

Management Discussion and Analysis

For the Third Quarter of 2005 ended September 30, 2005

3Q05 Highlights

TISCO Bank Public Company Limited has been granted a commercial banking business license on June 23, 2005 from the Ministry of Finance, and commenced the banking operation on July 1, 2005.

Operating Results

For the third quarter of 2005, the Bank's consolidated net profit totaled Bt507.63mn and for the first nine month period of 2005, the consolidated net profit equaled Bt1,424.79mn. Diluted earnings per share for the third quarter and the first nine months of 2005 were Bt0.70 and Bt1.95, respectively, comparing to Bt0.45 and Bt1.83 for those periods of 2004. Besides, ROAE for third quarter and the first nine months of 2005 were 16.1% and 14.9%, respectively.

Compared to the second quarter of 2005, the Bank's consolidated net income increased by Bt107.58mn, or 26.9% q-o-q from Bt400.05mn. This was largely attributed to increases in securities business fee income by 20% to Bt157.62mn, in asset management fee income by 94.5% to Bt95.73mn, and in gain on investment in securities by 2,930.6% to Bt193.05mn.

Compared to the same period of last year, the Bank's consolidated net profit increased by Bt160.44mn or 46.2% from Bt347.19mn, due mainly to an increase in income from operations especially the hire purchase business, the asset management business, and gain on investment in securities.

Consolidated Financial Summary	3Q05	2Q05	3Q04
Net Profit (Bm)	507.63	400.05	347.19
Diluted EPS (Bt)	0.70	0.55	0.45
ROAE (%)	16.1	13.1	12.6
ROAA (%)	2.7	2.2	2.2
Spread (%)	4.0	4.2	4.4
NIM (%)	4.3	4.5	4.6
Cost-to-Revenue (%)	48.6	54.5	55.4
CAR (%)	18.1	18.4	18.6

Movement of Money Market and Capital Market

- In terms of financial market, the Bank of Thailand raised its policy rate by 75bps to 3.25%.
- Thai stock market rebounded in the third quarter of 2005. The SET Index as of September 30, 2005 closed at 723.23 points, and the daily average turnover in 3Q05 was Bt15,865.35mn, comparing with the second quarter, the SET index closed at 675.50 points, and the daily average turnover equaled to Bt15,536.02mn.

The Management Discussion and Analysis compares operating performance of the third quarter of 2005 and 2004 while, financial position is a comparison between the financial status as of September 30, 2005 and June 30, 2005.

Financial Status

The Bank and its subsidiaries' total assets as of September 30, 2005 were Bt76,481.79mn increased by Bt2,946.23mn or 4.0% q-o-q and increased by Bt11,052.95mn or 16.9% y-o-y. Details are presented as follows:

- Interbank and money market items were Bt3,214.89mn, an increase of Bt439.92mn or 15.9%.
- Securities purchased under resale agreement were Bt4,757.00mn, increased by Bt4,116.00mn or 642.1%, as a result of liquidity management.
- Net investments in securities dropped by Bt1,898.53mn or 24.7% to Bt5,784.73mn as the fixed-income investment reached the maturity.
- Total loans were Bt60,645.76mn increased by Bt910.68mn or 1.5%, mainly driven by an increase of hire purchase loans, which were Bt43,155.61mn. The hire purchase loans increased by Bt722.88mn or 1.7% whereas the corporate loans grew by Bt134.65mn or 1.2% to Bt11,252.94mn.
- Total liabilities were Bt63,612.30mn, up Bt2,433.01mn or 4.0% q-o-q and up Bt9,423.55mn or 17.4% y-o-y. The expansion was mainly from saving account deposits and current account deposits. The total deposits were Bt48,336.29mn, rose by Bt3,031.20mn or 6.7% q-o-q.
- Total shareholders' equity increased by Bt513.22mn or 4.2% q-o-q to Bt12,869.49mn, and increased by Bt1,629.40mn or 14.5% y-o-y. Unappropriated retained earnings were Bt3,746.97mn, up 16.4%. Book value per share (BVPS) at the end of September 2005 was Bt17.88 up from Bt17.15 at the end of June 30, 2005.
- Despite the continued growth of loan portfolio, the Bank and its subsidiaries' NPLs to total loans ratio decreased 5.3% compared to the second quarter of 2005 to 5.3%. The NPLs decreased by Bt161.34mn to Bt3,268.15mn (Bt2,493.61mn for the Bank and Bt774.54mn for subsidiaries) as a result of the improvement of the asset quality and the acceleration of debt restructuring process.
- The Bank and its subsidiaries' allowance for doubtful account and loss on debt restructuring was Bt4,181.15mn, and the ratio to NPLs was 127.9%. The Bank's allowance was Bt3,526.81mn, consisting of Bt2,805.11mn specific reserve and Bt721.20mn general reserve, greater than the minimum requirement of the Bank of Thailand (BoT), which was Bt1,975.17mn. 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.

