

Thanachart Capital Public Company Limited

Management Discussion and Analysis for the Second Quarter and the First Half of 2007 (Financial Statement Audited)

Economic and Finance & Banking Sector Outlooks of 2nd Quarter of 2007

During the second quarter of 2007, consumer confidential index and business sentiment index had gradually declined. Reiterating, the prolonged political turmoil influenced highly in consumer confidential index. In addition, the problem of oil prices and the unrest reports in the 3 southern provinces remain a serious issue, resulting in private consumption and private investment are sluggish comparing with same period of the last year.

Additionally, the pressure from Thai Baht appreciation was the significant problem, and it extremely affected the economic slowdown in the second quarter of 2007. At the end of June 2007, exchange rate of Baht appreciate against US Dollar by 4.3 percent (interestingly, on July 16, 2007 Baht appreciated by 7.8 percent). Consequently, export sector which is the main driver of the economy of the first quarter of 2007, has been confronting with the problem of appreciation in Thai Baht. However, the value of export in term of US Dollar has highly expanded exporter's revenues in term of Thai Baht slightly eased. Furthermore, the effect of appreciation in Thai Baht encouraged importing more new machine and raw material for operation. As a result, trade balance trended to decrease in trade surplus in second quarter of 2007, but the external stability and international reserves were still high standard.

For the second quarter of 2007, headline and core inflation averaged at 1.9 percent and 0.7 percent respectively, decreasing from 2.4 percent and 1.4 percent in the first quarter. Consequently, the Monetary Policy Committee of Bank of Thailand adjusted interest rate policy (R/P 1 day) by 1 percent from 4.5 percent at the end of first quarter to 3.5 percent at the end of the second quarter, which it was reduced 0.5 percent per time in twice. Also, the excess liquidity has increased continuously, as a consequence of declining in deposit rate of commercial bank trends to follow the same direction of R/P rate. One-year time deposits of large commercial banks were reduced from 3.25-3.75 percent per annum to 2.25-2.50 percent per annum at the end of the second 2007.

Major events

During the 2nd quarter of 2007, there were considerable events that affected the performance of the Company and its subsidiaries as follows:

1. On April 30, 2007, the Annual General Shareholders' Meeting of the Company has considered and approved the Group reorganization plan as follows:
 - 1) Having a resolution to dispose its investments in 8 subsidiaries to Thanachart Bank Public Company Limited (a subsidiary company) according to the Consolidated Supervision at the price equal to the latest book value at the end of the month before the execution of the share purchase transactions in the amount not exceeding Baht 4,670 million. On July 5, 2007, the Bank of Thailand has granted the Company to dispose 8 subsidiaries as follows:
 1. Thanachart Securities Public Company Limited.
 2. Thanachart Life Assurance Company Limited.
 3. Thanachart Insurance Company Limited.
 4. Thanachart Group Leasing Company Limited.
 5. Thanachart Fund Management Company Limited.
 6. Thanachart Broker Company Limited.
 7. Thanachart Management & Services Company Limited.
 8. Thanachart Legal and Appraisal Company Limited.

The transfer of the common shares of all 8 subsidiaries to Thanachart Bank was finished on July 12, 2007 in the total amount of Baht 4,158 million. The selling price was based on the net book value of each subsidiary as at the end of June 2007.

- 2) The Company entered into the share subscription agreement of the common shares of Thanachart Bank with the Bank of Nova Scotia Asia Limited (BNSAL) on March 29, 2007. The main deal is that BNSAL intends to purchase the common shares of the Bank in the portion not exceeding 49.00% of the Bank's total issued and paid-up share capital. On July 11, 2007, the Company has given the approval from the Bank of Thailand to sell its common shares of the Bank to BNSAL at the rate not exceeding 24.99% of total issued and paid-up capital amounting to 157,130,216 shares at Baht 16.37 per share or the total of Baht 2,572 million. The shares purchase was made and done on July 19, 2007.
2. According to the Annual General Shareholders Meeting of Thanachart Bank No.14 held on April 30, 2007, the Meeting has adopted the resolution to increase the Bank's capital by issuing new common shares at Baht 10 per share offering to BNSAL in the amount of 276 million shares at Baht 16.37 per share. The Bank has received the approval from the Bank of Thailand on July 11, 2007, and has sold its shares to BNSAL on July 19, 2007 in the amount of 276 million shares at Baht 16.37 per share or the total of Baht 4,522 million. As a result, BNSAL has become a shareholder of the Bank holding 24.98%.

