

## Management Discussion and Analysis

### For the Second quarter ended June 30, 2006

(This report discusses principal changes in the audited consolidated financial statement for the second quarter ended June 30, 2006)

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#### Movement of Money Market and Capital Market

The Bank of Thailand raised its policy rate (14-days repurchase) twice from 4.5% at the end of the first quarter of 2006 to 5.0% at the end of the second quarter of 2006 due to the continuing inflationary pressure and higher oil price. Meanwhile, the SET index as of June 30, 2006 closed at 678.13 points dropped from 733.25 points at the end of March 2006, and average daily turnover of the second quarter was 15,438.45 million baht reduced from 20,916.46 million baht QoQ.

**The Management's Discussion and Analysis compares the operating performance for the second quarter of 2006 with that of the second quarter of 2005. Meanwhile, the financial position is a comparison between the financial position as of June 30, 2006 and March 31, 2005.**

<h3>Operating Results</h3>
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For the second quarter of 2006, the Bank and its subsidiaries recorded a net profit of 351.17 million baht, decreased by 48.88 million baht (12.2%) YoY. This was mainly due to 13.1% drop in net interest and dividend income caused by higher interest expenses on deposits and loans, which rose faster than interest income. This situation was resulted from the upward interest rate trend that deposit interest rate rose faster than lending interest rate. For the first half of 2006, the Bank and its subsidiaries posted a net profit of 895.17 million baht, down 21.99 million baht (2.4%).

Diluted earnings per share for the second quarter and the first half of 2006 were 0.42 baht and 1.10 baht compared to 0.30 baht and 1.00 baht, respectively, for the same period of last year. The average return on equity (ROAE) was 11.0%.

#### Net Interest and Dividend Income

Net interest and dividend income in this quarter was 701.00 million baht, down 105.68 million baht (13.1%). This was mainly resulted from an increase in interest expense on deposits and short-term loans amounted to 378.77 million baht (151.8%), following the increase of deposit interest rate, which rose faster than yield on loans. As a result, interest spread of this quarter was 3.13%, down from 4.46% YoY. Meanwhile, the dividend income from investment was 74.71 million baht, decreased by 29.81 million baht (28.5%), compared to the same period of last year.

The Bank and its subsidiaries recorded bad debt written back revenue amounted to 126.92 million baht in this quarter, pushing total income after bad debt and doubtful accounts to 1,167.83 million baht. The ratio of net interest and dividend income to total income before bad debt and doubtful accounts was 60.6%, changed from 67.4% YoY.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	2Q06		2Q05		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Interest and dividend income					
Interest on loans	223.96	19.4	145.38	12.1	54.1
Interest on interbank and money market items.	152.74	13.2	22.88	1.9	567.5
Hire purchase and financial lease income	968.11	83.7	868.32	72.6	11.5
Investments	74.71	6.5	104.52	8.7	(28.5)
<b>Total interest and dividend income</b>	<b>1,419.52</b>	<b>122.7</b>	<b>1,141.10</b>	<b>95.3</b>	<b>24.4</b>
Interest expenses	718.52	62.1	334.42	27.9	114.9
<b>Net interest and dividend income</b>	<b>701.00</b>	<b>60.6</b>	<b>806.68</b>	<b>67.4</b>	<b>(13.1)</b>
Non-interest income					
Brokerage Fees	154.77	13.4	128.95	10.8	20.0
Gain on securities	16.66	1.4	6.37	0.5	161.3
Fee and services income	190.81	16.5	197.62	16.5	(3.4)
Others	93.27	8.1	57.10	4.8	63.3
<b>Total non-interest income</b>	<b>455.51</b>	<b>39.4</b>	<b>390.04</b>	<b>32.6</b>	<b>16.8</b>
<b>Total income before bad debts and doubtful accounts</b>	<b>1,156.51</b>	<b>100.0</b>	<b>1,196.72</b>	<b>100.0</b>	<b>(3.4)</b>
Bad debt and doubtful accounts	115.60		105.48		9.6
Bad debt written back revenue	126.92		119.17		6.5
<b>Total income – net of bad debts and doubtful accounts</b>	<b>1,167.83</b>		<b>1,210.41</b>		<b>(3.5)</b>
Non-interest expenses	692.78		652.63		6.2
Corporate income tax	117.88		151.55		(22.2)
Minority interest in net earnings in subsidiary company	6.00		6.18		(3.0)
<b>Net Profit</b>	<b>351.17</b>		<b>400.05</b>		<b>(12.2)</b>

Note: Information of the second quarter of 2005 has been restated for the comparison purpose.