3Q05 Financial Performance

- Interest and dividend income was Bt1,175.32mn, an increase of Bt227.96mn or 24.1% y-o-y. Contributory factor was an increase of interest on loans and hire purchase and financial lease income by 4.0% y-o-y and 20.1% y-o-y, respectively mainly from loan expansion. Interest on interbank and money market items went up by 332.3% y-o-y due to higher short-term interest rates, and interest and dividend income from investments also increased by 86.9% y-o-y.
- Interest expenses totaled Bt392.30mn, up 45.3% y-o-y as short-term interest rates went up.
- Net interest and dividend income after bad debts and doubtful accounts for the third quarter rose by 20.6% to Bt715.72mn. The ratio of the net interest and dividend income to total income was 53.4%, decreased from 58.8%.
- Non-interest income increased by 44.2% to Bt684.07mn, contributed mainly from gain on securities of Bt193.05mn, rose by Bt119.33mn or 161.9% as a result of securities divestment following favorable market conditions.
- The operating expense of the Company and subsidiaries increased by 11.7% to Bt713.60mn in consequence of business expansion. The non-personal expenses equaled Bt243.69mn, increased by Bt79.43mn or 48.4%, mainly from an increase in expenses for bank upgrade and for hire purchase business expansion. However, personnel expenses amounted to Bt273.28mn, down Bt74.06mn or 33.6%, stemming from a decline in trading volume in brokerage business.
- Start from 2005, the Bank and subsidiaries will pay corporate tax at normal rate. In this quarter, the corporate tax amounted to Bt170.35mn or the effective tax rate of 24.8%.

Business Segment Performances

The performance analysis for 3-month period ended September 30, 2005 was compared with that of the same period of last year while the analysis of business volume was compared with that as of December 31, 2004. Details are presented below.

Banking Business

- Total loans and receivables increased by 8.8% y-t-d to Bt60,645.76mn. They were composed of 18.6% of corporate loans, 74.8% of retail loans, and 6.6% of other loans.
- Corporate lending portfolio of the Bank and subsidiaries increased by 3.0% y-t-d to Bt11,252.94mn, mainly resulted by an increase in manufacturing and commerce lending while the NPL ratio decreased from 9.2% at the end of 2004 to 8.8%.
- 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 95.1% of total retail loans. The outstanding hire purchase portfolio was Bt43,155.61mn, increased by 11.9% y-t-d. New loan extended in this quarter amounted to Bt5,704.09mn, decreased by 2.4% y-o-y, resulting from slowdown in consumption driven by higher oil prices. The penetration rate for the first 8 months of 2005 was at 7.4%, compared to 7.3% at the end of 2004.

Securities Business

- Brokerage business served 25.3% of foreign institutional customers, 23.7% of domestic institution customers, and 51.0% of retail customers. Following a decline in TISCO Securities' trading volume due to low market turnover, brokerage fee income decreased 15.9% to Bt150.53mn. However, when compared to the second quarter of 2005, the brokerage fee income improved by 16.7% from Bt128.95mn resulting to an improvement in the market share of 2.8% compared with 2.7% at the end of second quarter.
- Fees from investment banking amounted to Bt7.09mn, rose by 96.7% from Bt3.60mn, owing to the financial advisory fee from the coming EGAT's IPO deal.

