loans equaled Bt65,223.68mn increased by Bt8,238.94mn or 14.5% caused mainly by the growth of hire purchase loans. The hire purchase portfolio increased by 16.9% from the end of 2004 to Bt45,074.07mn.

Table 3: Assets Breakdown

Assets	December 31, 2004		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Cash	3.77	0.0	203.95	0.3	5,315.7
Interbank and Money Market Items	1,519.31	2.3	1,505.41	2.0	(0.9)
Securities purchased under resale	2,105.00	3.2	2,000.00	2.7	(5.0)
Fixed income	993.39	1.5	1,178.22	1.6	18.6
Equity	4,218.78	6.4	4,027.15	5.3	(4.5)
Corporate Loans	10,924.18	16.5	12,704.69	16.9	16.3
Retail Loans	40,971.27	61.8	47,248.89	62.8	15.3
Other Loans	5,089.28	7.7	5,270.11	7.0	3.6
Allowance	(4,288.37)	(6.5)	(3,484.73)	(4.6)	(18.7)
Other Assets	4,759.43	7.1	4,629.07	6.1	(2.7)
Total – The Bank and Subsidiaries	66,296.04	100.0	75,282.76	100.0	13.6

As of December 31, 2005, non-performing loans (NPLs) to total loans ratio declined to 4.5%, from 5.8%, despite the continued growth of loan portfolio. NPLs of the bank and its subsidiaries were Bt2,912.91mn (contained Bank's NPLs of Bt2,493.09mn and subsidiaries' NPLs of Bt419.82mn) dropped by Bt390.87mn as a result of the improvement of the asset quality and the acceleration of debt restructuring process.

As of December 31, 2005, the Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled Bt3,484.73mn, and the ratio of the allowance to NPLs was 119.6%. The Bank's allowance was Bt3,169.30mn, consisting of specific reserve of Bt2,671.81mn and general reserve of Bt497.50mn. The Bank's allowance was greater than the minimum requirement of the Bank of Thailand (BoT), which was Bt2,276.52mn. This followed a conservative provisioning policy aimed to protect the Bank from potential risks to its operations. The Bank will consider recognizing these excess provisions as income when it has been certain that customers are constantly capable to fulfill the debt restructuring conditions throughout the contract.

Table 4: NPL Breakdown by Area

Type of Business	December 31, 2004			December 31, 2005			% Change
	% NPL	(Bt mn)	%	% NPL	(Bt mn)	%	
Commercial Lending	9.2	1,009.82	30.6	7.8	996.17	34.2	(1.4)
Manufacturing and commerce	7.6	417.24	12.6	5.6	379.22	13.0	(9.1)
Real estate and construction	16.9	590.67	17.9	14.5	601.38	20.6	1.8
Public utilities and services	0.1	1.42	0.0	0.9	14.04	0.5	888.7
Agriculture and mining	0.3	0.49	0.0	1.3	1.53	0.1	212.2
Retail Lending	2.7	1,095.15	33.1	2.5	1,188.01	40.8	8.5
Hire purchase	1.9	719.52	21.8	1.9	874.51	30.0	21.5
Housing	15.7	375.63	11.4	14.4	313.49	10.8	(16.5)
Others	23.6	1,198.81	36.3	13.1	728.73	25.0	(39.2)
Total – The Bank and Subsidiaries	5.8	3,303.78	100.0	4.5	2,912.91	100.0	(11.8)

Liabilities

Total liabilities as of December 31, 2005 were Bt62,201.10mn, up by Bt8,485.95mn or 15.8%. The expansion was mainly from borrowings which were increased by Bt10,504.26mn or 150.4% to Bt17,490.54mn while the deposits dropped from Bt39,287.80mn to Bt34,450.80mn or 12.3%. This was due to an increase in short-term borrowings, as the Bank issued short-term debentures to enhance flexibility and variety of funding structure management, as well as to provide more investment alternatives for public and the Bank's depositors.