**Table 2: Interest spread**

%	2Q06	1Q06	2Q05
Yield on Loans	7.40	7.25	6.89
Cost of fund	4.27	3.37	2.43
<b>Interest spread</b>	<b>3.13</b>	<b>3.88</b>	<b>4.46</b>

### Non-interest Income

Non-interest income in the second quarter of 2006 was 455.51 million baht, expanded 65.46 million baht (16.8%). This was mainly contributed by higher brokerage fee income equaled to 154.77 million baht, increased by 25.82 million baht (20.0%) following an increase in trading volume through TISCO Securities Co., Ltd.

## Non-interest Expenses

Non-interest expenses in the second quarter of 2006 were 692.78 million baht, rose 40.14 million baht (6.2%). This was resulted from an increase in personnel expense by 30.47 million baht (13.0%) to 265.70 million baht following business expansion, together with an increase in direct expenses. As a result, cost-to-income ratio in this quarter was 47.4%, increased from 41.4% YoY.

## Corporate Income Tax

In the second quarter of 2006 the corporate income tax equaled 117.89 million baht, equivalent to the effective tax rate of 24.8%.

## Financial Status

### Assets

The Bank and its subsidiaries' total assets as of June 30, 2006 were 77,694.72 million baht, dropped by 12,894.34 million baht (14.2%) QoQ. The decrease was mainly resulted from the contraction of securities purchase under resale agreements by 13,990.00 million baht (88.9%) to 1,740.00 million baht due to lower liquidity invested in such securities following the strategy not to compete for deposits during unclear interest rate trend and lower credit demand. Meanwhile, total loans were 65,195.22 million baht, up 1,496.12 million baht (2.3%) following the strategy to resume hire purchase business expansion after the slowdown strategy in the last quarter.

### Liabilities

The Bank and its subsidiaries' total liabilities as of June 30, 2006 were 65,668.22 million baht, dropped by 11,459.24 million baht (14.9%) QoQ. The decrease was mainly from the decreases in deposits and short-term borrowings by 10,748.81 million baht (17.1%) to 52,206.02 million baht following the strategy not to compete for deposits.

### Shareholders' Equity

Total shareholder's equity as of June 30, 2006 was 12,026.50 million baht, down 1,435.10 million baht (10.7%) as the Bank paid annual dividends at 3 baht per preferred share and 2 baht per common share in May 2006. Total dividend payment was 1,635.40 million baht with dividend payout ratio of 91.3%. Meanwhile, net profit of this quarter was 351.17 million baht, pushing unappropriated retained earnings to 3,142.02 million baht, dropped by 1,284.24 million baht (29.0%). Book value per share (BVPS) as of June 30, 2006 was 16.57 baht, down from 18.56 baht as of March 31, 2006.

**Table 3: Assets Breakdown**

Assets	June 30, 2006		March 31, 2006		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Cash	255.47	0.3	202.98	0.2	25.9
Interbank and Money Market Items	3,983.85	5.1	3,130.60	3.5	27.3
Securities purchased under resale agreements	1,740.00	2.3	15,730.00	17.4	(88.9)
Fixed income	947.76	1.2	1,170.26	1.3	(19.0)
Equity	3,188.04	4.1	3,463.58	3.8	(8.0)
Corporate Loans	13,300.06	17.1	12,739.40	14.1	4.4
Retail Loans	47,746.31	61.5	46,633.33	51.5	2.4
Other Loans	4,148.86	5.3	4,326.38	4.8	(4.1)
Allowance for doubtful accounts and for loss on debt restructuring	(3,395.01)	(4.4)	(3,579.88)	(4.0)	(5.2)
Other Assets	5,779.38	7.5	6,772.41	7.5	(14.7)
<b>Total – The Bank and Subsidiaries</b>	<b>77,694.72</b>	<b>100.0</b>	<b>90,589.06</b>	<b>100.0</b>	<b>(14.2)</b>

