

Management Discussion and Analysis

For the First Quarter ended March 31, 2006

(This report discusses principal changes in the unreviewed consolidated financial statement for the first quarter ended March 31, 2006)

Movement of Money Market and Capital Market

The Bank of Thailand raised its policy rate (14-days repurchase) 2 times from 4.0% at the end of 2005 to 4.5% at the end of the first quarter of 2006 due to the continuing inflationary pressure and the upward interest rate trend. Meanwhile, the SET index ended at 733.25 points with the average daily turnover of 20,916.46 million baht, compared to 12,440.89 million baht QoQ, following the high trading volumes in January due to the tender offer of Temasek Holding Co., Ltd. for Shin Corporation Plc's shares. However, the average daily turnover declined in March as a result of political uncertainty, including the dissolution of the parliament leading to slowdown of investment in the capital market.

1Q06 Business Strategy

TISCO Bank raised its deposit and lending rates 5 times in this quarter due to the rising interest rate environment. Details of TISCO Bank's interest rates as of March 31, 2006 are as follows;

Deposit Rates (% per annum)				Lending Rates (% per annum)		
Savings	3-Months Fixed Deposit	6-Months Fixed Deposit	12-Months Fixed Deposit	MLR	MOR	MRR
2.75	3.25	3.50	3.75	7.50	7.75	8.00

Due to the rising interest rate environment, the Bank's business strategy was to temporarily slowdown fixed-rate hire-purchase business in order to maintain interest spread as well as to manage interest rate risk. However, the Bank continued to intake deposits in preparation for future business expansion once the interest rates return to acceptable levels. Therefore, in the first quarter of this year, the Bank had a large excess of short-term, which was lent in the interbank and money market.

The Management's Discussion and Analysis compares operating performance for the first quarter of 2006 with those of the first quarter of 2005. Meanwhile financial position is a comparison between the financial position as of March 31, 2006 and December 31, 2005.

Operating Results

For the first quarter of 2006, the Bank and its subsidiaries recorded a net profit of 544.00 million baht, an increase of 26.89 million baht or 5.2%. This was mainly due to increases in interest income on loans following higher yield on loans, interest income on interbank and money market items, dividend income on investment, and trading gain from securities investment.

Diluted earnings per share for the first three months of 2006 were 0.50 baht compared to 0.45 baht QoQ. The average return on equity (ROAE) was 16.4% for the first quarter of 2006.

Table 1: Consolidated Revenue Structure

Type of Revenue	1Q06		1Q05		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Interest and dividend income					
Interest on loans	192.68	12.4	137.94	10.1	39.7
Interest on interbank and money market items	79.61	5.1	18.78	1.4	323.9
Hire purchase and financial lease income	963.35	62.2	830.46	60.7	16.0
Investments	107.91	7.0	85.50	6.3	26.2
Interest expenses	550.77	35.6	296.90	21.7	85.5
Net interest and dividend income	792.78	51.2	775.77	56.7	2.2
Bad debts and doubtful accounts	(70.90)	(4.6)	(66.55)	(4.9)	6.5
Interest and dividend income - net of bad debts and doubtful accounts	721.88	46.6	709.22	51.9	1.8
Non-interest income					
Brokerage Fees	191.41	12.4	209.33	15.3	(8.6)
Gain on securities	274.01	17.7	122.74	9.0	123.2
Fee and services income	243.95	15.8	220.70	16.1	10.5
Others	45.78	3.0	39.17	2.9	16.9
Total non-interest income	755.15	48.8	591.94	43.3	27.6
Total income before bad debts and doubtful accounts	1,547.93	100.0	1,367.71	100.0	13.2

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

Net Interest and Dividend Income

Net interest and dividend income in the first quarter of 2006 increased to 792.78 million baht, an increase of 17.00 million baht or 2.2%. This was mainly resulted from increases in interest income on hire purchase and financial lease, equaled to 963.35 million baht, up by 132.90 million baht or 16.0% and interest income on loans equaled to 192.68 million baht, up by 54.74 million baht or 39.7%. Besides, interest income on interbank and money market items rose by 60.83 million baht or 323.8% to 79.61 million baht following the strategy to temporary slowdown fixed rate loans until interest rates return to acceptable levels, therefore the Bank managed excess liquidity by lending to interbank and money market.

Interest expenses had 550.77 million baht increased by 253.87 million baht or 85.5%, owing to an increase of interest expenses on deposits by 224.81 million baht or 110.4% to 428.48 million baht. The increase was resulted from the growth of deposits as well as the upward trend of interest rates.