3. On April 30, 2007, the Annual General Shareholders Meeting had a resolution approving the dividend payment for the performance in the second half of 2006 at the rate of Baht 0.50 per share, amounting to Baht 667 million.
4. On May 22, 2007, the Company entered into the contractual agreements on selling the common shares of Glas Haus Building Company Limited, which is held 99.99% by the Company, to Plan Equity Company Limited, a subsidiary of MBK Public Company Limited. The purpose of this transaction was to decrease the proportion of the investment in non-core business according to the BOT's regulation. This transaction had no effect at all to the Company's Consolidated Financial Statement.
5. In the 2nd quarter of 2007, the Bank has invested in common shares of Thanachart Training and Development Company Limited, a subsidiary amongst the Group's financial business companies, at the rate of 100.0%.
6. During current period, the Company and its subsidiaries have changed its accounting policy about transferred assets from recording such assets at their book values on transferred date to recording at the lower of fair value (based on the latest appraisal value deducted by the estimated selling expenses) or book value. This accounting policy change was in line with hire purchase industry.
7. In term of channel expansion, Thanachart Bank has continuously expanded its service channels as follows:
 1. Opening 17 new branches in the first half of this year. As a result, at the end of the 2nd quarter of 2007, Thanachart Bank had 150 branches (excluding the head office) in total. Of all branches, 82 are in Bangkok and its vicinities while the remaining 68 branches are in the regions.
 2. Installing new ATMs which made the Bank have 271 ATMs in total. If including Krung Thai Bank's ATMs, the Bank would have about 4,000 ATMs
 3. Having 55 exchange booths in total.

Operating Results of the Company and its subsidiaries

Operating Results and financial analysis

Summary of the Company and its subsidiaries' performance

Although the economy and the domestic car industry were slowdown, the net interest and dividend income of the Company and its subsidiaries shows an increase of 20.0% from the previous quarter amounting to Baht 2,126 million. This was attributable to the increase in the interest income from hire purchase as well as the decrease in the cost of funds while the non-interest income and the operating expenses increased according to the business expansion. As a result, the net profit from the operations of the Company and its subsidiaries in the 2nd quarter of 2007 was Baht 635 million, representing an increase of 10.1% or Baht 58 million from the previous quarter.

For the first 6-month period of 2007, the Company and its subsidiaries' interest and dividend income increased by 20.6%, due to the continuously growth in the business especially for the hire purchase business which strongly expanded. Net interest income increased by 12.7% although the cost of funds in the first 6-month of this year increased compared with the same period last year. This was the result of the increase in deposits and borrowings of the Company and its subsidiaries, which increased about Baht 17,500 million compared with the same period last year. At the same time, non-interest income grew by 11.4% resulting from the expansion of hire purchase, insurance on both life and non-life, and securities businesses. However, non-interest expenses, provision for loan losses, and income tax also increased in line with the business growth and reserve providing policy of the Bank of Thailand. As a result, the net profit of Company and its subsidiaries for the first 6-month of 2007 amounted to Baht 1,212 million, representing an increase of 9.3% or Baht 103 million from the same period last year. A summary of which was given below:

(Unit: Baht Million)

	2 nd quarter of 2007	1 st quarter of 2007	Change (% qoq)	6-month 2007	6-month 2006	Change (% yoy)
Interest and Dividend Income	4,759	4,519	5.3	9,278	7,691	20.6
Interest Expenses	2,633	2,747	(4.1)	5,379	4,230	27.2
Net Interest and Dividend Income	2,126	1,772	20.0	3,899	3,461	12.7
Non-Interest Income	2,168	1,894	14.5	4,062	3,646	11.4
Operating Expenses	2,752	2,679	2.7	5,431	5,085	6.8
Earnings before Bad Debts and Doubtful Accounts	1,542	987	56.2	2,530	2,022	25.1
Reversal for Bad Debts and Doubtful Accounts (Bad Debts and Doubtful Accounts)	(631)	248	(354.4)	(383)	(249)	53.8
Earnings before Income Tax and Minority Interest	911	1,235	(26.2)	2,147	1,773	21.1
Corporate Income Tax	(257)	(660)	(61.1)	(917)	(604)	51.8
Minority Interest in Net Losses (Earnings) in Subsidiary Companies	(19)	2	1,050.0	(18)	(60)	(70.0)

Net Earnings (Losses)	635	577	10.1	1,212	1,109	9.3
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Net Interest and Dividend Income

Although the interest and dividend income has been affected by the declining trend of the interest rate, the interest expenses has also gone down in the same direction accompanying with the effectiveness of deposits and borrowings management. As a result, the net interest and dividend income of the Company and its subsidiaries in the 2nd quarter of 2007 amounted to Baht 2,126 million, representing an increase of 20.0% or Baht 354 million from the previous quarter.