**Table 4: Liabilities Breakdown by Area**

Type of Borrowings	June 30, 2006		March 31, 2006		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Deposits and short-term borrowings	52,206.02	79.2	62,954.82	81.6	(17.1)
Interbank and money market items	4,627.30	7.0	4,414.89	5.7	4.8
Long-term borrowings	5,144.20	7.8	5,167.99	6.7	(0.5)
Others	3,690.70	5.6	4,589.76	6.0	(19.6)
<b>Total – The Bank and Subsidiaries</b>	<b>65,668.22</b>	<b>100.0</b>	<b>77,127.46</b>	<b>100.0</b>	<b>(14.9)</b>

## Business Segment Performance

### (1) Banking Business

#### Loans

Total consolidated loans and receivables was 65,195.22 million baht, up 1,496.12 million baht (2.3%) QoQ and up 1,246.81 million baht (1.9%) YTD. The growth followed the strategy to resume fixed-rate hire-purchase business expansion as the sharp rise in interest rate was expected to peak out. Meanwhile, the composition of loan portfolio included 20.4% of corporate loans, 73.2% of retail loans, and 6.4% of other loans.

**Corporate lending** portfolio of the Bank and its subsidiaries totaled 13,300.06 million baht, up by 560.66 million baht (4.4%) QoQ, mainly due to 7.9% increase in loans to manufacturing and commerce industry. The NPL ratio equaled 1,054.20 million baht, declined 7.9% from 8.2% at the

end of the first quarter, owing to higher growth rate in this quarter, compared with 0.3% growth in the previous quarter.

**Retail lending** portfolio consisted of 95.8% car, motorcycle, and other hire purchase and 4.2% mortgage loans. The outstanding hire purchase loans equaled 45,764.45 million baht, rose by 1,211.64 million baht (2.7%) QoQ. New loans extended in this quarter amounted to 6,346.42 million baht, declined 6.6% YoY. The penetration rate for the first 5 months was 6.2%, declined from 7.4% for the same period of last year. The NPL to total retail loans was 2.5%, higher than 2.4% at the end of the first quarter.

**Table 5: Loans and Receivables Breakdown**

Type of Business	June 30, 2006		March 31, 2006		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Manufacturing and commerce	7,235.79	11.1	6,706.37	10.5	7.9
Real estate and construction	4,323.41	6.6	4,288.51	6.7	0.8
Public utilities and services.	1,638.16	2.5	1,634.70	2.6	0.2
Agriculture and mining.	102.7	0.2	109.82	0.2	(6.5)
<b>Commercial Lending</b>	<b>13,300.06</b>	<b>20.4</b>	<b>12,739.40</b>	<b>20.0</b>	<b>4.4</b>
Hire purchase	45,764.45	70.2	44,552.81	69.9	2.7
Housing	1,981.85	3.0	2,080.52	3.3	(4.7)
<b>Retail Lending</b>	<b>47,746.30</b>	<b>73.2</b>	<b>46,633.33</b>	<b>73.2</b>	<b>2.4</b>
<i>Others</i>	4,148.86	6.4	4,326.38	6.8	(4.1)
<b>Total – The Bank and Subsidiaries</b>	<b>65,195.22</b>	<b>100.0</b>	<b>63,699.10</b>	<b>100.0</b>	<b>2.3</b>

### Deposits and Short-Term Borrowings

Total deposits amounted to 36,031.47 million baht, a drop of 24,553.19 million baht (40.5%) from the end of previous quarter. The portion of current accounts and saving accounts accounted for 4.0% of total deposits, declining from 7.4% in the first quarter. The short-term borrowings increased by 13,804.38 million baht (582.4%) QoQ to 16,174.55 million baht from short-term debenture issuance in June.