Asset Management

- Asset management business operating under TISCO Asset Management Co., Ltd., provided provident fund, private fund, mutual fund and retirement mutual fund services. The total assets under management were Bt78,597.56mn increased by Bt10,893.41mn or 16.1%, following an increase in funds' NAV, additional investments from investors, and an increase in customer base.
- The basic fee was Bt62.67mn, increased by Bt11.97mn or 23.6%. The incentive fee income from fund performance sharing was Bt26.90mn whereas no incentive fee income was generated during the same period of last year.
- Total market share of TISCO Asset Management Co., Ltd. as of August 2005 was 6.9%, the 5th rank in the market. The market shares of provident fund and private fund were 14.9% and 14.3% respectively. Both represented the 2nd rank in the market. For mutual fund, the market share was 1.1%, the 15th rank in the market.

Risk Management

- In the third quarter of 2005, the capital base increased by 513.22m from second quarter to B12,869.49m, owing to normal business expansion during the quarter. The estimated capital at risk was B6,370.61m, due to increasing interest rate risk and lending portfolio expansion. As a result, capital surplus remained high at B7,375.00m accounted for 50.50% of capital base, increased from B7,085.60m, reflecting a strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained high at 18.06%, with a tier-I capital ratio of 16.14%, higher than the 8.5% and 4.25% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 256.19% comparing with the minimum of 7.0% required by the SEC.
- Comparing with the second quarter of 2005, integrated risk capital increased from B6,148.70m to B6,370.61m. The credit risk capital rose from B3,022.06m to B3,073.11m mainly due to continuing expansion in both automobile hire purchase and corporate lending portfolios, while, the market risk capital increased from B2,452.87m to B2,589.82m, as a result of rising interest rate risk. Durations of assets and liabilities changed from 1.27 and 0.76 to 1.22 and 0.61 respectively. The difference in the duration of assets and liabilities increased from 6.12 months to 7.32 months indicating slightly higher interest rate risk, however, the effect to net interest income to 1% change of interest rate remained at 54.63m, which considered to be in manageable level comparing with impact to overall interest income.
- During the quarter, risk capital rose at a slower pace comparing with increased capital base of TISCO, as a result, the capital surplus has grown to absorb additional risk.

TISCO Financial Summary (Consolidated) 3Q05

<i>Balance Sheet (Bt mn)</i>	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)
Assets					
Corporate Loans	11,252.94	11,118.29	1.2	10,349.68	8.7
Retail Loans	45,382.68	44,716.37	1.5	37,831.92	20.0
Other Loans	5,384.15	5,313.24	1.3	5,813.84	(7.4)
Allowance	(4,181.15)	(4,137.95)	1.0	(4,157.22)	0.6
Interbank and Money Market Items	3,214.89	2,774.97	15.9	2,658.58	20.9
Securities purchased under resale agreements	4,757.00	641.00	642.1	1,678.00	183.5
Fixed-income	1,493.19	3,340.35	(55.3)	1,842.59	(19.0)
Equity	4,291.54	4,342.91	(1.2)	4,139.45	3.7
Other Assets	4,886.55	5,426.38	(9.9)	5,272.00	(7.3)
Total Assets	76,481.79	73,535.56	4.0	65,428.84	16.9
Liabilities					
Deposits	48,336.29	45,305.08	6.7	40,179.18	20.3
Interbank and Money Market Items	4,345.39	4,487.75	(3.2)	3,228.90	34.6
Borrowings	6,872.41	6,973.61	(1.5)	6,979.56	(1.5)
Other Liabilities	4,058.21	4,412.85	(8.0)	3,801.11	6.8
Total Liabilities	63,612.30	61,179.29	4.0	54,188.75	17.4
Total Equity	12,869.49	12,356.27	4.2	11,240.09	14.5

<i>Income Statement (Bt mn)</i>	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)
Interest & Dividend Income	1,175.32	1,141.10	3.0	947.35	24.1
Net Interest Income	783.02	806.68	(2.9)	677.44	15.6
Provisions	(67.30)	13.69	591.6	(83.80)	(19.7)
Net Interest Income after provisions	715.72	820.37	(12.8)	593.64	20.6
Total Non Interest Income	684.07	390.05	75.4	474.53	44.2
Operating Expenses	(713.60)	(652.63)	9.3	(638.71)	11.7
Corporate Tax	(170.35)	(151.55)	12.4	(73.76)	131.0
Net Income	507.63	400.05	26.9	347.19	46.2