For the first 6-month of 2007, the net interest and dividend income amounted to Baht 3,899 million, an increase of 12.7% or Baht 438 million.

Non-interest income

For the 2nd quarter of 2007, the non-interest income of the Company and its subsidiaries amounted to Baht 2,168 million, an increase of 14.5% or Baht 274 million from the previous quarter. The most important determinants were the expansion of the hire purchase related businesses. In addition, the non-interest income for the first 6-month of 2007 increased by Baht 416 million, or an increase of 11.4%, compared with the same period last year. The details of which are as follows:

(Unit: Baht Million)

	2 nd quarter of 2007	1 st quarter of 2007	Change (% qoq)	6-month 2007	6-month 2006	Change (% yoy)
Non-Interest Income						
Brokerage Fee	144	130	10.8	274	337	(18.7)
Gains (Losses) on Investment	114	(33)	445.5	81	253	(68.0)
Share of Profit from Investment in Associated Companies	64	70	(8.6)	134	120	11.7
Fees and Service Income	337	275	22.5	612	404	51.5
Discounted Income on Insurance Premium	175	200	(12.5)	375	384	(2.3)
Gain(Loss) on Exchanges	(16)	13	(223.1)	(3)	12	(125.0)
Gain on Debt Settlement/Disposals	230	34	576.5	264	327	(19.3)
Insurance Premium/Life Insurance Premium Income	1,021	1,004	1.7	2,025	1,216	66.5
Gain(Loss) on Property Foreclosed	(33)	78	(142.3)	45	432	(89.6)
Other Income	132	123	7.3	255	161	58.4
Total Non-Interest Income	2,168	1,894	14.5	4,062	3,646	11.4

Operating Expenses

For the 2nd quarter of 2007, the Company and its subsidiaries had the operating expenses of Baht 2,752 million, representing an increase of 2.7% or Baht 73 million from the previous quarter. This was the result of personnel expenses which increased by 4.7% or Baht 31 million from the previous quarter, and also sales promotion expenses and business channels expansion.

In addition, the operating expenses of the Company and its subsidiaries in the first 6-month increased by Baht 346 million, representing an increase of 6.8% compared with the same period last year. The main factors were the personnel expenses as well as premises and equipment expenses which increased by 14.6% and 12.8% respectively. This was the result of the expansion of banking branches of Thanachart Bank. In this connection, as of the end of the 2nd quarter of 2007, Thanachart Bank had 150 branches, compared with 133 branches at the end of last year. The details of which are summarized below:

(Unit: Baht Million)

	2 nd quarter of 2007	1 st quarter of 2007	Change (% qoq)	6-month 2007	6-month 2006	Change (% yoy)
Operating Expenses						
Personnel Expenses	696	665	4.7	1,361	1,188	14.6
Premises and Equipment Expenses	298	318	(6.3)	616	546	12.8
Taxes and Duties	86	108	(20.4)	194	269	(27.9)
Fees and Service Expenses	49	44	11.4	93	124	(25.0)
Directors' Remuneration	17	5	240.0	22	24	(8.3)
Fund Contributed to the Financial Institution						
Development Fund	200	200	-	400	320	25.0
Commission Charged on Hire Purchase*	-	-	-	-	729	(100.0)
Insurance/Life Insurance Expenses	773	830	(6.9)	1,603	1,023	56.7
Other Expenses	633	509	24.4	1,142	862	32.5
Total Operating Expenses	2,752	2,679	2.7	5,431	5,085	6.8

*Commission Charged on Hire Purchase has been deducted from the interest income on hire purchase since January 1, 2007

Bad debts and doubtful accounts

For the 2nd quarter of 2007, the Company and its subsidiaries had the bad debts and doubtful accounts amounted to Baht 631 million compared with the reversal for bad debts and doubtful accounts amounting to Baht 248 million in the previous quarter. This was the result of the slowdown of the economy. In addition, the Company and its subsidiaries have provided the reserve for bad debts and doubtful accounts according to the policy of the Bank of Thailand (IAS39).

