

Management Discussion and Analysis

For the Third quarter ended September 30, 2006

(This report discusses principal changes in the reviewed consolidated financial statement for the third quarter ended September 30, 2006)

Movement of Money Market and Capital Market

In the third quarter of 2006, large commercial Banks started to compete for deposits leading to deposits and lending interest rate rise while policy rate (14-days repurchase) remains at 5.0%. Meanwhile, the capital market remained sluggish with the average daily turnover of the third quarter decreased by 2,441.45 million baht to 12,997.00 million baht, while the SET index closed at 686.10 points, rose by 7.97 points.

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

Operating Results

For the third quarter of 2006, the Bank and its subsidiaries experienced the growth in commercial banking and asset management business. However, the brokerage business was sluggish as a result of unfavorable stock market condition. Net profit in this quarter amounted to 332.39 million baht, declined by 18.78 million baht (5.4% QoQ) due to the higher tax rate. Earning before income tax and minority interest, however, stood at the same level of previous quarter at 472.49 million baht.

Comparing to the same period of 2005, net profit decreased by 175.24 million baht (34.5%) from the reduction in gain on securities and an increase in interest expenses.

Diluted earnings per share for the third quarter and the first nine-month of 2006 was 0.39 baht and 1.49 baht compared to 0.63 baht and 1.77 baht, respectively, for the same period of last year. The average return on equity (ROAE) was 10.9%.

Net Interest and Dividend Income

Net interest and dividend income in this quarter was 663.18 million baht, declined by 37.82 million baht (5.4% QoQ). This was resulted from a decline in dividend income from investment and interest income from interbank and money market. Interest income on loans and hire purchase and financial lease increased, following loans expansion at 4.0% together with an increase in loan yields. Nonetheless, interest expense also increased from the expansion of deposits base to support business expansion.

The Bank and its subsidiaries recorded bad debt written back revenue amounted to 80.00 million baht in this quarter, resulted in bad debts and doubtful accounts of 2.90 million baht. In the

second quarter of 2006, the Bank and its subsidiaries recorded bad debt written back revenue amounted to 126.92 million baht, which resulted in bad debts and doubtful accounts of 11.32 million baht.

Comparing to the same period of 2005, net interest and dividend income declined by 119.84 (15.3%) million baht from the increase in cost of funds which rose higher than interest income.

Loan Spread

Loan spread exhibited an improvement from the previous quarter with yield on loans continually rose from 7.40% to 7.76%. Meanwhile, cost of funds started to stabilize, after reaching its peak in July. Nonetheless, an increase of loan spread from August onwards still had small impact, resulting in a slight decline of loan spread to 2.95% in the third quarter.

Non-interest Income

Non-interest income in the third quarter of 2006 was 509.56 million baht, increased by 54.05 million baht (11.9% QoQ). This was contributed by an increase in trading gain and fees and services income.

Nonetheless, comparing to the same period of last year, non-interest income dropped by 174.51 million baht (25.5% YoY), resulted from a decline of trading gain and lower brokerage fee following sluggish activities of the stock market.

Non-interest Expenses

Non-interest expenses in the third quarter of 2006 were 697.35 million baht, increased by 4.57 million baht, (0.7% QoQ). However, comparing to the same period last year, non-interest expenses reduced by 16.25 million baht (2.3% YoY), as personnel expense declined. The decrease of personnel expenses was resulted from lower variable expenses associated with the business volumes and operating results. As a result, cost-to-income ratio in this quarter was 44.8%, decreased from previous quarter at 50.3%.

Corporate Income Tax

In the third quarter of 2006 the corporate income tax equaled 134.85 million baht, equivalent to the effective tax rate of 28.5%, increased from the second quarter at 117.89 million baht, with the effective tax rate of 24.8%.

Financial Status

Assets

The Bank and its subsidiaries' total assets as of September 30, 2006 were 82,628.98 million baht, increased by 4,934.26 million baht (6.4% QoQ). The increase was mainly resulted from the

expansion of strong loan growth both retail and commercial sectors following the strategy to resume hire purchase business expansion coupled with higher loan yields as well as securities purchase under resale agreements due to higher liquidity from deposits' expansion.

Liabilities

Total liabilities as of September 30, 2006 were 70,267.65 million baht, an increase of 4,599.42 million baht (7.0% QoQ) mainly from an increase in deposit and short-term borrowings. The expansion resulted from the Bank collects more capital to accommodate strong loan growth in the future.

Shareholders' Equity

Total shareholder's equity as of September 30, 2006 was 12,361.34 million baht, up 334.84 million baht (2.8%) from net profit of this quarter, pushing unappropriated retained earnings to 3,474.40 million baht. Book value per share (BVPS) as of September 30, 2006 was 17.02 baht, rose from 16.57 baht as of June 30, 2006.