Total net interest and dividend income after bad debt and doubtful accounts increased by 12.66 million baht or 1.8% to 721.88 million baht as the Bank and its subsidiaries recorded bad debts and doubtful accounts of 70.90 million baht, rose by 4.35 million baht or 6.5%. The ratio of net interest and dividend income to total income was 51.2%, compared to 56.7% QoQ.

Table 2: Interest spread

%	1Q06	4Q05	1Q05
Yield on Loans	7.25	7.05	6.82
Cost of fund	3.37	2.99	2.29
Interest spread	3.90	4.06	4.53

For the first quarter of 2006, the Bank and its subsidiaries' yield on loans was 7.25%, while its cost of fund was 3.37% causing interest spread of 3.90%, down from 4.53% YoY. The reason was the cost of fund increased faster than the yield did in the rising interest rate environment.

Non-interest Income

Non-interest income in the first quarter of 2006 was 755.15 million baht, expanded by 163.22 million baht or 27.6%. This was mainly contributed by higher gain on investment in securities of 151.27 million baht to 274.01 million baht or an increase of 123.2%. In addition, fee income grew from 23.41 million baht or 10.6% to 243.82 million baht, contributed mainly from hire purchase business, and asset management business. Besides, gain on exchange rate increased 1.89 million baht or 301.6% to 2.51 million baht following the increase in business volumes.

Non-interest Expenses

Non-interest expenses in the first quarter of 2006 were 758.88 million baht, up by 133.58 million baht or 21.4%, as personnel expenses expanded by 91.44 million baht or 37.6% to 334.43 million baht. The increase of personnel expenses was resulted from an increase in salary base which comprised fixed expense and variable expenses associated with the business volumes and operating results. Moreover, non-personnel expenses equaled 234.60 million baht, rose by 39.35 million baht or 20.2%, resulted from an increase in direct expenses in accordance with higher business volumes especially from motorcycle hire purchase portfolio.

The cost-to-income ratio in the first quarter of 2006 was 49.0% rose from 45.7% YoY, as the accrued variable personnel expense was recorded.

Corporate Income Tax

In the first quarter of 2006 the corporate income tax equaled 166.89 million baht or the effective tax rate of 23.2%.

Financial Status

Assets

The Bank and its subsidiaries' total assets as of March 31, 2006 were 90,589.06 million baht, up by 15,306.30 million baht or 20.3% QoQ. The increase was contributed mainly from securities purchase under resale agreements, which were jumped by 13,730.00 million baht or 686.5% to 15,730.00 million baht and interbank and money market items, which rose by 1,625.19 million baht or 108.0% to 3,130.60 million baht. The excess liquidity resulted from deposit expansion was kept as preparation for future hire purchase business expansion once the interest rates return to acceptable levels due to TISCO Bank's strategy to temporary slowdown hire purchase business to maintain interest spread and to manage interest rate risk.

Table 3: Assets Breakdown

Assets	March 31, 2006		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Cash	202.98	0.2	203.95	0.3	(0.5)
Interbank and Money Market Items	3,130.60	3.5	1,505.41	2.0	108.0
Securities purchased under resale agreements	15,730.00	17.4	2,000.00	2.7	686.5
Fixed income	1,170.26	1.3	1,178.22	1.6	(0.7)
Equity	3,463.58	3.8	4,027.15	5.3	(14.0)
Corporate Loans	12,739.40	14.1	12,704.69	16.9	0.3
Retail Loans	46,633.33	51.5	47,248.89	62.8	(1.3)
Other Loans	5,653.79	6.2	5,270.11	7.0	7.3
Allowance for doubtful accounts and for loss on debt restructuring	(3,579.88)	(4.0)	(3,484.73)	(4.6)	2.7
Other Assets	5,445.00	6.0	4,629.07	6.1	17.6
Total – The Bank and Subsidiaries	90,589.06	100.0	75,282.76	100.0	20.3

As of March 31, 2006, non-performing loans (NPLs) to total loans ratio declined to 4.4% from 4.5% at the end of 2005. NPLs of the Bank and its subsidiaries were 2,857.67 million baht (contained Bank's NPLs of 2,497.63 million baht and subsidiaries' NPLs of 360.04 million baht), down by 55.24 million baht as a result of the improvement of the asset quality and the acceleration of debt restructuring process.

As of March 31, 2006, the Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 3,579.88 million baht, and the ratio of the allowance to NPLs was 125.3%. The Bank's allowance was 3,259.99 million baht, consisting of specific reserve of 2,687.36 million baht and general reserve of 572.63 million baht. The Bank's allowance was greater than the minimum requirement of the Bank of Thailand (BoT), which was 2,297.71 million baht. This followed a conservative provisioning policy aimed to protect the Bank from potential risks to its operations.