Financial Status

Balance sheets

(Unit: Baht million)

	Jun 30, 07	Dec 31, 06	Changes from 2006 Increase(Decrease)	% Change
Assets				
Interbank and Money Market Items -Interest Bearing	17,581	23,980	(6,399)	(26.7)
Securities Purchased under Resale Agreements	21,500	6,300	15,200	241.3
Investments-net	34,027	34,766	(739)	(2.1)
Loans	222,217	209,288	12,929	6.2
Total Earning Assets	295,325	274,334	20,991	7.7
Other Assets	13,742	11,895	1,847	15.5
Total Assets	309,067	286,229	22,838	8.0
Liabilities and Shareholders' Equity				
Deposits	203,925	198,527	5,398	2.7
Interbank and Money Market Items -Interest Bearing	4,541	4,339	202	4.7
Short Term Borrowings	45,214	18,460	26,754	144.9
Long Term Borrowings	16,417	26,575	(10,158)	(38.2)
Total Borrowings	61,631	45,035	16,596	36.9
Total Interest Bearing Liabilities	270,097	247,901	22,196	9.0
Other Liabilities	14,763	14,897	(134)	(0.9)
Total Liabilities	284,860	262,798	22,062	8.4
Total Shareholders' Equity	24,207	23,431	776	3.3
Total Liabilities and Shareholders' Equity	309,067	286,229	22,838	8.0

Assets

The Group's assets grew from Baht 286,229 million at the end of 2006 to Baht 309,067 million at the end of the 2nd quarter of 2007, representing an increase of 8.0%. The majority of this increase was a result of loans which amounted to Baht 222,217 million or accounted for 71.9% of the total assets, while the net investment accounted for Baht 34,027 million or 11.0% of all assets, with details as follows:

As of the end of the 2nd quarter of 2007, the total outstanding hire purchase loans were Baht 179,810 million, accounted for 80.8% of total loans. The total outstanding hire purchase loans for the 2nd quarter of 2007 were Baht 20,757 million, representing a decrease of 21.2% or Baht

5,599 million from the previous quarter. That was the result of the economy and the car industry slowdown. However, the Company and its subsidiaries continued to maintain their market leader of the new car hire purchase.

Securities purchased under resale agreements amounted to Baht 21,500 million, representing an increase of 241.3% or 15,200 million from the end of last year. This was due to the adjustment of the excess liquidity for supporting business expansion.

The net investment at the end of the 2nd quarter of 2007 was Baht 34,027 million, representing a decrease of 2.1% or Baht 739 million from the end of 2006. The majority of this decrease was a result of the investments in government and state-enterprise securities and equity stocks for liquidity purpose of Thanachart Bank and other subsidiaries.

Interbank and money market items -interest bearing amounted to Baht 17,581 million, representing a decrease of 26.7% or Baht 6,399 million from the end of 2006.

Property foreclosed as of the end of the 2nd quarter of 2007 was valued at Baht 8,080 million, a decrease of Baht 341 million or 4.0% from the end of 2006.

Liabilities and shareholders' equity

As of June 30, 2007, the Company and its subsidiaries had the total liabilities of Baht 284,860 million, representing an increase of 8.4% or Baht 22,062 million from the end of 2006. The related main factors were:

Deposits as of the end of the 2nd quarter of 2007 increased from Baht 198,527 million at the end of 2006 to Baht 203,925 million, representing an increase of 2.7% or Baht 5,398 million. This was the result of the branch expansion for raising funds to support substantial loan growth. Most of the increase in public deposits was from savings deposits.

Total borrowings amounted to Baht 61,631 million, which consisted of short-term borrowings amounting to Baht 45,214 million and long-term borrowings amounting to Baht 16,417 million. In addition, the short-term borrowings increased by Baht 26,754 million from the end of last year. This was due to the issuance of short-term bills of exchange and the re-classification of some long-term borrowings whose maturities were less than 1 year. Therefore, the Company and its subsidiaries' total borrowings increased by 36.9% or Baht 16,596 million from Baht 45,035 million at the end of 2006.

As of the end of the 2nd quarter of 2007, the Company and its subsidiaries had shareholders' equity of Baht 24,207 million, a 3.3% increase from Baht 23,431 million at the end of 2006. This increase was a result of the performance of the Company and its subsidiaries.