Loan Breakdown (Bt mn)

<i>Type of Business</i>	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)
Commercial Lending	11,252.94	11,118.29	1.2	10,349.68	8.7
Manufacturing and commerce	5,978.46	5,770.77	3.6	5,166.64	15.7
Real estate and construction	3,540.43	3,536.93	0.1	3,326.46	6.4
Public utilities and services	1,605.21	1,629.08	(1.5)	1,712.82	(6.3)
Agriculture and mining	128.83	181.51	(29.0)	143.75	(10.4)
Retail Lending	45,382.68	44,716.37	1.5	37,831.92	20.0
Hire purchase	43,155.61	42,432.74	1.7	35,384.89	22.0
Housing	2,227.07	2,283.64	(2.5)	2,447.03	(9.0)
Others	4,010.14	3,900.42	2.8	4,304.59	(6.8)
Total	60,645.76	59,735.08	1.5	52,486.18	15.5

NPL Breakdown by TISCO Business Area of the Company and subsidiaries (Bt mn)

<i>Type of Business</i>	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)
Commercial Lending	990.06	987.56	0.3	1,176.32	(15.8)
Manufacturing and commerce	372.93	375.88	(0.8)	581.05	(35.8)
Real estate and construction	601.69	595.73	(1.0)	591.78	1.7
Public utilities and services	14.66	14.97	(2.1)	3.49	320.1
Agriculture and mining	0.78	0.99	(21.2)	0.00	100.0
Retail Lending	1,229.18	1,339.77	(8.3)	960.24	28.0
Hire purchase	897.90	980.44	(8.4)	573.62	56.5
Housing	331.28	359.33	(7.8)	386.62	(14.3)
Others	1,048.90	1,102.16	(4.8)	1,302.22	(19.5)
Total	3,268.15	3,429.49	(4.7)	3,438.78	(5.0)

Asset under Management Breakdown by Type of Fund (Bt mn)

Type of Fund	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)
Provident Fund	49,482.54	47,418.87	4.4	40,767.28	21.4
Private Fund	21,096.46	19,667.29	7.3	17,353.04	21.6
Mutual Fund	8,018.56	6,957.89	15.2	6,640.03	20.8
Total	78,597.56	74,044.05	6.1	64,760.35	21.4

Average Duration Mismatch of Assets and Liabilities and Its Impact (Bt mn)

Type of Fund	Duration		1-Y Net interest income* change to 1% interest rate increase	
	3Q05	2Q05	3Q05	2Q05
Assets	1.22	1.27	281.70	231.04
Liabilities	0.61	0.76	(336.33)	(283.27)
Net Gap			(54.63)	(52.23)

Revenue Breakdown (Bt mn)

	3Q05	2Q05	QoQ (%)	3Q04	YoY (%)	9M05	9M04	YoY (%)
Net Interest and Dividend Income	783.02	806.68	(2.9)	677.44	15.6	2,365.47	2,102.80	12.5
Provision	(67.30)	13.69	591.6	(83.80)	(19.7)	(120.17)	(53.22)	125.8
Net Interest and Dividend Income after Provision	715.72	820.37	(12.8)	593.64	20.6	2,245.31	2,049.58	9.5
Fee from finance business	237.67	203.13	17.0	162.51	46.2	617.01	472.42	30.6
Fee from securities business	157.62	131.32	20.0	182.52	(13.6)	509.64	934.62	(45.5)
Fee from asset management	95.73	49.23	94.5	55.77	71.7	217.24	163.70	32.7
Trading Gain	193.05	6.37	2,930.6	73.73	161.8	322.17	17.93	1,696.8
Total non-interest income	684.07	390.05	75.4	474.53	44.2	1,666.06	1,588.67	4.9
Total net income	1,399.79	1,210.41	15.6	1,068.16	31.0	3,911.37	3,638.26	7.5