Table 4: NPL Breakdown by Area

Type of Business	March 31, 2006			December 31, 2005			% Change
	% NPL	(Bt mn)	%	% NPL	(Bt mn)	%	
Commercial Lending							
Manufacturing and commerce	6.2	415.53	14.5	5.6	379.22	13.0	9.6
Real estate and construction	14.3	612.05	21.4	14.5	601.38	20.6	1.8
Public utilities and services	1.0	15.49	0.5	0.8	14.04	0.5	10.3
Agriculture and mining	4.3	4.75	0.2	1.3	1.53	0.1	210.5
Commercial Lending	8.2	1,047.82	36.7	7.8	996.17	34.2	5.2
Retail Lending							
Hire purchase	1.9	826.83	28.9	1.9	874.51	30.0	(5.5)
Housing	14.7	305.10	10.7	14.4	313.49	10.8	(2.7)
Retail Lending	2.4	1,131.93	39.6	2.5	1,188.01	40.8	(4.7)
Others	12.0	677.92	23.7	13.8	728.73	25.0	(7.0)
Total – The Bank and Subsidiaries	4.4	2,857.67	100.0	4.5	2,912.91	100.0	(1.9)

Liabilities

Total liabilities as of March 31, 2006 were 77,127.46 million baht, up by 14,926.37 million baht or 24.0% QoQ. The expansion was mainly from deposits which were increased by 26,133.85 million baht or 75.9% to 60,584.66 million baht due to the Bank increase its deposit rates. However, borrowings dropped from 17,490.54 million baht to 7,538.16 million baht or 56.9% as the Bank's short-term debentures matured on January 2006.

Table 5: Liabilities Breakdown by Area

Type of Borrowings	March 31, 2006		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Deposits	60,584.66	78.6	34,450.80	55.4	75.9
Interbank and money market items	4,414.89	5.7	6,415.25	10.3	(31.2)
Borrowings	7,538.16	9.8	17,490.54	28.1	(56.9)
Others	4,589.75	5.9	3,844.51	6.2	19.4
Total – The Bank and Subsidiaries	77,127.46	100.0	62,201.10	100.0	24.0

Shareholders' Equity

Total shareholder's equity as of March 31, 2006 was 13,461.60 million baht, rose by 379.93 million baht or 2.9%. Principal items were net income of the first quarter of 2006 reported 544.00 million baht influencing unappropriated retained earnings increased to 4,426.25 million baht, up by 14.0% and premium on preferred shares was at 62.23 million baht, up by 19.10 million baht or 44.3% from exercised warrants in the first quarter of 2006.

Book value per share (BVPS) at the end of March 31, 2006 was 18.56 baht rose from 18.12 baht at the end of previous year.

Business Segment Performance

(1) Banking Business

Total loans and receivables was 63,699.10 million baht, down by 249.31 million baht or 0.4% QoQ. The decline followed the Bank's strategy to temporary slowdown fixed-rate hire purchase business to maintain interest spread and manage interest rate risk. Meanwhile, the composition of loan portfolio included 20.0% of corporate loans, 73.2% of retail loans, and 6.8% of other loans.

Corporate lending portfolio of the Bank and its subsidiaries totaled 12,739.40 million baht, up 0.3% from the end of 2005, mainly due to an increase of 3.4% in real estate and construction industry lending, while lending to other industries declined. The NPL ratio increased to 8.2% from 7.8% at the end of 2005, owing to the proportion of loans to manufacturing and commerce sector dropped.

Total retail lending business portfolio consisted of 95.5% car, motorcycle, and other hire purchase and 4.5% mortgage loans. The outstanding hire purchase loans equaled 44,552.81 million baht, dropped 1.2%. New loan extended in this quarter amounted to 4,444.13 million baht, declined 33.0% compared with the same period of last year. The penetration rate for the first 2 months declined from 7.0% at the end of last year to 6.0%. The NPL to total retail loans downed to 2.4% from 2.5% at the end of last year.

The loans to deposits ratio declined significantly to 105.1% from 185.6% at the end of 2005 because of deposits growth at the faster pace than lending growth.

Table 6: Loans and Receivables Breakdown

Type of Business	March 31, 2006		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Commercial Lending					
Manufacturing and commerce	6,706.37	10.5	6,779.39	10.6	(1.1)
Real estate and construction	4,288.51	6.7	4,148.82	6.5	3.4
Public utilities and services	1,634.70	2.6	1,655.62	2.6	(1.3)
Agriculture and mining	109.82	0.2	120.86	0.2	(9.1)
Commercial Lending	12,739.40	20.0	12,704.69	19.9	0.3
Retail Lending					
Hire purchase	44,552.81	69.9	45,074.07	70.5	(1.2)
Housing	2,080.52	3.3	2,174.82	3.4	(4.3)
Retail Lending	46,633.33	73.2	47,248.89	73.9	(1.3)
Others	4,326.38	6.8	3,994.84	6.2	8.3
Total – The Bank and Subsidiaries	63,699.10	100.0	63,948.41	100.0	(0.4)