Quality of Assets

The total outstanding loans and accrued interest receivables

The loans and accrued interest receivables of the Company and its subsidiaries increased by 6.2% from Baht 209,565 million at the end of 2006 to Baht 222,468 million as at June 30, 2007. The details of loans classified by type of business were as follows:

(Unit: Baht million)

	Jun 30, 07		Dec 31, 06	
	Amount	%	Amount	%
♦ Manufacturing & Commerce	5,940	2.7%	5,914	2.8%
♦ Real Estate & Construction	6,376	2.8%	7,558	3.6%
♦ Public Utilities & Services	7,958	3.6%	7,996	3.8%
♦ Hire Purchase	179,810	80.8%	164,325	78.4 %
♦ Housing Loans	9,042	4.1%	9,793	4.7%
♦ Others	13,606	6.1%	14,253	6.8%
♦ <u>Less Inter-Company Profits from Loans</u>				
Transferred	(264)	(0.1)%	(274)	(0.1)%
Total	222,468	100.0%	209,565	100.0%

Classification of loans under the Bank of Thailand's guideline of the Company and its subsidiaries which are financial institutions (the Bank and the Asset management companies)

(Unit: Baht million)

	Debt balance/book value		Allowance for doubtful accounts	
	Jun 30, 07	Dec 31, 06	Jun 30, 07	Dec 31, 06
Normal	185,643	177,282	446	1,556
Special Mention	20,110	16,762	123	187
Substandard	2,774	2,525	1,606	953
Doubtful	2,057	1,943	1,173	776
Doubtful of Loss	5,996	5,993	3,586	3,732
Total	216,580	204,505	6,934	7,204
General Reserve			420	486
Total Allowance for Doubtful Accounts			7,354	7,690

Note: Debt balances of the normal loans and special mention loans did not include accrued interest receivables

• Non-Performing Loans (NPLs)

As of June 30, 2007, the Company and its subsidiaries had the non-performing loans in accordance with the Bank of Thailand's notification amounting to Baht 11,233 million, representing an increase of Baht 391 million or 3.6% from the end of 2006. The most important factor was from the increase in non-performing loans of hire purchase business amounting to Baht 335 million, due to the economy slowdown. The ratio of NPLs to the Group loans was 5.0%, representing a decrease from 5.2% as at the end of last year.

In addition, the outstanding of NPLs-net of the Company and its subsidiaries amounted to Baht 4,488 million, accounted for 2.1% of Group loans net off the allowance for doubtful accounts.

(Unit: Baht million)		
	Jun 30, 07	Dec 31, 06
Non-Performing Loans (NPLs)	11,233	10,842
%NPLs to Total Loans	5.0%	5.2%
NPL-net (IAS39)	4,488	5,048
%NPL-net	2.1%	2.5%
Allowance for Doubtful Accounts	7,849	8,139
%Allowance for Doubtful Accounts to NPLs	69.9%	75.1%

Note: * the major portion of these NPLs belongs to the AMC.

The outstanding of NPLs-net off the allowance for doubtful accounts of Thanachart Group can be broken down by company as follows:

(Unit: Baht million)				
	Jun 30, 07	% Group loan-net	Dec 31, 06	% Group loan-net
Thanachart Capital Plc.	37	-	424	0.2%
Thanachart Bank Plc.	1,719	0.8%	1,650	0.8%
Thanachart Securities Plc.	1	-	1	-
NFS-AMC	2,419	1.1%	2,672	1.3%
MAX-AMC	307	0.2%	271	0.2%
Others	5	-	30	-
Total	4,488	2.1%	5,048	2.5%

Operating Results of the Subsidiary Companies

(Unit: Baht million)

Subsidiary Companies	% of direct holding	2 nd quarter of 2007	1 st quarter of 2007	6-month 2007	6-month 2006
Thanachart Bank Plc.	99.4%	164.4	128.8	293.2	193.5
Thanachart Securities Plc.	100.0%	33.4	(11.1)	22.3	67.1
Thanachart Fund Management	75.0%	21.2	15.4	36.6	30.4
Thanachart Insurance	78.0%	45.2	(10.9)	34.3	(5.1)
Thanachart Life Assurance	100.0%	61.5	48.4	109.9	61.7
NFS-AMC	100.0%	113.0	(127.2)	(14.2)	446.4
MAX-AMC	58.5%	20.9	(4.3)	16.6	146.4