Table 5: Liabilities Breakdown by Area

Type of Borrowings	December 31, 2004		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Deposits	39,287.80	73.1	34,450.80	55.4	(12.3)
Interbank and money market items	4,307.27	8.0	6,415.25	10.3	48.9
Borrowings	6,986.28	13.0	17,490.54	28.1	150.4
Others	3,133.79	5.8	3,844.51	6.2	22.7
Total – The Bank and Subsidiaries	53,715.14	100.0	62,201.10	100.0	15.8

Shareholders' Equity

Total shareholder's equity as of December 31, 2005 was Bt13,081.67mn, rose by Bt500.77mn or 4.0%. Principal items were net income of 2005 reported Bt1,790.85mn and the dividend payment in May 2005 equaled Bt1,147.83mn. Meanwhile, book value per share (BVPS) at the end of December 31, 2005 was Bt18.12 rose from Bt17.52 at the end of previous year.

Business Segment Performances

1) Banking Business

Total loans and receivables increased by 14.7% to Bt63,948.41mn. They were composed of 19.9% of corporate loans, 73.9% of retail loans, and 6.2% of other loans.

Corporate lending portfolio of the Bank and its subsidiaries increased by 16.3% to Bt12,704.69mn, mainly resulted from an increase in manufacturing and commerce lending while the NPL ratio decreased from 9.2% at the end of 2004 to 7.8%.

Retail finance business consisted of car, motorcycle, and other hire purchase and mortgage loans. The total hire purchase loans including cars and motorcycles accounted for 95.4% of total retail loans. The outstanding hire purchase portfolio was Bt45,074.07mn, increased by 16.9%. New loan extended in this year amounted to Bt26,206.46mn, increased by 4.9%. However, in the forth quarter of 2005, the Bank perceived uncertainty and upward trend of interest rates. Therefore, the Bank expanded business at a lower pace in order to observe the interest rate situation. As a result, the loans growth was slightly lower than the target. Besides, the penetration rate of 2005 stood at 7.0%, fell from 7.3% at the end of 2004.

The loans to deposits ratio at the end of 2005 stood at 185.6%, rose from 141.9% at the end of 2004 as the loans grew at the higher rate than the deposits.

Table 6: Loans and Receivables Breakdown

Type of Business	December 31, 2004		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Commercial Lending	10,924.18	19.6	12,704.69	19.9	16.3
Manufacturing and commerce	5,525.07	9.9	6,779.39	10.6	22.7
Real estate and construction	3,500.24	6.3	4,148.82	6.5	18.5
Public utilities and services	1,744.45	3.1	1,655.62	2.6	(5.1)
Agriculture and mining	154.43	0.3	120.86	0.2	(21.7)
Retail Lending	40,971.27	73.5	47,248.89	73.9	15.3
Hire purchase	38,573.79	69.2	45,074.07	70.5	16.9
Housing	2,397.48	4.3	2,174.82	3.4	(9.3)
Others	3,864.39	6.9	3,994.84	6.2	3.4
Total – The Bank and Subsidiaries	55,759.84	100.0	63,948.41	100.0	14.7

2) Securities Business

Brokerage business served 26.7% of foreign institutional customers, 26.0% of domestic institution customers, and 47.3% of retail customers. Following a decline in TISCO Securities' trading volume due to lower market turnover, brokerage fee income in 2005 and the forth quarter of 2005 decreased 31.1% and 37.2% to Bt621.95mn and Bt133.13mn, respectively. In 2005, TISCO Securities gained 2.98% of market share, which was decreased from 3.52% of 2004 market share.

Fees from investment banking in 2005 and the forth quarter of 2005 amounted to Bt27.95mn and Bt7.13mn, dropped by 92.3% and 93.9%, respectively. The decreases followed unfavorable stock market and hence delay in securities public offerings and listings. Moreover, in 2004, TISCO Securities gained fee income from financial advisory and underwriting services provided to large listed companies such as TPI Polene Plc., Pacific Pipe Plc., Syrus Securities Plc., and Thainox Stainless Plc.

3) Asset Management

Asset management business, operated under TISCO Asset Management Co., Ltd., provided provident fund, private fund, mutual fund and retirement mutual fund services. The total assets under management were Bt82,109.78mn, increased by Bt14,405.63mn or 21.3%, following an increase in funds' NAV, additional investments from investors, and an increase in customer base.

The asset management fees in 2005 was Bt271.51mn increased by 19.5%. as a result of higher numbers of funds and customers. For the forth quarter of 2005, the fees equaled Bt52.04mn declined 18.1% from the same period of previous year.