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables was 67,790.60 million baht, up 2,595.37 million baht (4.0% QoQ) and up 3,842.19 million baht (6.0% YTD). The growth was mainly resulted from aggressive growth strategy in fixed-rate hire-purchase business beginning in the second quarter as the sharp rise in interest rate was expected to peak out and remain stable. The lending growth rate of 4.0% QoQ or an annualized growth of 16% is considered robust growth.

The composition of loan portfolio included 20.2% of corporate loans, 74.1% of retail loans, and 5.7% of other loans.

Corporate lending portfolio of the Bank and its subsidiaries totaled 13,667.51 million baht, up by 367.45 million baht (2.8% QoQ), mainly due to an increase in loans to public utilities and services and real estate and construction industry. The NPL ratio equaled 1,188.08 million baht, rose to 8.7% from 7.9% at the end of the second quarter, owing to lower growth rate in this quarter, compared with 4.4% growth in the previous quarter.

Retail lending portfolio consisted of 96.0% car, motorcycle, and other hire purchase and 4.0% mortgage loans. The outstanding hire purchase loans equaled 48,240.98 million baht, rose by 2,476.52 million baht (5.4% QoQ). Car new business extended in this quarter amounted to 7,868.06 million baht, increased by 2,163.97 million baht (37.9% YoY). The penetration rate for the first 8 months was 7.3%, up from 7.0% at the end of last year. The NPL to total retail loans was 2.4%.

August 2006 was the first month that the industry car sales showed positive growth compared with the same period last year after the long period of decelerated growth since March

2006. The domestic car sales in the first 8 months of 2006 reported at 438,912 units, slightly lower than 449,606 units in the same period last year.

Deposit and Short-Term Borrowings

Total deposit and short-term borrowings amounted to 62,267.95 million baht, rose by 10,061.93 million baht (19.3% QoQ). The portion of current accounts and saving accounts accounted for 5.5% of total deposits, increasing from 4.0% in the second quarter. The growth followed the special 9-months fixed deposit account with an interest rate of 5.125% p.a., paid quarterly to depositors or upon maturity, with a minimum deposit of 1 million baht.

Loans to Deposits and Short-term Borrowings Ratio

The loans to deposits and short-term borrowings ratio decreased significantly to 108.9% from 124.9% at the end of the second quarter because the deposit expansion outpaced loan growth.

Non-Performing Loans (NPLs) and Loan Loss Provision

As of September 30, 2006, non-performing loans (NPLs) to total loans ratio remained stable at the level of 4.9% from the previous quarter. NPLs of the Bank and its subsidiaries were 3,348.48 million baht (contained Bank's NPLs of 2,868.79 million baht and subsidiaries' NPLs of 497.53 million baht), increased by 69.85 million baht (2.1% QoQ).

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 3,169.45 million baht, and the ratio of the allowance to NPLs was 94.7%. The Bank's allowance was 2,873.87 million baht, consisting of specific reserve of 2,326.64 million baht and general reserve of 547.23 million baht. The Bank's allowance was greater than the minimum requirement of the Bank of Thailand (BoT), which was 2,055.57 million baht. This followed a conservative provisioning policy aimed to protect the Bank from potential risks to its operations.

(2) Securities Business

Brokerage business served 33% of foreign institutional customers, 12% of domestic institution customers, and 55% of retail customers. At the end of the third quarter, the SET index ended at 686.10 points, climbed up from 678.13 points in the second quarter, with average daily turnover equaled 12,997.00 million baht, compared with 15,865.35 million baht in the third quarter of last year and 15,438.45 million baht in the previous quarter due to sluggish stock market affected by political uncertainty.

The daily average turnover of TISCO Securities totaled 870.41 million baht, compared with 880.65 million baht in the same period of last year resulting to the lower brokerage fee of 132.02 million baht, down by 18.52 million baht (12.3% YoY). The average market shares for the third quarter of 2006 was 3.34%, slightly declined from 3.46% in the previous quarter, with the 1,071.82 million baht daily average turnover of TISCO Securities.

(3) Asset Management Business

The total asset under management of TISCO Asset Management Co., Ltd. was 81,896.21 million baht, increased by 999.50 million baht (1.2% QoQ). The composition of total asset under management included 62.6% of provident fund, 28.8% of private fund, and 8.6% of mutual fund. In this quarter, TISCO Asset Management was authorized by the Government Pension Fund to manage both equity and fixed-income sub-fund with total value of 9,355.00 million baht.