(2) Securities Business

Brokerage business served 32% of foreign institutional customers, 22% of domestic institution customers, and 46% of retail customers. The revenue generated from brokerage business depends entirely on market turnover affected by overall market situation and other factors including political issue. At the end of the first quarter, the SET index ended at 733.25 points, with average daily turnover equaled 20,916.46 million baht, decreased from 21,266.97 million baht in the same period of last year. Moreover, the competition in brokerage business has increased as a result of more licensed brokers as well as the clients of TISCO Securities are fundamental traders rather than speculators. Therefore, when the market moves sideways, there will be less trading activities through TISCO Securities.

In the first quarter, the daily average turnover of TISCO Securities totaled 1,168.10 million baht, compared with 1,373.73 million baht in the same period of last year resulting to the lower brokerage fee of 191.41 million baht, decreased 17.92 million baht or 8.6%. The market share in January dropped significantly to 2.56%. If the tender offer for SHIN Corporation's shares was excluded, TISCO Securities' market share would be 2.88% and the average market shares for the first quarter of 2006 would be 3.14%.

Fee from investment banking business was insignificant due to the cancellation of Electricity Generating Authority of Thailand (EGAT) for its privatization causing other state-owned enterprises to hold their public offering and listing plan. In addition, the unfavorable stock market has lowered the underwriting service of TISCO Securities.

(3) Asset Management Business

Asset management business operated under TISCO Asset Management Co., Ltd., providing provident fund, private fund, mutual fund and retirement mutual fund services. The total asset under management was 79,246.43 million baht, decreased 2,883.51 million baht or 3.5% from the

end of last year, due to lower investment in funds as a result of high competitive deposits rate in the market.

The asset management fees in the first quarter amounted to 77.93 million baht, rose by 7.8% from 72.28 million baht, compared with the same period of last year, owing to higher numbers of funds and customers. The incentive fee income from fund performance sharing was 4.34 million baht

Total market share of TISCO Asset Management Co., Ltd. as of February 28, 2006 was 6.25%, ranking 5th in the market. The market share of provident fund and private fund was 14.06% and 15.53%, ranking 2nd in the market for both fund types. For mutual fund, the market share was 1.34%, ranking 14th in the market.

Table 7: Assets under Management Breakdown by Type of Fund

Type of Fund	March 31, 2006		December 31, 2005		% Change
	Amount (Bt mn)	%	Amount (Bt mn)	%	
Provident Fund	48,418.24	61.1	50,889.15	62.0	-4.9
Private Fund	20,761.01	26.2	20,843.48	25.4	-0.4
Mutual Fund	10,067.18	12.7	10,397.31	12.6	-3.2
Total	79,246.43	100.0	82,129.94	100.0	-3.5

Risk Management

During the first quarter of 2006, the capital base rose by 2.9% to 13,461.59 million baht, while the risk capital decreased by 219.64 million baht or 4.6% from the last quarter to 6,052.44 million baht, owing to the reduction in market risk capital which was lowered by the liquidation of high-valued equity and reducing market value during the period. Capital surplus remained high at 55.04% 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 increased from 18.64% to 19.51% and from 17.04% to 17.91% respectively. Both were higher than the 8.5% and 4.25% required by the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. slightly dropped from 103.17% to 97.65%, however it was greatly higher than the minimum required ratio by the SEC of 7.0%.

Comparing with the last quarter of 2005, integrated risk capital decreased from 6,344.32 million baht to 6,052.44 million baht. The credit risk capital rose from 3,182.31 million baht to 3,224.97 million baht mainly due to expansion in corporate lending portfolios, while, the market risk capital decreased from 2,432.78 million baht to 2,086.4 million baht, as a result of equity portfolio liquidation and declining market value during the period. Durations of assets and liabilities reduced from 1.23 and 0.48 to 0.96 and 0.39 respectively. The difference in the duration of assets and liabilities decreased from 9 months to 7 months, owing to strategy in slowdown hire purchase business and surging short-term liquid assets. As a result, the effect to net interest income to 1% change of interest rate decreased from 126.91 million baht to 44.82 million baht.

Table 8: 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	
	1Q06	4Q05	1Q06	4Q05
Assets	0.96	1.23	394.56	250.69
Liabilities	0.39	0.48	(439.38)	(377.60)
Net Gap	0.57	0.75	(44.82)	(126.91)

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 restructuring plan has been recommended by the Bank of Thailand to the Ministry of Finance for consideration and approval since the beginning of February 2006.