**Table 6: Deposits Structure**

Type of Deposits	June 30, 2006		March 31, 2006		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Current accounts	840.93	2.3	2,748.02	4.5	(69.4)
Saving accounts	612.60	1.7	1,746.41	2.9	(64.9)
Fixed accounts	41.72	0.1	38.47	0.1	8.4
Negotiate certificate deposit	26,120.33	72.5	45,470.89	75.1	(42.6)
Promissory notes and Bill of exchange	8,415.89	23.4	10,580.87	17.5	(20.5)
<b>Total deposits</b>	<b>36,031.47</b>	<b>100.0</b>	<b>60,584.66</b>	<b>100.0</b>	<b>(40.5)</b>
<b>Short-term borrowings</b>	<b>16,174.55</b>		<b>2,370.17</b>		<b>582.4</b>
<b>Total</b>	<b>52,206.02</b>		<b>62,954.83</b>		<b>(17.1)</b>

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

The loans to deposits and short-term borrowings ratio increased significantly to 124.9% from 101.2% at the end of the first quarter because the loan growth outpaced deposit growth resulting from an increase in loans but decreases in deposits and short-term borrowings following the strategy not to compete for deposits.

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

As of June 30, 2006, non-performing loans (NPLs) to total loans ratio climbed up to 4.9% from 4.4% at the end of previous quarter. NPLs of the Bank and its subsidiaries were 3,278.63 million baht (contained Bank's NPLs of 2,821.86 million baht and subsidiaries' NPLs of 456.77 million baht), rose by 420.96 million baht (14.7%). The result was mainly from NPLs of other loans increased by 340.28 million baht (50.2%) to 1,018.20 million baht.

However, the Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 3,395.01 million baht, and the ratio of the allowance to NPLs was 103.5%. The Bank's allowance was 3,107.58 million baht, consisting of specific reserve of 2,588.67 million baht and general reserve of 518.91 million baht. The Bank's allowance was greater than the minimum requirement of the Bank of Thailand (BoT), which was 2,223.02 million baht. This followed a conservative provisioning policy aimed to protect the Bank from potential risks to its operations.

**Table 7: NPL Breakdown by Area**

Type of Business	June 30, 2006			March 31, 2006			% Change
	% NPL	Amount (million baht)	%	% NPL	Amount (million baht)	%	
Manufacturing and commerce	5.7	409.46	12.5	6.2	415.53	14.5	(1.5)
Real estate and construction	14.6	629.75	19.2	14.3	612.05	21.4	2.9
Public utilities and services.	0.8	12.80	0.4	1.0	15.49	0.5	(17.4)
Agriculture and mining	2.1	2.20	0.1	4.3	4.75	0.2	(53.7)
<b>Commercial Lending</b>	<b>7.9</b>	<b>1,054.20</b>	<b>32.2</b>	<b>8.2</b>	<b>1,047.82</b>	<b>36.7</b>	<b>0.6</b>
Hire purchase	2.1	968.94	29.5	1.9	826.83	28.9	17.2
Housing	12.0	237.29	7.2	14.7	305.10	10.7	(22.2)
<b>Retail Lending</b>	<b>2.5</b>	<b>1,206.23</b>	<b>36.7</b>	<b>2.4</b>	<b>1,131.93</b>	<b>39.6</b>	<b>6.6</b>
<b>Others</b>	<b>18.6</b>	<b>1,018.20</b>	<b>31.1</b>	<b>12.0</b>	<b>677.92</b>	<b>23.7</b>	<b>50.2</b>
<b>Total – The Bank and Subsidiaries</b>	<b>4.9</b>	<b>3,278.63</b>	<b>100.0</b>	<b>4.4</b>	<b>2,857.67</b>	<b>100.0</b>	<b>14.7</b>

**(2) Securities Business**

Brokerage business served 39% of foreign institutional customers, 21% of domestic institution customers, and 40% of retail customers. At the end of the second quarter, the SET index ended at 678.13 points, a significant drop from 733.25 points in the first quarter, with average daily turnover equaled 15,438.45 million baht, compared with 15,536.02 million baht in the second quarter of last year due to the oversold mainly from foreign investors. The factors behind this include concerns on domestic political situation and the likelihood of further hikes in the Fed Fund rates.