The fee from asset management totaled 70.63 million baht, a drop of 24.86 million baht (26.0% YoY), owing to lower incentive fee income from fund performance sharing. However, the fee income attributed by asset management business this quarter increased by 2.54 million baht (3.7% QoQ) owing to higher numbers of funds and customers.

Total market share of TISCO Asset Management Co., Ltd. as of August 31, 2006 was 5.80%, ranking 6th in the market. The market share of provident fund and private fund was 13.48% and 17.25%, ranking 2nd in the market for both fund types. For mutual fund, the market share was 1.03%, ranking 16th in the market.

Risk Management

At the end of the third quarter of 2006, the capital base remained strong at 12,361.34 million baht comparing with 12,026.50 million baht at the end of the second quarter. Whereas the risk capital decreased by 164.46 million baht (2.65%) from last quarter to 6,041.89 million baht, mainly contributed by a reduction of market risk capital caused by the liquidation of equity portfolio and lower market volatility. Capital surplus remained strong at 51.96% of total capital, reflecting a continuously robust capital position to support future business expansion. In terms of regulatory capital requirement, the regulatory capital adequacy ratio (BIS ratio) dropped from 15.21% to 15.05% while Tier-I capital increased from 14.28% to 14.29% in which 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. reduced from 121.54% to 94.60%, however, still greatly higher than the minimum required ratio by the SEC of 7.0%.

Comparing with the second quarter of 2006, integrated risk capital decreased from 6,206.35 million baht to 6,041.89 million baht. The market risk capital declined by 245.84 million baht from the previous quarter from 2,123.38 million baht to 1,877.53 million baht as a result of liquidation of equity portfolio and lower market volatility. The credit risk capital rose by 86.56 million baht from the second quarter to 3,418.99 million baht mainly due to expansion in hire purchase business. Meanwhile, the difference in the duration of assets and liabilities slightly increased from 9.22 months to 9.50 months, owing to the growth in hire purchase business. However, with interest rate has a stable trend and unlikely to further rise materially, interest rate risk is perceived to be small.

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.

Table 1: Consolidated Revenue Structure

Type of Revenue	3Q06		Change		9M06		Change
	Amount (Bt. million)	%	%QoQ	% YoY	Amount (Bt. Million)	% YoY	% YoY
Interest and dividend income							
Interest on loans	265.32	22.6	18.5	79.0	681.96	17.6	58.0
Interest on interbank and money market items.	101.28	8.6	(33.7)	110.3	333.63	8.6	271.5
Hire purchase and financial lease income	1,024.55	87.4	5.8	13.1	2,956.02	76.2	13.5
Investments	52.87	4.5	(29.2)	(27.3)	235.48	6.1	(10.4)
Total interest and dividend income	1,444.02	123.1	1.7	22.9	4,207.09	108.5	24.1
Interest expenses	780.84	66.6	8.7	99.0	2,050.13	52.9	100.3
Net interest and dividend income	663.18	56.6	(5.4)	(15.3)	2,156.96	55.6	(8.8)
Non-interest income							
Brokerage Fees	132.02	11.3	(14.7)	(12.3)	478.19	12.3	(2.2)
Gain on securities	107.82	9.2	547.3	(44.1)	398.49	10.3	23.7
Fees and services income	209.75	17.9	9.9	(14.3)	644.51	16.6	(2.8)
Others	59.97	5.1	(35.7)	(37.4)	199.03	5.1	3.6
Total non-interest income	509.56	43.5	11.9	(25.5)	1,720.22	44.4	3.3
Total income before bad debts and doubtful accounts	1,172.74	100.0	1.4	(20.1)	3,877.18	100.0	(3.8)
Bad debt and doubtful accounts	82.90		(28.3)	23.2	272.63		(10.0)
Bad debt written back revenue	80.00		(37.0)	100.0	210.16		14.9
Total income – net of bad debts and doubtful accounts	1,169.84		0.2	(16.4)	3,814.71		(2.5)
Non-interest expenses	697.35		0.7	(2.3)	2,149.01		7.9
Profit before income tax and minority interest	472.49		(0.5)	(31.1)	1,665.69		(13.2)
Corporate income tax	134.85		14.4	(20.8)	419.62		(11.2)
Minority interest in net earnings in subsidiary company	5.25		(12.5)	(36.2)	18.51		(17.2)
Net Profit	332.39		(5.3)	(34.5)	1,227.56		(13.8)

Table 2: Interest spread

%	3Q06	2Q06	3Q05
Yield on Loans	7.76	7.40	7.01
Cost of fund	4.81	4.28	2.68
Loan spread	2.95	3.12	4.33