□ Significant financial performance of subsidiaries under Thanachart Group

Banking business

Although the economy and the domestic car industry were slowdown, the net interest and dividend income of the Bank increased by Baht 209 million which resulted in the improvement of the Bank's Interest Spread to 2.46%, due to the continuously decrease in the Bank's cost of funds. However, non-interest income increased along the way from the business expansion, and also the decrease in the operating expenses in the 2nd quarter of 2007. As a result, the Bank's net profit amounted to Baht 164 million, representing an increase of 27.6% or Baht 36 million. For the first 6-month of 2007, the net interest and dividend income increased by Baht 548 million compared with the same period last year. Although Thanachart Bank has changed its hire purchase revenue recognition since January 1, 2007, which resulted in the decrease in expenses on hire purchase as well as the income, the Bank's effectiveness of funding management and also the acceleration in building up non-interest income helped maintain the Bank's profit at Baht 293 million.

Securities business

For the 2nd quarter of 2007, brokerage fee income increased by Baht 14 million or 10.8% from the previous quarter as well as the increase in dividend income by Baht 31 million. As a result, Thanachart Securities registered net gains of Baht 33 million compared with the net losses of Baht 11 million in the previous quarter. After all, the company's market share declined from 3.6% at the end of the previous quarter to 3.3% as at the end of the 2nd quarter of 2007. For the first 6-month of 2007, net profit of the company amounted to Baht 22 million, a decrease of 66.8% from the same period last year.

Insurance business

As Insurance business continuously expanded, Thanachart Insurance had its underwriting income amounting to Baht 986 million, representing an increase of 98.0% or Baht 488 million. As a result, the company registered its net earnings from underwriting of Baht 110 million, an increase of Baht 63 million or 136.0% from that in the previous quarter. This was due to the decrease in the indemnities which resulted in the company's net profit of Baht 45 million compared with the net losses of Baht 11 million in the previous quarter. For the first 6-

month of 2007, net profit of the company amounted to Baht 34 million compared with net losses of Baht 5 million in the same period last year.

Life Assurance business

In the 2nd quarter of 2007, the net profit from the operations of Thanachart Life Assurance amounted to Baht 62 million, an increase of 61.7% from the same period last year. The insurance premium income was Baht 533 million, an increase of 29.4% or Baht 121 million compared with the same quarter last year. This was due to the group insurance premium which increased by 31.0%. Total gain on investment amounted to Baht 67 million, an increase of 45.0%, due to the stocks selling. On the other hand, operating expenses were Baht 517 million which increased from the business expansion.

For the first 6-month of 2007, net profit of the company amounted to Baht 110 million, an increase of 78.1% or Baht 48 million from the same period last year.

Asset management business

The net profit from the operations of NFS Asset Management amounted to Baht 113 million compared with the net losses of Baht 127 million in the previous quarter. This was the result of that the operating income amounting to Baht 284 million increased by Baht 147 million compared with the previous quarter. This increase in the operating income was mainly from gain on debt settlement/disposal. At the same time, the company had its interest expenses of Baht 89 million, a decrease of Baht 35 million compared with the previous quarter. The main reasons were that the company repaid loans amounting to Baht 1,300 million and the decrease in the reserve for bad debts and doubtful accounts by Baht 7 million compared with the previous quarter. Moreover, NFS Asset Management has complied with the new regulations of the Bank of Thailand in relation to the reserve providing, announced in December 2006. In this connection, the company completely implemented to such regulations since the 1st quarter of 2007. For the first 6-month of 2007, the company had net losses of Baht 14 million comparing with the net profit of the same period last year of Baht 446 million.

Risk Management

The Company and its subsidiaries' risk policy and guidelines were approved by the Board of Directors. The Company has established a department responsible for regularly controlling and monitoring the implementation of

the risk policy and guidelines. Having appropriate monitoring tools, the Company and its subsidiaries conduct analyses of risks in different areas including, among others, credit risk, market risk, interest rate risk, and operation risk, for the purpose of measuring the risks. Risk limits and warning signals have also been established in order to prevent the staff concerned from exceeding the established risk limits. The Executive Board and the Board of Directors will monitor the performance of the implementation of the risk management policy monthly.

For the 2nd quarter of 2007, the automobile hire purchase businesses continuously expanded, resulted in the increase in credit risk as well as operational risk. At the same time, market risk adversely decreased as a result of the reduction of the Company's investments.

The overall risk of the Company and its subsidiaries will remain under the risk limit. Taking into account the risk measures mentioned above, the Group shareholders' equity is still adequate to accommodate the established future plan of expansion.