The daily average turnover of TISCO Securities totaled 1,071.82 million baht, compared with 830.48 million baht in the same period of last year resulting to the higher brokerage fee of 154.77 million baht, up by 25.82 million baht (20.0%). The average market shares for the second quarter of 2006 was 3.46%, rose from 3.14% in the previous quarter.

**(3) Asset Management Business**

The total asset under management of TISCO Asset Management Co., Ltd. was 80,896.71 million baht, increased by 1,650.28 million baht (2.1%) from the previous quarter. Meanwhile, the composition of total asset under management included 60.9% of provident fund, 27.9% of private fund, and 11.2% of mutual fund.

The fee from asset management totaled 68.09 million baht, rose by 18.86 million baht (38.3%) compared with the same period of last year, owing to higher numbers of funds and customers.

Total market share of TISCO Asset Management Co., Ltd. as of May 31, 2006 was 5.98%, remaining ranking 5th in the market. The market share of provident fund and private fund was



13.43% and 17.05%, ranking 2nd in the market for both fund types. For mutual fund, the market share was 1.15%, ranking 16th in the market.

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

Type of Fund	June 30, 2006		March 31, 2006		% Change
	Amount (million baht)	%	Amount (million baht)	%	
Provident Fund	49,295.46	60.9	48,418.24	61.1	1.8
Private Fund	22,583.50	27.9	20,761.01	26.2	8.8
Mutual Fund	9,017.75	11.2	10,067.18	12.7	(10.4)
<b>Total</b>	<b>80,896.71</b>	<b>100.0</b>	<b>79,246.43</b>	<b>100.0</b>	<b>2.1</b>

### Risk Management

At the end of the second quarter of 2006, the capital base remained strong at 12,026.50 million baht, despite the effect from dividend payment, comparing with 13,461.60 million baht at the end of the first quarter. Whereas the risk capital increased by 147.86 million baht (2.44%) from the last quarter to 6,200.30 million baht, owing to the increase in both credit and market risk capital caused by the expansion in hire purchase portfolio and slightly increase in interest rate gap during the period. Capital surplus remained high at 49.98% of total capital, reflecting a continuously strong capital position to support future business expansion. In terms of regulatory capital requirement, the regulatory capital adequacy ratio (BIS ratio) and tier-I capital both dropped from 19.51% to 16.76% and from 17.90% to 15.64% resulted from the effect of dividend payment, remained higher than the 8.5% and 4.25% required by the Bank of Thailand. The net capital rule (NCR) of TISCO Securities Co., Ltd. improved from 97.65% to 122.65%, still greatly higher than the minimum required ratio by the SEC of 7.0%.

Comparing with the first quarter of 2006, integrated risk capital increased from 6,052.44 million baht to 6,200.30 million baht. The credit risk capital rose from 3,224.97 million baht to 3,332.43 million baht mainly due to expansion in hire purchase business, in addition the market risk capital increased from 2,086.4 million baht to 2,123.38 million baht as a result of widening interest rate gap. Duration of assets increased from 0.96 to 1.13, while duration of liabilities decreased from 0.39 to 0.37. The difference in the duration of assets and liabilities increased from 6.81 months to 9.22 months, owing to the expansion of hire purchase business and increasing in short-term borrowing. As a result, the effect to net interest income to 1% change of interest rate increased from 44.82 million baht to 90.99 million baht.

**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	
	2Q06	1Q06	2Q06	1Q06
Assets	1.13	0.96	280.71	394.56
Liabilities	0.37	0.39	(371.70)	(439.38)
Net Gap	0.76	0.57	(90.99)	(44.82)



**Progress of the holding company restructuring plan**

Under the holding restructuring plan, TISCO Corporation Public Company Limited is 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.

TISCO Bank submitted the holding restructuring plan to the Bank of Thailand on November 11, 2005. The Bank of Thailand approved and has recommended the restructuring plan to the Ministry of Finance for consideration and approval since the beginning of February 2006. Currently, it is under consideration of the Ministry of Finance.