Table 3: Assets Breakdown

Assets	September 30, 2006		June 30, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	265.76	0.3	255.47	0.3	4.0
Interbank and Money Market Items	3,353.99	4.1	3,983.85	5.1	(15.8)
Securities purchased under resale agreements	4,100.00	5.0	1,740.00	2.3	135.6
Fixed income	692.78	0.8	947.76	1.2	18.0
Equity	3,372.40	4.1	3,188.04	4.1	(5.0)
Corporate Loans	13,667.51	16.5	13,300.06	17.1	2.8
Retail Loans	50,250.95	60.8	47,746.31	61.5	5.2
Other Loans	3,872.14	4.7	4,148.86	5.3	(6.7)
Allowance for doubtful accounts and for loss on debt restructuring	(3,169.45)	(3.8)	(3,395.01)	(4.4)	(6.6)
Other Assets	6,222.90	7.5	5,779.38	7.5	7.7
Total – The Bank and Subsidiaries	82,654.59	100.0	77,694.72	100.0	6.4

Table 4: Liabilities Breakdown by Area

Type of Borrowings	September 30, 2006		June 30, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	62,267.95	88.6	52,206.02	79.5	19.3
Interbank and money market items	2,255.98	3.2	4,627.30	7.1	(51.3)
Long-term borrowings	2,144.20	3.1	5,144.20	7.8	(58.3)
Others	3,599.52	5.1	3,690.70	5.6	(2.5)
Total – The Bank and Subsidiaries	70,267.65	100.0	65,668.22	100.0	7.0

Table 5: Loans and Receivables Breakdown

Type of Business	September 30, 2006		June 30, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	6,934.01	10.2	7,235.79	11.1	(4.2)
Real estate and construction	4,621.26	6.8	4,323.41	6.6	6.9
Public utilities and services.	2,010.70	3.0	1,638.16	2.5	22.7
Agriculture and mining.	101.54	0.2	102.70	0.2	(1.1)
Commercial Lending	13,667.51	20.2	13,300.06	20.4	2.8
Hire purchase	48,240.98	71.1	45,764.45	70.2	5.4
Housing	2,009.97	3.0	1,981.85	3.0	1.4
Retail Lending	50,250.95	74.1	47,746.30	73.2	5.2
<i>Others</i>	3,872.14	5.7	4,148.86	6.4	(6.7)
Total – The Bank and Subsidiaries	67,790.60	100.0	65,195.22	100.0	4.0

Table 6: Deposits Structure

Type of Deposits	September 30, 2006		June 30, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	2,032.46	3.6	840.93	2.3	141.7
Saving accounts	1,064.10	1.9	612.60	1.7	73.7
Fixed accounts	39,481.75	70.2	25,236.55	70.0	56.4
Negotiate certificate deposit	6,797.70	12.1	925.50	2.6	634.5
Promissory notes and Bill of exchange	6,845.83	12.2	8,415.89	23.4	(18.7)
Total deposits	56,221.84	100.0	36,031.47	100.0	56.0
Short-term borrowings	6,046.11		16,174.55		(62.6)
Total	62,267.95		52,206.02		19.3

Table 7: NPL Breakdown by Area

Type of Business	September 30, 2006			June 30, 2006			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	6.4	441.62	13.2	5.7	409.46	12.5	7.9
Real estate and construction	15.8	731.14	21.8	14.6	629.74	19.2	16.1
Public utilities and services.	0.7	14.94	0.4	0.8	12.80	0.4	16.7
Agriculture and mining	0.4	0.38	0.0	2.1	2.20	0.1	(82.7)
Commercial Lending	8.7	1,188.08	35.4	7.9	1,054.20	32.2	12.7
Hire purchase	2.0	956.98	28.6	2.1	968.94	29.5	(1.2)
Housing	13.0	260.78	7.8	12.0	237.29	7.2	9.9
Retail Lending	2.4	1,217.76	36.4	2.5	1,206.23	36.7	1.0
Others	19.2	942.64	28.2	18.6	1,018.20	31.1	(7.4)
Total – The Bank and Subsidiaries	4.9	3,348.48	100.0	4.9	3,278.63	100.0	2.1

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	September 30, 2006		June 30, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	51,220.77	62.6	49,295.46	60.9	3.9
Private Fund	23,598.51	28.8	22,583.50	27.9	4.5
Mutual Fund	7,076.93	8.6	9,017.75	11.2	(21.5)
Total	81,896.21	100.0	80,896.71	100.0	1.2

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	
	3Q06	2Q06	3Q06	2Q06
	Assets	1.16	1.13	301.01
Liabilities	0.37	0.37	(437.14)	(414.01)
Net Gap	0.79	0.76	(136.13)	(131.22)