Total market share of TISCO Asset Management Co., Ltd. as of December 31, 2005 was 6.52%, the 5th rank in the market. The market shares of provident fund and private fund were 14.71% and 14.62% respectively. Both represented the 2nd rank in the market. For mutual fund, the market share was 1.35%, the 13th rank in the market.

Table 7: Assets under Management Breakdown by Type of Fund

Type of Fund	December 31, 2004		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Provident Fund	42,471.28	62.7	50,871.16	62.0	19.8
Private Fund	18,458.16	27.3	20,843.48	25.4	12.9
Mutual Fund	6,774.71	10.0	10,395.14	12.6	53.4
Total	67,704.15	100.0	82,109.78	100.0	21.3

Risk Management

During the year 2005, the capital base rose by 4.0% to Bt13,081.66mn, comparing with the estimated capital at risk that increased by 4.8% to Bt6,344.32mn, due to normal business expansion during the year. Capital surplus remained high at 51.5% of total capital, reflecting a continuously strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained strong at 18.63%, with a tier-I capital ratio of 17.04%, higher than the 8.5% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 103.04% comparing with the minimum of 7.0% required by the SEC.

Risk Capital or the amount of capital required to support integrated risk exposures, comprising credit risk, market risk, and operational risk, estimated from internal risk model, increased from Bt6,055.16mn to Bt6,344.32mn. The increased risks were mainly contributed by strong expansion of hire purchase loan portfolio and rising interest rate sensitivity.

Credit risk capital rose 11.2% to Bt3,182.31mn from continuing automobile hire purchase loan expansion especially in retail sector. In year 2005, the retail risk capital increased by 13.9% to Bt2,734.37mn whereas the wholesale risk capital decreased by 3.0% to Bt447.93mn. While, normal lending portfolio expansion led to increase in credit risk capital, the risk profiles of retail lending and corporate lending remained sound.

Market risk capital decreased 5.7% to Bt2,432.78mn mainly due to a reduction of investment in equity and lower market volatility. For interest rate risk, the durations of assets and liabilities changed from 1.22 and 0.72 to 1.23 and 0.48 respectively. The difference in the duration of assets and liabilities increased from 6 month to 9 months owing to the higher portion of current account deposit and saving account deposit after the commencement of banking business. However, interest rate risk remains acceptable and manageable in terms of potential impact on interest income.

Progress of the holding company restructuring plan

Under the holding restructuring plan, TISCO Corporation Public Company Limited will be 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, 3) increase business opportunity. The restructuring plan is in line with the upcoming Consolidated Supervision regulation schedules to be launched by the Bank of Thailand in 2006. The progress of restructuring plan is as follows.

On November 14, 2005, TISCO Bank submitted its official application for the holding company restructuring plan to the Bank of Thailand (BoT) following consultations with central bank authorities. Later on, the BoT approved to set up TISCO Corporation Plc. as a holding company. However, the restructuring plan is still under the BoT's consideration prior to final approval from the Ministry of Finance (MoF).

On November 21, 2005, the Stock Exchange of Thailand (SET) granted a preliminary approval for the restructuring plan.

In order to compete the plan, approval from shareholders is required. Therefore, the Shareholders' Extra-Ordinary General Meetings (EGM) No.1/2005 and No.2/2005 were convened on December 14, 2005. The resolutions are as follows:

In EGM No.1/2005, the meeting approved the holding company restructuring, the disposition of shares in subsidiaries, and the listing of TISCO Corporation Public Company Limited on the Stock Exchange of Thailand.

In EGM No. 2/2005, the shareholders approved TISCO Bank's to de-listing of its shares from the SET in accordance with the restructuring plan whereby TISCO Corporation Plc. will list its shares on the SET in place of shares of TISCO Bank. Since the resolution did not meet the conditions for voluntary de-listing, as stipulated in the notification of the Stock Exchange of Thailand, the shareholders asked the Bank to process the de-listing within terms and conditions required by the SET after TISCO Corporation Plc. has been listed on the SET.

On December 29, 2005, TISCO Corporation Plc. Submitted its application and related documents for the securities offering together with the tender offer to the SEC and submitted its application for the listing of its common and preferred shares to the SET.

Currently, the holding company restructuring plan is under the consideration of the BoT, the MoF, the SEC, and the SET.